



COMMERCIAL BANK

ANNUAL REPORT 2001



## PRODUCTS

## CORE COMPETENCIES

## FUTURE STRATEGIES



### CORPORATE BANKING

- Intranet-COMSERV
  - Letters of credit
  - Shipping and other guarantees
  - Import and Export Finance
  - SWIFT facilities
  - Syndicated Loans
  - Corporate project financing
  - Leasing
  - Working capital financing
  - Internet Banking
  - Bullion Trading
  - Factoring
- Expertise on trade finance and corporate credit
  - 81 year tradition of dealing with corporates
  - State-of-the-art technology
  - Flexible products
- Diversification of portfolio beyond Sri Lankan shores
  - Simplifying operations to ensure speedy delivery and improve quality
  - Offering most competitive terms backed by IT
  - Offering jointly structured financial services with the two main shareholders
  - Growth through acquisitions



### PERSONAL BANKING

- Current, Savings and Fixed Deposit Accounts
  - COMNET Facility
  - CAT (Automated Teller)
  - CAT Super
  - COMTEL - Telebanking
  - Holiday Banking Centre
  - "Arunalu" and "Isuru" Accounts
  - Progressive Saver Accounts
  - Certificates of Deposit
  - DotCom Accounts
  - "Nivahana" Housing Loans
  - MiniCom Centres
  - Credit Cards
  - "Pahan" Personal Loans
- Computer linked branch network
  - Wide range of products
  - 'One stop' facilities
  - Speedy and friendly service
- Developing new delivery channels
  - Adopting new customer relationship techniques
  - Expanding cross selling
  - Diversification into fast growing areas of the economy
  - Developing new products tailor-made to specific market segments



### TREASURY

- Foreign Exchange dealings
  - Forward Exchange bookings
  - Commercial paper
  - Foreign Currency swaps
  - Interest rate swaps
  - Advice on foreign currency market movements
- Expertise on foreign currency market movements and Asset Management
  - Expertise on foreign currency related product development
- Developing innovative treasury products
  - Streamlining risk management measures
  - Developing fee based operations through debt market instruments

## Financial Goals and Achievements

Financial Indicator	Goal	Achievement				
		2001	2000	1999	1998	1997
Return on Average Assets (%) (after tax)	Over 2	<b>1.86</b>	2.05	1.72	1.90	2.05
Return on Average Shareholders' Funds (%)	Over 20	<b>17.95</b>	20.09	16.21	16.20	16.80
Growth in Gross Income (%)	Over 20	<b>34.56</b>	28.49	19.25	5.24	15.71
Growth in Net Profit After Tax (%)	Over 20	<b>7.91</b>	42.14	11.33	8.84	25.40
Growth in Assets Employed (%)	Over 20	<b>19.12</b>	18.44	21.13	25.04	9.17
Dividend Rate (%)	Over 40	<b>45.00</b>	45.00	40.00	40.00	40.00
Capital Adequacy Ratios:						
Tier I (%)	Over 10	<b>15.72</b>	14.97	14.90	15.53	16.71
Tier I & II (%)	Over 15	<b>16.20</b>	16.62	17.14	18.45	17.63

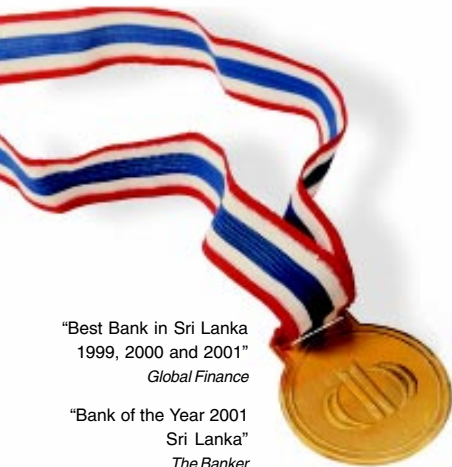
Our *Vision*  
to be THE  
Financial Powerhouse  
in Sri Lanka

Our *Mission*  
to be THE

- Largest
  - Strongest
  - Most Profitable & Innovative
- Financial Services Group

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## Operating Highlights & Performance 2001



"Best Bank in Sri Lanka  
1999, 2000 and 2001"  
Global Finance

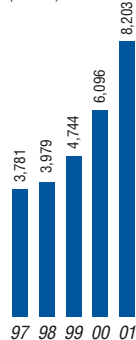
"Bank of the Year 2001  
Sri Lanka"  
The Banker

SL AA+  
Fitch Ratings Lanka Ltd.

- The Bank recorded a pre tax profit of Rs. 1,324.967 million for 2001. This was an increase of Rs. 174.512 million over the previous year's pre tax profit of Rs. 1,150.455 million and represents a 15.17% growth over the 2000 figure.
- The Bank's post tax profit for 2001 was Rs. 1,009.967 million. This represented a growth of 7.91% or Rs. 74.012 million over the previous year's figure of Rs. 935.955 million.
- Deposits grew by 23.41% to reach Rs. 46,305.769 million.
- Gross Advances grew by 15.78% to reach Rs. 43,437.134 million.
- The growth rates of both deposits and advances are expected to be higher than the industry averages. The industry averages are estimated to be around 17% and 15.5% for deposits and advances respectively during 2001.
- The Bank continued to grant new loan facilities to the Maldivian customers.
- The Return on Total Average Assets (ROA) was 2.44% (before tax) and 1.86% (after tax).
- The Bank's Cost/Income Ratio was 55.27% in 2001 against 54.75% in 2000.
- The Non-Performing Loan Ratio (NPL) increased to 9.95% from 8.73% in 2000.
- The Bank's capital buffer-equity capital in relation to total assets - was 9.88%, expected to be the highest in the local banking industry.
- The Bank had a free capital of Rs. 3,316.159 million at the end of 2001.
- Capital Adequacy Ratios stood at 15.72% and 16.20% respectively for Tier I and Tier I & II as at 31.12.2001.
- Opened the 100th Branch at Kaduruwela, Polonnaruwa.
- 99 of our 100 branches are linked on-line by a state-of-the-art information technology system.
- The Bank has decided to recommend a final dividend of 31% in addition to the interim dividend of 14% paid in December 2001.

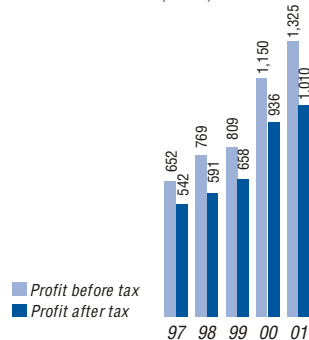
Gross Income

(Rs. Mn.)



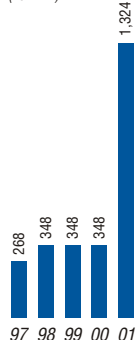
Profits before and after Tax

(Rs. Mn.)



Share Capital

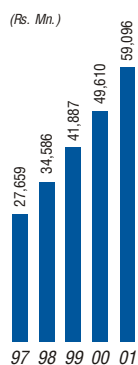
(Rs. Mn.)



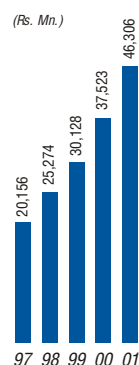
## Operating Highlights & Performance 2001

	2001 Rs. Mn	2000 Rs. Mn	Change %
<b>Results for the year</b>			
Gross Income	<b>8,203.122</b>	6,096.478	34.56
Net Profit before Income Tax	<b>1,324.967</b>	1,150.455	15.17
Income Tax on Profits	<b>315.000</b>	214.500	46.85
Net Profit after Taxation	<b>1,009.967</b>	935.955	7.91
Gross Dividends	<b>220.989</b>	156.713	41.02
Unappropriated Profit carried forward	<b>1.566</b>	10.588	(85.21)
<b>At the year end</b>			
Shareholders' Funds (Capital and Reserves)	<b>6,744.881</b>	5,047.529	33.63
Deposits from Customers	<b>46,305.769</b>	37,522.999	23.41
Gross Advances to Customers	<b>43,437.134</b>	37,516.771	15.78
Capital Employed	<b>59,095.882</b>	49,610.718	19.12
<b>Information per Ordinary Share</b>			
Earnings (Rs.)	<b>23.38</b>	22.40	4.38
Dividends (Rs.)	<b>4.50</b>	4.50	0.00
Net Assets Value (Rs.)	<b>139.71</b>	120.78	15.67
Market Value at the year end - voting (Rs.)	<b>127.00</b>	93.00	36.56
Market Value at the year end - non-voting (Rs.)	<b>90.00</b>	68.00	32.35
<b>Ratios</b>			
Return on Average Shareholders' Funds (%)	<b>17.95</b>	20.09	(10.65)
Return on Average Assets (%)	<b>1.86</b>	2.05	(9.27)
Price Earnings (times) - Ordinary voting shares	<b>5.43</b>	3.46	56.94
Price Earnings (times) - Ordinary non voting shares	<b>3.85</b>	2.53	52.17
Year on year growth in Earnings (%)	<b>7.91</b>	42.14	(81.23)
Year on year growth in Dividends (%)	<b>-</b>	12.50	-
Dividend Yield (%) - Ordinary voting shares	<b>3.54</b>	4.84	(26.86)
Dividend Yield (%) - Ordinary non voting shares	<b>5.00</b>	6.62	(24.47)
Dividend Cover (times)	<b>5.20</b>	5.97	(12.90)
Liquid Assets (%)	<b>27.72</b>	27.22	1.84
<b>Capital Adequacy Ratios</b>			
Tier I (%)	<b>15.72</b>	14.97	5.01
Tier I & II (%)	<b>16.20</b>	16.62	(2.53)

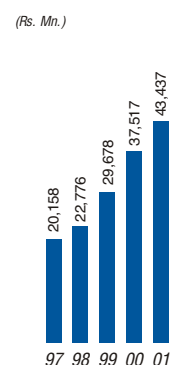
**Capital Employed**



**Total Deposits**



**Total Advances**





"Your Bank has over the past several years consistently reinforced its pre-eminent position among private banks and is today widely recognized as the No.1 Private Bank in Sri Lanka"

## Chairman's Message

### **The No.1 Bank in Sri Lanka**

Your Bank has over the past several years consistently reinforced its pre-eminent position among private banks and is today widely recognized as the No.1 Private Bank in Sri Lanka.

Today we have the largest effective computer linked network of branches in the Country (99 of our 100 branches are linked) and the largest ATM network. We also have several new innovative delivery channels enabling us to reach every corner of the Country.

The 81-year history of Commercial Bank is a chronicle of pioneering, growth, stability and trust. The "Global Finance" magazine has once again adjudged Commercial Bank as the Best Bank in Sri Lanka – a recognition bestowed on the Bank for the third consecutive year. This year, the prestigious "Banker" magazine has also joined in with a global recognition and cited Commercial Bank as the Bank of the Year in Sri Lanka for 2001. Commercial Bank continues to carry the highest credit rating given to any bank operating in Sri Lanka; SL AA+ from Fitch Ratings Lanka Ltd.

The 2001 results are a resounding reinforcement of this leading position and they are dealt with in detail in the Managing Director's Report and in the Management Discussion and Analysis that follow.

### **Returns to Shareowners**

The Board has decided to recommend a final dividend of 31% in addition to the interim dividend of 14% paid in December 2001. Net assets per share and earnings per share both continued to grow and stood at Rs. 139.71 and Rs. 23.38 respectively. The Commercial Bank shares are much sought after in the Colombo bourse.

### **Bonus Share issue**

In June 2001, the Bank issued bonus shares to both ordinary voting and non-voting shareholders of the Bank, at the rate of one new fully paid share of the same category, for every five existing shares.

### **Preference Share issue**

In the latter half of 2001, Commercial Bank offered 100,000,000 Cumulative Redeemable Preference Shares of Rs. 10/- each amounting to a total value of Rs. 1,000,000,000/-. The Bank managed to raise an encouraging Rs. 906.555 million through this issue even under a depressed investment climate that prevailed. Since the maturity date of these shares is 5 years from the date of allotment, the amount raised from the issue has provided the Bank with



## Chairman's Message

long-term funds at a reasonable cost of 13% per annum, to expand on leasing and other long-term credit facilities at reasonable cost to the customers. The fact that the Bank was able to mobilize these funds at a time when gilt-edged securities were earning higher returns is ample testimony to the level of trust placed in us by the Public. These preference shares now trade on the Colombo Stock Exchange.

### **2001 was one of the worst years for the economy**

These results were achieved amidst what could be considered as one of the most difficult years for the Sri Lankan economy. For the first time since Independence the Sri Lankan economy in 2001 recorded a negative GDP growth rate estimated to be in the region of minus 0.6%.

A significant slowing down in the world economy, particularly in Sri Lanka's major exporting markets, the USA and the EU, crippled the demand for our exports. In 2001, our export earnings in US\$ terms recorded a drop of 12.8% while our imports recorded a sharper decline of 14.9% compared to 2000. In addition, the prolonged drought in Sri Lanka not only affected agriculture adversely but also resulted in extensive power outages adversely affecting the performance of most manufacturing and service activities. These conditions took their heavy toll on every sphere of Sri Lankan business and no sector including the financial services sector was spared.

The terrorist attack at Sri Lanka's International Airport in July 2001 was like a meteorite crashing into an economy already in chaos. With it came imposition of heavy insurance surcharges on sea and air travel/transport further denting the exporters and importers and also bringing down with it the country's extensive tourism industry.

This was much more than the country could have taken. Then came the massive global economic fallout following the September 11th terrorist attack on key economic and military targets in USA.

The Sri Lankan economy has demonstrated resilience in the past and we're hopeful of a better climate. Yet the reality of the times we live in must be taken into cognisance. Thus, our Bank must continue to endear itself to customers and continuously add value to services provided. We view our 2001 results with humility in the context of having consistently focussed on adding value to and building relationships with customers whilst managing our costs and risks prudently.

### **We welcome Central Bank's strategies**

The Central Bank of Sri Lanka took a series of measures aimed at revitalizing the economy.

Unnecessary import expenditure has been curbed through an imposition of a 40% surcharge on non-essential imports, while promoting a conducive environment to boost investments and exports by adopting a low interest rate regime as opposed to its earlier strategy of allowing interest rates to remain high in order to arrest the falling external value of the Sri Lankan Rupee.

In a bid to reduce the high cost of borrowing faced by the private sector, the Central Bank gradually reduced its Re-purchase (Repo) and Reverse Re-purchase (Reverse Repo) Rates to 12% and 14% respectively during the year. On a cumulative basis, the Central Bank's Repo rate was reduced by 800 basis points, while its Reverse Repo rate was reduced by 900 basis points in 2001 (1 basis point = 0.01). The Repo and the Reverse Repo rates are the leading indicative rates in the money market.

In addition to the above interest rate cuts, the Central Bank also reduced the Statutory Reserve Requirement (SRR) on all rupee deposits from 11% to 10%. Through this move it was expected that fresh funds of around Rs. 3.7 billion would be released to commercial banks, enabling them to expand their lending capacity. According to the Central Bank this would also reduce the effective cost of funds to commercial banks, enabling them to pass on these benefits to customers.



## Chairman's Message

### **The Government responds with tax and tariff cuts**

The removal of the 1% turnover tax on the banking and finance sector was an important move taken during the latter part of 2001, to boost the sector. Stamp duty on Letters of Credit too was reduced from 2% to 1%. This enabled banks to pass on this benefit to their customers and will help in promoting trade finance.

The import duty on selected essential raw materials was removed with a view to encouraging the manufacturing sector.

### **Banks also pitch in with lending rate cuts**

Most banks in Sri Lanka announced cuts in their lending rates. The Commercial Bank reduced all lending rates (except those applicable for schematised lending and leasing) by ½ %.

### **2002 – what will it usher for the Sri Lankan economy?**

Armed with knowledge from lessons of the past there is a lot of hope that the newly elected Government following the December 5th General Elections will usher in a new order of peace and growth. The overtures made to the private sector to join hands with the Government in driving the economy forward is laudable. We look forward to seeing a clearly articulated policy by the Government and a commitment to seeing the implementation of that policy with urgency and consistency. There's so much that needs to be done – and we don't have the luxury of time. From employment oriented education to dependable electricity, efficient transportation, better and cheaper communication facilities, rationalised labour laws, simplified tax structures and more efficient and transparent governance ... the wish list is vast ... the task is imposing ... but if we try ... nothing is impossible. It is in this hope and with such faith that Commercial Bank continues to forge ahead.

### **Vision to become a regional bank**

Except for a few offshore loans that have been granted to several Maldivian customers, about 97% of our total assets are exposed to the Sri Lankan economy. We have plans to gradually reduce this

excessive dependence on the Sri Lankan economy and in order to do that we need to venture out to the SAARC region by opening branches/representative offices. We have targeted at least 25% of our net income to come from our overseas branches / representative offices by 2005. At the moment, we are actively pursuing the opportunities in Bangladesh.

Over the years the growth of our Bank has been mainly organic. We are currently exploring several opportunities in the market for growth through acquisitions and moving into new businesses.

### **Synergies with DFCC Bank**

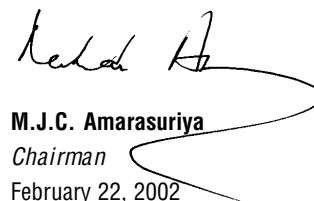
After much deliberation, which lasted for nearly a year, the Central Bank finally decided that it is inappropriate for both Commercial Bank and DFCC Bank to be largely owned and controlled by a bank holding company.

We are now in the process of probing alternative ways of realising the full potential of synergy between Commercial Bank and the DFCC Bank.

### **Conclusion**

I thank our staff especially the Managing Director and his Senior Management team, for their outstanding effort and significant contribution towards Commercial Bank's tradition of performance. We are grateful to our clients for their continued loyalty. We thank our shareowners for their confidence. My colleagues on the Board were pillars of strength to me. I thank them for their responsible stewardship. I deeply appreciate the services rendered by Mr. P.A. Pematilaka, who resigned from the Board and warmly welcome Mr. P. Amarasinghe and Mr. S. Abeysinghe who joined the Board.

I look forward to your continued support.



**M.J.C. Amarasuriya**  
Chairman  
February 22, 2002  
Colombo

## Board of Directors



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

Joined the Board of Commercial Bank on May 15, 1986 and appointed Chairman on January 1, 1995. Former Deputy Chairman, Hayleys Ltd. Chairman, United Motors Lanka Ltd., Commercial Fund Management (Pvt.) Ltd., Equity Investments Lanka Ltd., Director, DFCC Bank, Commercial Leasing Company Ltd. Chairman, Planters' Association of Ceylon. Chairman, International Chamber of Commerce, Director General, Industrial Facilitation Forum, Chairman of the Regional Industry Service Committee of the North Western Province, Past Chairman and Trustee, Employers' Federation of Ceylon. Member of the Employees' Trust Fund Board.



**J.S. Mather** - *Deputy Chairman*

Joined the Board of Commercial Bank on September 1, 1989. A Fellow of The Institute of Chartered Accountants, England & Wales, a consultant at Ernst & Young, a Director of a few of its subsidiaries and a Non-Executive Director of a number of Public Quoted Companies, including Ceylon Tobacco Co. Ltd., Chemical Industries (Colombo) Ltd. and United Motors Lanka Ltd. Also holds Non-Executive Directorships of a number of unlisted Companies.



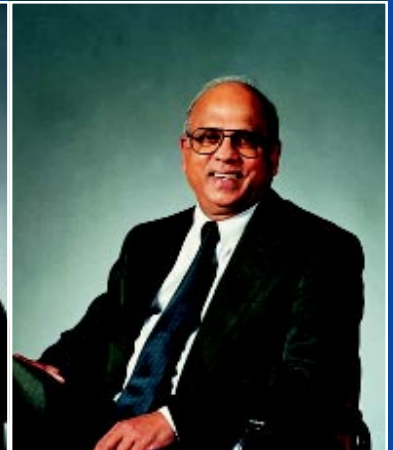
**A. L. Gooneratne** - *Managing Director*

Appointed to the Board of Commercial Bank as Managing Director on January 6, 1997. Joined the Bank in March 1983 and has held several senior positions prior to his appointment as General Manager/Chief Executive in March 1996. A Fellow of The Institute of Chartered Accountants, England & Wales. Represents the Bank's interests on the Boards of all its Associate and Subsidiary Companies. Serving as a Member, Sri Lanka Accounting & Auditing Standards Monitoring Board. Previously held position as Chairman, Sri Lanka Banks' Association (Guarantee) Ltd. and as a Member, Governing Council, National Institute of Business Management. Council Member of Sri Lanka Institute of Directors. Member of the National Task Force on Corporate Governance.



**Dr. H.S. Wanasinghe**

Appointed to the Board of Commercial Bank on January 5, 1990. Currently, Senior Visiting Fellow of the Institute of Policy Studies, a Member of the Board of Governors of the Marga Institute and a Member of the Board of Directors of the Centre for Policy Alternatives. 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.



**B.R.L. Fernando**

Joined the Board on January 1, 1995. A Fellow of The Institute of Chartered Accountants of Sri Lanka. Executive Chairman of Chemical Industries (Colombo) Ltd. and Non-Executive Chairman of Chemanex Ltd., CIC Paints (Pvt.) Ltd., CIC Fertilizers (Pvt.) Ltd., CISCO Speciality Packaging (Pvt.) Ltd., CIC Agri-biotech (Pvt.) Ltd., CIC Seeds (Pvt.) Ltd., Rangers Group (Pvt.) Ltd. and Crop Management Services (Pvt.) Ltd. Also a Non-Executive Director of Paints & General Industries Ltd., Agro Enterprises Japan-Lanka (Pvt.) Ltd., Exchange & Finance Investments Ltd., Rainwear (Pvt.) Ltd. and Alternate Director of Gestetner Ceylon Ltd. Trustee of The Employers' Federation of Ceylon Ltd., Member of the Board of Directors of the Colombo Y.M.C.A. Possesses extensive experience in finance and commerce.

**M.L. Mack**

Appointed to the Board of Commercial Bank on October 31, 1997. Currently a Director of Aitken Spence & Co. Ltd., the DFCC Bank, C F Venture Fund Ltd., Lanka Aluminium Industries Ltd., Lanka Galvanising Industries (Private) Ltd., Comark Lanka (Private) Ltd. and Acme Printing & Packaging Ltd. Previously Chairman & Managing Director of Aitken Spence & Co. Ltd.

**A.N. Fonseka**

Appointed to the Board of Commercial Bank on January 31, 2000. General Manager/Chief Executive/Director of DFCC Bank. Chairman of Lanka Industrial Estates Ltd., National Asset Management Ltd., Lanka Ventures Ltd. and DFCC Stockbrokers (Pvt.) Ltd. Director of Private Sector Infrastructure Development Co. Ltd. and Associated Battery Manufactures (Ceylon) Ltd. Member, Governing Board, National Institute of Business Management and also a Member of the Industrialisation Commission.

**P. Amarasinghe**

Appointed to the Board of Commercial Bank on March 8, 2001. Currently Chairman of Pronto Lanka Private Ltd., Chairman of Lanka Archives Management Services Private Ltd., Chairman of Transnational Logistics Solutions Lanka Private Limited, Vice Chairman of Sarvodaya Economic Enterprises Development Services (GTE) Ltd., Director of Sri Lanka Insurance Corporation Ltd. and a Member of the Postgraduate Institute of Management, University of Sri Jayawardenapura. Previously, Deputy Governor of the Central Bank of Sri Lanka and Chairman of Credit Information Bureau of Sri Lanka. He is also a Fellow of the Center for Developing Area Studies (Mc Gill) Canada and a Fellow of the Institute of Bankers of Sri Lanka.

**S. Abeyasinghe**

Appointed to the Board of Commercial Bank on June 18, 2001. Director General, Department of National Budget, Ministry of Finance and Planning and also a Director of Elpitiya Plantations Ltd., Lanka Marine Services Ltd. Sri Lanka Tea Board, Ceylon Petroleum Corporation and Shell Gas Lanka Limited as a Treasury Nominee.



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





“ We’re proud of our track record of delivering consistent results. We’re also conscious that we’re running a race where there is no finish line. ”

## Managing Director's Report

### **The top financial performer**

2001 was no exception. Commercial Bank continued on its path of consistent and steady growth. Gross income for the year was Rs.8.20 billion, up 34% over 2000. Pre tax profit was Rs.1,324.967 million, up 15.17%. Post tax profit exceeded the Rs. 1 billion mark for the first time and stood at Rs.1,009.967 million, up 7.91%.

All three main sources of income viz. net interest income, exchange profit and other income increased significantly over the year 2000. Deposits and Advances also grew above industry averages. Deposits grew by 23.41% to reach Rs. 46,305.769 million. Advances grew by 15.78% to reach Rs.43,437.134 million. The industry averages are estimated to be around 17% and 15.5% for deposits and advances respectively.

The decision of the Government in early 2001 to route the funding requirements of all Government institutions through the State banks impacted adversely on the advances growth of our Bank. The non-performing loans to total loans and advances ratio increased from 8.73% as at December 31, 2000 to 9.95% as at December 31, 2001 due to the adverse economic conditions and the total loan portfolio not achieving the anticipated growth.

### **Focus on efficiency, productivity and solidity continues**

The Return on Total Average Assets (ROA) was 2.44% (before tax) and 1.86% (after tax). The Bank's Cost/Income Ratio was 55.27% in 2001 against 54.75% in 2000. The Bank's capital buffer-equity capital in relation to total assets was 9.88%, expected to be the highest in

the local banking industry. The Bank had a free capital of Rs. 3,316.159 million at the end of 2001. Capital Adequacy Ratios stood at 15.72% and 16.20% respectively for Tier I and Tier I & II as at 31.12.2001.

### **Good results do not make us complacent**

We're proud of our track record of delivering consistent results. We're also conscious that we're running a race where there is no finish line. Our prospects for the future just as much as our success of the past, hinges around our ability to deliver superior value to our customers. This firm conviction has led us at Commercial Bank to adopt a total customer centric management.

### **Who is our customer?**

We serve some one million customers with a banking need across the length and breadth of Sri Lanka. These customers seek from us reliability concerning their money, access to funds in sufficient quantum and a safe and





## Managing Director's Report

secure return on their investments. By providing consistent and excellent financial services in the form of financial transactions and counselling, Commercial Bank plays an active role in the functioning of these companies and individuals in Sri Lanka.

Our overall approach towards serving these customers' needs has been to go beyond the transaction and build a relationship. These relationships enriched with knowledge of each customer's situation is what enables us to deliver value to our customers and is also what ultimately translates into value for our shareholders.

Reaching out far and wide, nurturing trust and creating innovative products, build our customer relationships. In this Report I will attempt to put day-to-day work of the Management in this perspective.

### Reaching out

The customers we serve are scattered in every district in Sri Lanka. Reaching out to these customers and being in close proximity to them has been a major focus of the Bank. 5 years ago we had 41 branches and 29 ATM machines. 2001 was a landmark year with the opening of our one hundredth branch in Kaduruwela, Polonnaruwa.

99 of our 100 branches are now computer networked and provide online real time banking facilities. The only branch that remains to be linked is the Jaffna Branch and we have plans to link it to our propriety-banking network "COMNET" over the next few months. Commercial Bank possesses and continues to build upon the biggest computer linked network of branches in the country. In addition, we have the largest ATM network in the country consisting of 115 machines in branches and off-site locations. We have planned to increase this ATM network to over 200 within the next three years.

We view branches only as a delivery channel and therefore our concept of a branch differs from that of a traditional brick and mortar branch. Accordingly, besides the traditional branches, our delivery channels consist of Customer Service Points, supermarket Banking Points named MiniComs, Internet Banking, and Mobile Banking. We are planning to introduce more such delivery channels in the future. Our time tested computer software system has enabled us to provide banking convenience irrespective of the type of the delivery channel.

Not very many companies in the country have over 100 outlets in their distribution networks. At Commercial Bank we also see our 100 branches and 115 ATMs, providing immense untapped business potential. We are exploring various opportunities in this respect.

### Building trust is not a function of advertising

We enjoy a very high level of trust that has been nurtured through 8 decades of prudent hard work. We invest on focussed and responsible advertising, public relations and sponsorships to enhance our visibility and keep customers constantly reminded of the Bank and its products.

Yet, trust and confidence can only be built and sustained in the long term through prudent and efficient management of assets. Thus, a considerable effort and time goes into maintaining stringent systems of internal controls and safeguarding the assets of the Bank. Risk management plays another significant role and we have set up an Assets and Liabilities Committee (ALCO) for this purpose. A detailed report on risk management appears on pages 30 to 32.

We were the first bank to open ourselves voluntarily to the scrutiny of a credit rating and we are still the only bank to make the credit rating public. Last year Fitch Ratings Lanka Ltd. gave us a SL AA+. We also continue to maintain levels of

## Managing Director's Report

capital and liquidity in excess of the minimum stipulated by the Central Bank of Sri Lanka.

No amount of aggressive advertising can replace sound fundamentals. With the growing level of maturity and sophistication of the average Sri Lankan customers (both companies and individuals) the demands for maintaining at least minimum standards are relatively high. Our fundamentals are sound and the customers value them.

### Product innovation

A deep understanding of our customers' situation has enabled us to innovate new products consistently. Almost all the products we have launched in the recent past have been successful indicating the relevance of these new products and their acceptance by the market.

This year too we launched several new products. The Corporate Credit Card is the only such card available in Sri Lanka. It carries the Customer's Company identity on the card. We also launched mobile phone banking named COM SMS where customers can check balances, transfer funds and view foreign exchange rates. The Progressive Saver Account was repackaged with enhanced bonuses and the concession of allowing one withdrawal per quarter.

The year ended with the opening of the Bullion Trading Centre. Here the public can purchase premium quality gold sourced direct from Scotia Mocatta London – the world renowned gold trading arm of the Bank of Nova Scotia, Canada. The initial results of this activity are encouraging and it is a growth area that the Bank will continue to pursue.

### Conclusion

We not only need to consistently deliver the value that customers seek from us but also do so in a sustainable manner. Thus we constantly focus on

maintaining cost efficiencies, safeguarding credit quality, maintaining an optimum level of capitalisation and liquidity and prudent risk management. It is the knowledge, skills, commitment and culture of our two thousand and two hundred strong team of employees powered by focussed information and communication technology systems that enable us to make this happen. The Management Discussion and Analysis on pages 17 to 29 deals with these areas extensively.

I take this opportunity to place on record my sincere appreciation of the support and the guidance of the Chairman and the other members of the Board. I also wish to thank the members of the Corporate Management, Senior Management, Executive staff and all other members of the staff for their immense support. Their creativity, dedication and energy have always been a source of strength.

I also wish to thank all our valued customers and shareholders for their partnership with the Bank.

On behalf of the Bank, I would also like to record our sincere appreciation of the efforts of the Governor and other officials of the Central Bank of Sri Lanka.

Finally, I thank M/s. KPMG Ford, Rhodes, Thornton & Company for their professional role in carrying out the external audit and issuing the report on a timely basis enabling the Bank to publish this Annual Report early.



**A. L. Gooneratne**  
*Managing Director*  
February 22, 2002  
Colombo

A.L. Gooneratne ▶  
(Managing Director)



G.L.H. Premaratne  
(Deputy General Manager - Corporate Banking) ▼

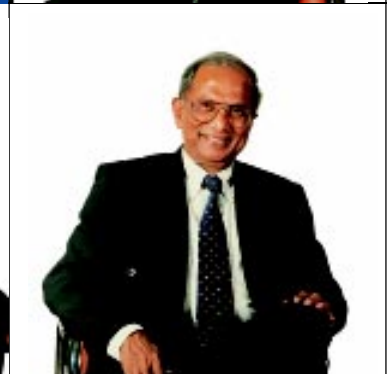
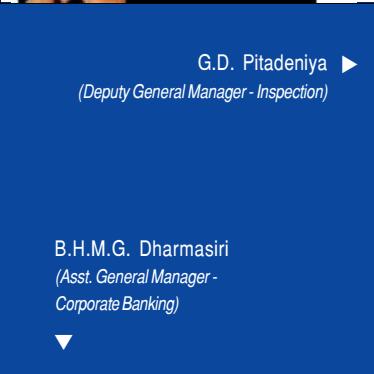


## Corporate Management

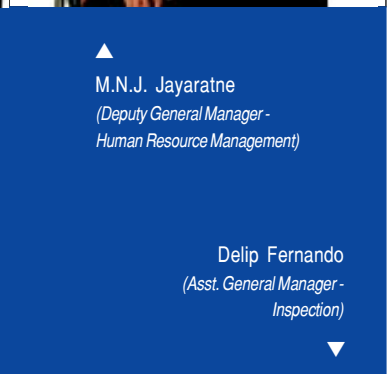
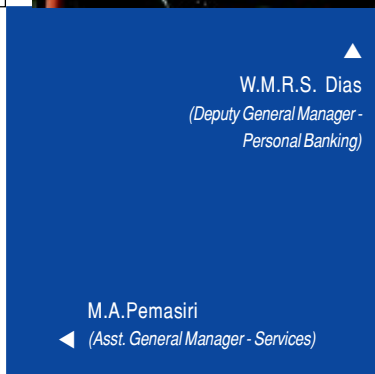
◀ R.B. Ekanayake  
(Deputy General Manager - Information Technology)



R. Samaranyake  
(Deputy General Manager - Finance & Planning) ▶



G.D. Pitadeniya ▶  
(Deputy General Manager - Inspection)



B.H.M.G. Dharmasiri  
(Asst. General Manager - Corporate Banking) ▼

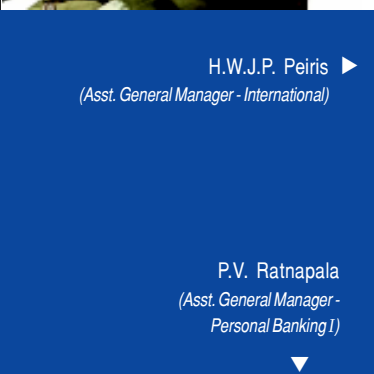
▲ W.M.R.S. Dias  
(Deputy General Manager - Personal Banking)

▲ M.N.J. Jayaratne  
(Deputy General Manager - Human Resource Management)

Delip Fernando  
(Asst. General Manager - Inspection)

◀ M.A.Pemasiri  
(Asst. General Manager - Services) ▼

H.W.J.P. Peiris ▶  
(Asst. General Manager - International)

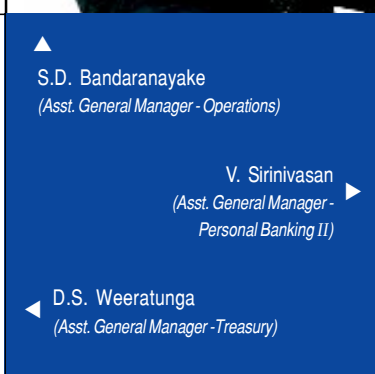


P.V. Ratnapala  
(Asst. General Manager - Personal Banking I) ▼

▲ S.D. Bandaranayake  
(Asst. General Manager - Operations)

V. Sirinivasan  
(Asst. General Manager - Personal Banking II) ▶

◀ D.S. Weeratunga  
(Asst. General Manager - Treasury)





## Senior Management

K.D.N. Luxman  
(Senior Regional Manager - Inner Colombo) ▶



◀ Raja Senanayake  
(Head of Finance & Planning)



Jegan Durairatnam ▶  
(Head of Imports)



▲  
Claude Perera  
(Chief Manager -  
Human Resource Management)

◀ Mrs. R.K. Jayawardene  
(Chief Manager - Legal)



S. Raghavan ▶  
(Chief Manager - Exports)



Mrs. Carmelita De Silva  
(Chief Manager - Corporate Banking I)  
▼



▲  
Vimal Fernando  
(Regional Manager - Outer Colombo)



◀ Mrs. M.E.C. Abeywardena  
(Chief Manager - Corporate Banking II)



◀ Chandana Gunasekera  
(Regional Manager - North Colombo)

Palitha Narangoda ▶  
(Chief Manager - Treasury)



◀ D.N.F. Perera  
(Chief Manager - Recoveries)

P. Samarasinghe ▶  
(Chief Manager -  
Information Technology)



Since Promoted:  
Mrs. H.V.S. Jayamaha  
(Chief Manager - Corporate Banking III)  
M.E.P. Perera  
(Chief Manager - Operations)  
Richard Rodrigo  
(Chief Manager - Marketing)





corporate banking

# Management Discussion and Analysis

## Corporate Banking

The Corporate Banking Division caters to the Banking needs of the large to medium size corporate customers. The Division provides expertise on Trade Finance, Project Financing, Leasing and Working Capital Financing. These banking services are provided through the Foreign Branch and the Off-shore Banking Centre of the Bank.

Corporate Banking continued to make a significant contribution to the Bank's profitability and accounted for a major part of the Bank's loans and advances portfolio.

The following table summarises its contribution:

	2001		2000	
	Rs. Mn.	%	Rs. Mn.	%
Profit before Tax	557	42.04	428	37.22
Loans and Advances (Gross)	26,050	59.97	23,227	61.91
Deposits	11,888	25.67	10,261	27.35

At the beginning of the year 2001, the Corporate Banking Division experienced a decline in volumes of its Loans and Advances due to restrictions imposed by the Government that all funding requirements of Government institutions be directed to State banks. Despite these restrictions continuing to prevail throughout the year and a downturn in

economic activities, the Corporate Banking Division managed to increase the Loans and Advances portfolio by 12% by the year-end.

However, despite strengthening the post-sanction monitoring efforts, the non-performing Loans Ratio of the Bank rose to 9.95% as at December 31,

2001 from 8.73% a year earlier mainly due to downturn in the economic activities and the growth in loans and advances not reaching expected levels.

The Bank successfully continued its lending activities in the Maldives by granting new facilities to existing as well as new customers. In addition, a bullion trading operation was commenced in the Foreign Branch in November, in association with Scotia Mocatta London which is one of the leading bullion traders in the world. This operation got off to a good start and is expected to contribute satisfactorily towards the Bank's revenue.

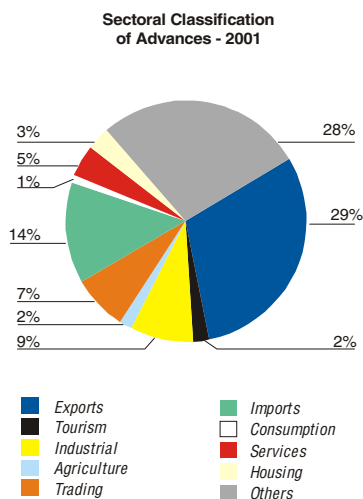
A factoring business line was started in the Foreign Branch during the second half of the year, to cater to the working capital requirements of the customers. This is an addition of another service line to the Bank's corporate clients.

Several multi-national companies and large corporates were attracted to the Corporate Banking portfolio during the year, thereby further strengthening its position as a major player in the corporate banking market.

We commenced installation of ATMs coupled with a payroll package in the premises of corporate clients as a service enhancement facility, to facilitate the salaries and wages payments of office and factory staff. This facility will be offered to other clients of the Bank during 2002.

Arranged a syndicated facility of US\$ 21 million as joint lead arranger with CitiBank - Colombo, to fund an expansion project of one of our customers.

The software system in the Trade Finance Division of the Foreign Branch was upgraded during the year, resulting in improvement in the turnaround time for transactions.





personal banking

## Management Discussion and Analysis

### Personal Banking

The Personal Banking Division caters to the banking needs of personal customers and small businesses throughout the island. The issue of Credit Cards under franchise from MasterCard International also comes under this Division.



Opening of the 100th branch at Kaduruwela by the Governor of the Central Bank, Mr. A.S. Jayawardane

In Sri Lanka the savings rate still continues to be low in rural as well as urban areas. Hence, traditional brick and mortar branches continue to play an important role in Sri Lankan banking. As such the Bank took a conscious decision to rapidly expand the number of Delivery Points in the COMNET and the ATM network, making Commercial Bank a truly National Bank. Accordingly, 19 Delivery Points were opened and in addition, 30 ATMs were installed throughout the island during the year. The opening of the Kaduruwela Branch in December marked the 100th Delivery Point in the COMNET. The Delivery

Points opened during the year comprised of 9 branches in Mawanella, Bandarawela, Ja-Ela, Nikaweratiya, Balangoda, Matugama, Nawalapitiya, Ambalangoda and Kaduruwela, 8 Customer Service Points in Thalawatugoda, Bandaragama, Yakkala, Kohuwala, Sri Lanka Insurance Corporation, Malabe, Mt. Lavinia and Baddegama and 2 MiniComs at Cargills Food City Maharagama and Kurunegala.

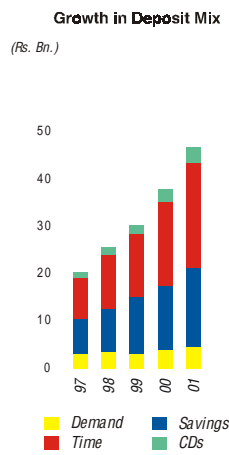
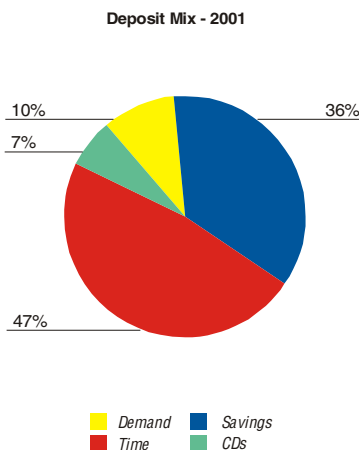
The substantial increase in the number and the volume of transactions in our ATM network bears testimony to the ever-increasing popularity of our ATM network.

By the end of the year, the total network of Delivery Channels of the Bank comprised of 81 fully-fledged Branches, 14 Customer Service Points and 5 MiniComs. Plans have been drawn up to expand the number of Delivery Points and the ATMs in the network further.

It has been decided to increase the number of Regional Offices to 7 from the existing 5 with a view to further improving the expedient processing and decision-making relating to branch operations.

The contribution of the Personal Banking Division can be summarised as follows:

	2001		2000	
	Rs. Mn.	%	Rs. Mn.	%
Profit before Tax	740	55.85	549	47.74
Loans and Advances (Gross)	17,387	40.03	14,290	38.09
Deposits	34,417	74.33	27,262	72.65



In addition, the Personal Banking Division channelled funds mobilised in excess of their lending requirements to the Corporate Banking Division and the Treasury making low cost funds available to these divisions to be utilised for their lending and Money Market Investments.

New products and services introduced by the Personal Banking Division during the year included Corporate Credit Card and COM SMS mobile phone banking service. The Progressive Saver Account was repackaged with enhanced bonuses and the concession of making one withdrawal per quarter.



treasury

## Management Discussion and Analysis

### Treasury

The Treasury plays a pivotal role in managing the assets and liabilities and the related risks of the Bank while finding opportunities for arbitrage in the Fixed Income Securities Market and the Foreign Exchange Market.

2001 was a very volatile year for financial markets in Sri Lanka. Both interest rates and exchange rates fluctuated heavily during the year. For example, interest rates on 2 – 3 year Government Bonds rose to 23% and then dropped to 13% within a period of 6 to 9 months. A similar trend was observed in other money market instruments too. The Sri Lankan Rupee depreciated by 12.8%. At the same time, the economic activities experienced a downturn during the year, which seriously affected trade finance volumes. It is in such a volatile environment that the treasury operated.

As shown in the following table the Treasury reported a profit before tax of Rs. 28 million only, compared to the profit before tax of Rs. 173 million reported last year. The main factors that contributed to this situation were the transfer of the Primary Dealer activities to a separate subsidiary company during the year 2000 and the volatility of interest rates in the market and the consequential losses the Treasury incurred on the internal transfer pricing mechanism that enabled the other profit centres to ascertain their profits realistically.

The contribution of the Treasury can be summarised as follows:

	2001		2000	
	Rs. Mn.	%	Rs. Mn	%
Profit before Tax	28	2.11	173	15.04
Assets Portfolio	1,416	2.40	3,001	6.05

Our foreign exchange dealers participated actively in the spot and forward markets in all major currencies. Throughout the year our dealers provided clients

with strategic currency advice on money market and currency movements helping them to reduce the adverse effects of currency movements and enhance their capacity to reap richer dividends from their foreign exchange activities.

In addition, the Treasury continued to quote two-way prices on Foreign Exchange.

The Bank invested a fairly large amount of funds in both tranches of the Dollar Bonds issued by the Government of Sri Lanka in view of the attractive interest rates and other benefits offered. These bonds are liquid in the secondary market. The bonds issued under the first tranche carry a put option exercisable after one year, which is a very useful feature in terms of liquidity.

Commercial Bank Primary Dealer Ltd., the primary dealer subsidiary of the Bank took initiatives to popularise the Government securities in the secondary market among small to medium size investors through the branch network of the Bank. Several awareness programmes were conducted throughout the island and interest rates were advertised weekly in the newspapers. In its efforts to developing a “market making” culture, the Company helped the market by quoting two-way prices and thereby improving the liquidity for Government securities. These measures collectively paid good dividends to the Company and enabled it to record a three-fold increase in the volume of assets handled and a substantial improvement in profitability. Profit before tax of the Company was Rs. 86.247 million. The Company now ranks among the top three Primary Dealers.

During the latter part of the year, the Monetary Board of the Central Bank of Sri Lanka decided to permit banks to carry out Primary Dealer activities within the banks. We will decide on the most appropriate option in this regard once the necessary regulations are gazetted by the Central Bank.



# Management Discussion and Analysis

## Information Technology

With the explosive growth of banking technologies and delivery channels it was prophesied that virtual bank branches would replace brick and mortar bank branches. Looking at the above prophecy in relation to Sri Lanka, it does not appear to be taking off as projected due to the high cost of telecommunication links and the cost of computers, which has eluded the middle and low-income customers.

However, the Bank continues to possess and build upon its superior Information Technology system, which has successfully been used for over a period of 8 years now. The Bank has in fact the single largest network of linked branches (99 branches) and Automated Teller Machines (115 ATMs) in the country today. The Bank has planned for a rapid expansion of the ATM network by installing 100 new ATMs in on-site as well as off-site locations. Some of the ATMs will be installed at the premises of the Bank's customers for the convenience of their staff. The ATMs have helped the Bank to ease out the workload at the teller counters and also to generate a fee income.

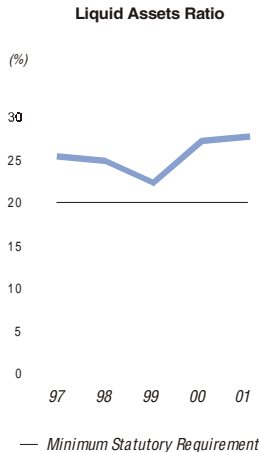
The Bank led the scene in providing Tele-Banking in 1994 and Intranet Banking in 1997, which were used by corporate and personal customers in their day-to-day needs. Although Intranet Banking was developed on the same technical specifications as Internet, the Bank was cautious to provide Internet Banking due to the risks associated with it. We converted our Intranet Banking service to an Internet Banking service after the security environment was

satisfactorily resolved by installing firewalls, digital certificates and obtaining the services of a Consultant to evaluate the system. Mobile Phone Banking was also introduced during the year.

This superior IT system has immensely helped the Bank in achieving substantial operational efficiency. This was one of the major contributory factors for the very satisfactory level of Cost / Income Ratio recorded for the year ended December 31, 2001 of 55.27%.

## Liquidity

The liquidity policy of the Bank has always been to carry a positive mismatch in the interest earning assets and interest bearing liabilities in the 1 to 30 day category. However, consequent to the Government's instructions that all the funding requirements of Government institutions be directed to the State banks and the Central Bank of Sri Lanka reducing the Statutory Reserve Ratio from 11% to 10% in October 2001, our liquidity remained at relatively higher levels throughout the year. The Liquid Assets Ratio stood at 27.72% in December 2001.





## Management Discussion and Analysis

The Assets and Liabilities Committee (ALCO) of the Bank monitored the situation on an ongoing basis and took appropriate decisions to maintain a satisfactory trade-off between liquidity and profitability. The profitability of the Bank as reflected in the financial statements bears testimony to the success of the ALCO measures.

### Dividends

The dividend policy of the Bank has always been to pay a decent dividend to the shareholder while ploughing back sufficient profits for funding the expansion. The profits so ploughed back undoubtedly helped the Bank in the past in achieving the levels of profitability reported by the Bank and in increasing the Net Asset Value of the shares.

Considering the excellent performance achieved by the Bank in the year under review, the Board of Directors have recommended a total dividend of 45% for the year.

### Risk Management

A well-structured Risk Management system is in place within the Bank to address all types of risks relating to Market, Credit and Operations. Commercial Bank too employs a Committee approach to Risk Management. The Assets and Liabilities Committee and the Credit Committee regularly meet to review the market and credit related factors and recommend and implement suitable measures to counter the associated risks. Appropriate internal control measures and contingency plans are in place to address

operational risks. The Board of Directors too review the progress of the Risk Management measures periodically through a paper submitted to them.

A detailed report on Risk Management appears on pages 30 to 32 of this Report.

### Resource Efficiency

Deposits and Shareholders' Funds represented the two biggest resources of funds for the Bank accounting for 78.35% and 11.41% respectively of the total liabilities and shareholders' funds as at December 31, 2001. Mobilising deposits from stable and low cost sources and the prudent investment of funds to earn an optimum return are the imperatives for improving the profitability of the Bank.

In addition, the Bank issued Cumulative Redeemable Preference Shares of Rs. 906.555 million during the year in order to raise long-term funds at reasonable cost in the light of direct competition to deposits from high interest bearing gilt-edged securities to expand on leasing and other long-term credit facilities at a reasonable cost to the customer.

Similarly, through careful planning and application of prudent policies in relation to payment of dividends, capital expenditure and investments, the Bank ensured that Shareholders' Funds and the Free Capital continued to grow. Total Shareholders' Funds and Free Capital were Rs. 6,744.881 million and Rs. 3,316.159 million respectively as at December 31, 2001.

## Management Discussion and Analysis

### Capital Adequacy

#### Computation of Risk-Weighted Assets

As at 31st December

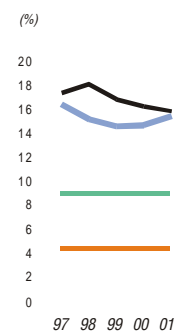
#### On-Balance Sheet Items

	Balance		Risk Weight (%)	Risk Weighted Balance	
	2001 Rs.'000	2000 Rs.'000		2001 Rs.'000	2000 Rs.'000
<b>ASSETS</b>					
Cash, Statutory Deposit with Central Bank of Sri Lanka, Treasury Bills, Government and other Securities	5,469,131	3,906,813	—	—	—
Loans secured by Cash and guaranteed by Central Bank of Sri Lanka	5,433,905	3,830,028	—	—	—
Loans guaranteed by SLECIC	28,923	24,645	50	14,462	12,323
Loans secured by Primary Mortgages over Residential Property	2,241,120	1,763,367	50	1,120,560	881,684
Other Loans and Advances	25,169,765	21,690,635	100	25,169,765	21,690,635
Credit Equivalent of Off-Balance Sheet Items (as shown below)	3,401,675	3,695,518	100	3,401,675	3,695,518
Due from Banks Abroad	1,570,340	2,611,803	20	314,068	522,361
Due from Local Banks including Development Financial Institutions	1,750,000	1,400,000	20	350,000	280,000
Due from Off-shore Banking Centre	6,227,691	4,016,058	10	622,769	401,606
Cash Items in the process of collection	61,046	18,882	20	12,209	3,776
Investments excluding Investments in Financial Associates	436,277	364,865	100	436,277	364,865
Property, Plant & Equipment	1,616,151	1,520,883	100	1,616,151	1,520,883
Other Assets	3,237,918	3,085,240	100	3,237,918	3,085,240
<b>TOTAL</b>	<b>56,643,942</b>	<b>47,928,737</b>		<b>36,295,854</b>	<b>32,458,891</b>

#### Off-Balance Sheet Items

INSTRUMENTS	Balance		Credit Conversion Factor (%)	Credit Equivalent	
	2001 Rs.'000	2000 Rs.'000		2001 Rs.'000	2000 Rs.'000
General Guarantees of Indebtedness (Credit Guarantees and Advance Payment Guarantees)	2,108,461	2,189,632	100	2,108,461	2,189,632
Performance Bonds, Bid Bonds and Warranties	790,675	937,076	50	395,337	468,538
Shipping Guarantees	1,343,509	875,784	20	268,702	175,157
Documentary Letters of Credit	1,791,516	3,220,004	20	358,303	644,001
Usance Bills	1,263,182	1,035,819	20	252,636	207,164
Bills for Collection	2,614,545	1,449,935	—	—	—
Foreign Exchange and Interest Rate related Contracts:					
Customers	21,433	13,561	50	10,717	6,781
Banks	37,594	21,227	20	7,519	4,245
<b>TOTAL</b>	<b>9,970,915</b>	<b>9,743,038</b>		<b>3,401,675</b>	<b>3,695,518</b>

#### Capital Adequacy Ratios



— Tier - I (Commercial Bank)  
 — Tier I & II (Commercial Bank)  
 — Tier - I (Minimum statutory requirement)  
 — Tier I & II (Minimum statutory requirement)

## Management Discussion and Analysis

### Computation of Capital

	2001 Rs.'000	2000 Rs.'000
<b>TIER 1 : CORE CAPITAL</b>		
Paid-up Ordinary Shares	417,901	348,251
Share Premium	562,066	641,780
Statutory Reserve Fund	1,009,000	1,009,000
Published Retained Profits	86,058	10,588
General and other Reserves	3,616,296	2,839,129
Minority Interest	12,607	11,583
Less: Goodwill	-	-
Total Tier 1 Capital	<b>5,703,928</b>	4,860,331
<b>TIER 2 : SUPPLEMENTARY CAPITAL</b>		
Revaluation Reserve (as approved by the Central Bank of Sri Lanka)	157,286	157,286
General Provisions	69,891	100,770
Approved Subordinated Term Debt	200,000	300,000
Total Tier 2 Capital	<b>427,177</b>	558,056
Total Capital	<b>6,131,105</b>	5,418,387
<b>Deductions</b>		
Investments in Banks and Financial Associates	252,090	24,584
Capital base	<b>5,879,015</b>	5,393,803

### Computation of Ratios

	2001 Rs.'000	2000 Rs.'000
Total Tier 1: Core capital	5,703,928	4,860,331
Total Capital Base	5,879,015	5,393,803
Total Risk Weighted Assets	36,295,854	32,458,891

#### Core Capital Ratio - Tier I (Minimum required Ratio is 4.5%)

	%	%
$\frac{\text{Core Capital}}{\text{Risk Weighted Assets}} \times 100$	15.72	14.97

#### Total Risk Weighted Capital Ratio - Tier I & II (Minimum required Ratio is 9%)

	%	%
$\frac{\text{Total Capital}}{\text{Risk Weighted Assets}} \times 100$	16.20	16.62

(Minimum required ratios in 2000 were 4% and 8% for Tier I and Tier I & II respectively).

#### Risk Weighted Assets

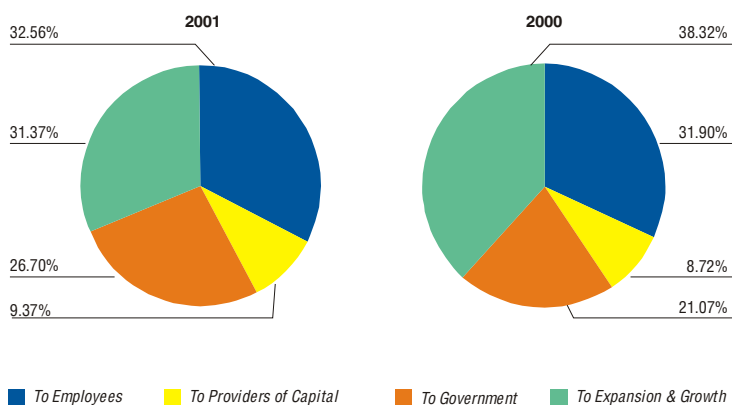
- Loans and Advances are net of specific provisions and interest in suspense.
- Total assets do not tally with that of the Balance Sheet mainly due to Off-shore Banking Centre not being subject to capital adequacy requirements and securities purchased under re-sale agreements and securities sold under re-purchase agreements being shown separately in the Balance Sheet.

## Management Discussion and Analysis

### Value Addition

	2001		2000	
	Rs.'000	%	Rs.'000	%
<b>Value Added</b>				
Income from Banking Services	8,095,221		6,026,708	
Cost of Services	(4,797,161)		(3,347,881)	
Value Added by Banking Services	3,298,060		2,678,827	
Non-Banking Income	77,942		69,768	
Loan Losses and Provisions	(236,677)		(180,178)	
	<u>3,139,325</u>		<u>2,568,417</u>	
<b>Distribution of Value Added</b>				
<b>To Employees</b>				
Salaries and other benefits	1,022,252	32.56	819,244	31.90
<b>To Providers of Capital</b>				
Dividends to Shareholders	220,989		156,713	
Interest to Debentureholders	73,315		67,155	
	<u>294,304</u>	9.37	<u>223,868</u>	8.72
<b>To Government</b>				
Income Tax	300,000		171,600	
Turnover Tax	52,434		50,259	
National Security Levy	485,638		319,186	
	<u>838,072</u>	26.70	<u>541,045</u>	21.07
<b>To Expansion and Growth</b>				
Retained Income	788,978		779,242	
Depreciation	180,719		162,118	
Deferred Taxation	15,000		42,900	
	<u>984,697</u>	31.37	<u>984,260</u>	38.31
	<u>3,139,325</u>	<u>100.00</u>	<u>2,568,417</u>	<u>100.00</u>

Distribution of Value Added



## Management Discussion and Analysis

### Economic Value Added

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

	2001 Rs. '000	2000 Rs. '000	1999 Rs. '000	1998 Rs. '000	1997 Rs. '000
<b>Invested Equity</b>					
Shareholders' Funds	6,744,881	5,047,529	4,268,287	3,867,504	3,420,399
Add: Cumulative Loan Loss Provision	765,681	596,234	548,993	642,157	583,302
	<b>7,510,562</b>	5,643,763	4,817,280	4,509,661	4,003,701
<b>Earnings</b>					
Profit after Taxation	1,009,967	935,955	658,479	591,464	542,889
Add: Loan Losses and Provisions	236,677	180,178	116,456	183,099	197,416
Less: Loan Losses Written Off	(7,913)	(3,805)	(36,750)	(20,172)	(2,354)
	<b>1,238,731</b>	1,112,328	738,185	754,391	737,951
Cost of Equity based on the 12 months weighted average Treasury Bill rate plus 2% for the Risk Premium	<b>20.40%</b>	16.25%	14%	14%	14%
Cost of average equity	<b>1,341,741</b>	849,960	652,886	595,935	528,282
<b>Economic Value Added</b>	<b>(103,010)</b>	262,368	85,299	158,456	209,669

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. Although the Bank posted an after tax profit of Rs. 1,009.967 million for the year, given unusually high weighted average Treasury Bill rates that prevailed during the period, this profit figure does not reflect a return commensurate with the true cost of our invested equity. Thus in EVA terms, we have a negative figure of Rs. 103.010 million this year although in the past five years this figure has been consistently positive and the cumulative EVA over the last 5 years has been in excess of Rs. 700 million.

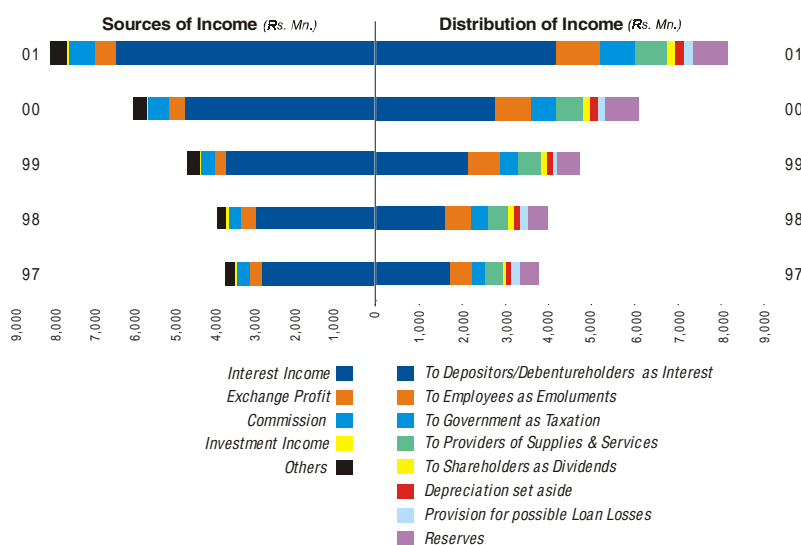
## Management Discussion and Analysis

### Sources and Distribution of Income

For the year ended 31st December	1997	1998	1999	2000	2001
	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.
<b>Source of Income</b>					
Interest Income	2,877	3,032	3,762	4,796	<b>6,510</b>
Exchange Profit	320	362	274	421	<b>563</b>
Commission	278	317	359	505	<b>636</b>
Investment Income	71	55	57	41	<b>55</b>
Others	235	213	292	333	<b>409</b>
	<b>3,781</b>	<b>3,979</b>	<b>4,744</b>	<b>6,096</b>	<b>8,173</b>

### Distribution of Income

To Depositors/Debentureholders as Interest	1,723	1,605	2,158	2,776	<b>4,174</b>
To Employees as Emoluments	508	615	728	819	<b>1,022</b>
To Government as Taxation	308	376	406	583	<b>853</b>
- Income Tax	110	178	151	214	<b>315</b>
- Turnover Tax	61	39	39	50	<b>52</b>
- National Security Levy	137	159	216	319	<b>486</b>
To Providers of Supplies & Services	398	485	557	640	<b>696</b>
To Shareholders as Dividends	107	139	139	157	<b>221</b>
Depreciation set aside	104	124	121	162	<b>181</b>
Provision for possible Loan Losses	197	183	116	180	<b>237</b>
Reserves	436	452	519	779	<b>789</b>
	<b>3,781</b>	<b>3,979</b>	<b>4,744</b>	<b>6,096</b>	<b>8,173</b>

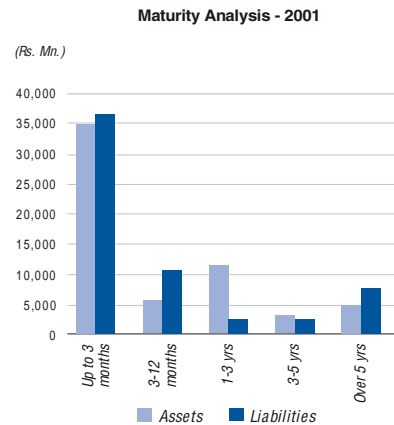


## Management Discussion and Analysis

### Maturity Analysis

A summary of the maturity pattern of the respective assets and liabilities is as follows:

Item	Maturity Period					Rs. '000	
	Up to 3 months	3 - 12 months	1 - 3 years	3 - 5 years	Over 5 years	Total 2001	Total 2000
	Interest Earning Assets	30,172,777	4,923,826	10,966,692	2,863,056	2,170,013	<b>51,096,364</b>
Non-Interest Earning Assets	4,489,616	666,449	165,731	114,834	2,562,888	<b>7,999,518</b>	8,230,560
<b>Total Assets</b>	<b>34,662,393</b>	<b>5,590,275</b>	<b>11,132,423</b>	<b>2,977,890</b>	<b>4,732,901</b>	<b>59,095,882</b>	49,610,718
Interest Bearing Liabilities	27,280,889	10,330,607	2,423,597	1,304,430	1,726,065	<b>43,065,588</b>	35,764,419
Non-Interest Bearing Liabilities	9,072,519	47,894	–	1,071,555	5,838,326	<b>16,030,294</b>	13,846,299
<b>Total Liabilities</b>	<b>36,353,408</b>	<b>10,378,501</b>	<b>2,423,597</b>	<b>2,375,985</b>	<b>7,564,391</b>	<b>59,095,882</b>	49,610,718



### Future Direction

The Bank will vigorously pursue the strategic direction that has been identified and laid down in the Corporate Plan by leveraging superior information technology with the warm human touch.

Priorities have been identified for implementation in the near future. These include looking out for new business lines, increasing the contribution from fee based operations, reducing the over dependence on the Sri Lankan economy, identifying ways of maximising synergies by working in close association with the major shareholders, making the maximum use of the distribution network spanning over 100 Delivery Points and 115 ATMs and growth through acquisitions.



## Risk Management

By the very nature of their business, banks are exposed to varying degrees of market, credit, liquidity and operational risks, which, if carefully managed, should not only prevent any potential losses but should also provide opportunities for new or greater business which could turn in huge rewards, or if poorly managed, bankrupt the institutions completely. In fact, the magnitude of risks may be high in the business of banking compared to non-banking sectors. Banks, as corporate bodies, are exposed to other non-banking risks as well, such as operational risks, legal risks, and reputation risks, which are common to all sectors. It is due to this reason that the banking business is highly regulated the world over. This risk of failure coupled with the stringent regulatory requirements is pushing these institutions to have a more systematic approach in identifying, measuring and monitoring the risks today.

Creating an awareness of risk within the Bank, a uniform interpretation of risk and identifying the types of risks are imperative to the success of an overall risk management system.

Risk at Commercial Bank is defined as the possibility of losses, financial or otherwise, or serious negative deviations from forecast performance and/or financial position.

The design of the risk management system at Commercial Bank is bank specific; dictated by the size, complexity of functions, level of technical expertise, quality of MIS, etc. and is structured to address the total risk, i.e. both banking as well as non-banking risks. The prime objective of this risk management system is to ensure 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 certain other areas. It is the Bank's policy to manage such risks effectively so as to mitigate or minimize such risks.

In order to realize this objective, the management has implemented systems, policies and procedures in all dimensions of operations and periodically review them to ensure that they are comprehensive enough and are being adhered to. Our Bank continues to maintain and update a wide-ranging list of possible risks and has also formulated suitable risk management measures against each identified risk. All senior managers are required to periodically assess and report to the Board through the Board Audit Committee, the extent of implementation of these risk management measures and evaluate the adequacy and effectiveness of these measures, in the context of the changing business environment.

The major risks that are addressed in the Bank's Risk Management System are as follows:

### Credit Risk

This involves the risk of a borrower, not paying the full capital amount granted or interest of a loan or an advance within the agreed time period. This risk could arise due to many causes and comes in various forms, with the ultimate result being a financial loss to the Bank. In order to effectively manage this fundamental banking risk, the Bank has taken various measures, which includes skills development in "pre-sanctioning credit evaluation" and "sound credit decision making". This is followed by delegation of appropriate authority to credit officers depending on their levels of skill and expertise. Each credit decision is subject to an independent review by the next level of authority.

In the case of advances, proper and adequate securities are obtained in most instances as an additional safeguard. Approximately 90% of the Bank's advances are backed by realizable securities. Credit disbursement is carried out within a well-defined Credit Policy that outlines the maximum



## Risk Management

exposure limits to various sectors of the economy. This helps the Bank to avoid unhealthy credit concentrations. The Bank's own limits to individual borrowers have been fixed after a careful assessment of their credit worthiness and financial requirements. In addition, we have an internal risk grading system for all borrowing customers. This is a comprehensive system whereby each customer is graded according to various risk characteristics including financial management, collaterals, and repayment capacity, etc. These gradings are reviewed every year and/or when any of the above characteristics undergo a material change.

One cannot undermine the need for effective post-sanctioning monitoring of facilities. Commercial Bank with its cutting edge in IT superiority has developed an "early warning system" aimed at early identification of problematic advances so that corrective action could be initiated without delay. We also need to emphasize that the Bank's Computer System has been programmed strictly within the parameters set by the Central Bank of Sri Lanka on suspension of interest and classification of non-performing loans. Once non-performing loans are classified in this manner, provisioning is done on a basis stringent than the guidelines issued by the Central Bank.

### Market Risk

This refers to the potential risk to the Bank's profitability due to adverse movements in the market in respect of interest rates, exchange rates and adverse price fluctuations in the Bank's trading portfolios.

### Interest Rate Risk

The source of this risk is the fluctuations in the market interest rates over which the Bank has very little control. The magnitude of losses arising from this source is generally linked to the mismatches in interest earning assets and interest bearing liabilities of the Bank and the

difficulties associated with re-pricing these asset and liability products of the Bank.

Commercial Bank has an effective strategy in place to manage this risk, which involves a gap analysis to ascertain and thereby manage the maturity mismatches in assets and liabilities appearing on the Bank's Balance Sheet. The Bank's Assets and Liabilities Committee (ALCO), which has been entrusted with this task, meets regularly to effectively execute it. As shown in the Maturity Analysis of the Bank's Assets and Liabilities given on page 81 of the Annual Report, the maturity gaps of our Bank as at December 31, 2001 were manageable.

The ALCO, which closely monitors movements in interest rates and trends in the market, makes prompt decisions on re-pricing. In addition, the following are also pursued with a view to managing interest rate risk:

- Entering into interest rate swap agreements such as Fixed vs. Floating.
- Fixing of the prices of asset and liability products to an acceptable benchmark rate together with maximum and minimum interest rates.
- Introducing floating rate products for the medium and long-term.
- Maximizing the contribution from less interest sensitive sources.

### Foreign Exchange Risk

Banks, as approved exchange dealers have to manage this as an inherent risk. Volatilities in exchange rates can cause excessive losses on open foreign exchange positions when there is an exposure or a gap between the assets and liabilities held in a particular currency in which the rate of exchange has moved adversely. The most effective method of managing this risk is to minimize such exposure in the respective currencies. In order to achieve this purpose the Bank has implemented exchange position limits,

## Risk Management

trading loss limits, dealer limits, bank limits, and transaction limits. In addition, the Bank has minimized its involvements in speculative foreign currency trading. Foreign currency exposure, both spot and forward, is also closely monitored by the Management. As a further safety measure, the Bank has established different reporting lines for the dealing and processing staff.

### Equity Risk

This risk arises from adverse price fluctuations in trading portfolios of banks. Such adverse movements could result in provisions for possible losses in the Income Statement. However, it is important to note that our Bank is virtually free from this risk, as its exposure to trading securities is negligible. Commercial Bank's investments are mainly in its subsidiary and associate companies, which are maintained as long-term investments. The Bank as a policy refrains from making speculative investments in stocks and debts.

### Liquidity Risk

This risk arises due to non-availability of sufficient funds to meet short-term liquidity demands of the stakeholders for local and/or foreign currency, as and when the need arises. Mismatched maturity gaps in assets and liabilities are the root cause of liquidity risks. The management of these maturity gaps is entrusted with the ALCO. Additionally, the Bank has taken adequate steps to minimize exposure to any single customer on either side of the Balance Sheet. The treasury of the Bank maintains a contingency buffer of liquidity, which includes a portfolio of Treasury Bills and Treasury Bonds. The other contingency measures available to the Bank to prop up liquidity include reverse repo facilities with the Central Bank, credit lines with our correspondent banks for short/medium-term foreign currency borrowings and credit lines with local banks to borrow in the money market.

### Operational Risk

Operational risks arise due to any one or a combination of sources such as natural disaster, frauds, computer failure and human error, etc. The Bank has taken adequate measures to safeguard its tangible assets from natural disasters including insurance cover against various risks. The Bank has set in motion adequate procedures and implemented various controls in order to manage risks that arise due to human error and fraud. The Audit Committee of the Bank reviews these systems, procedures and controls on an ongoing basis to ensure that they continue to be effective. The Bank has also taken extra precautions with regard to managing the risk of computer related frauds particularly in view of the highly computerized environment that prevails in the Commercial Bank.

### Legal Risk

Commercial Bank, as not only a bank but also as a listed company, taxpayer and employer has to fulfil various legal as well as statutory requirements. The Board of Directors of Commercial Bank has set in place an effective compliance system so that no legal, banking, company, stock market and other regulations are violated. The Bank has compiled and continues to update and maintain a detailed listing of all requirements to be fulfilled and has also appointed a Compliance Officer to ensure the fulfillment of these requirements. The compliance of legal and other banking requirements is also monitored at Board level.

### Risk Aggregation and Capital Allocation

Capital needs of the Bank are evaluated in the light of the risk profiles and business plans. Basle Committee now recognizes that capital adequacy in relation to economic risk is a necessary condition for the long-term soundness of banks. As such, in addition to complying with the minimum regulatory capital requirements the Bank critically assesses the internal capital adequacy and future capital needs on the basis of risks assumed.

## Our People

At Commercial Bank, we are firm believers that it is the knowledge, skills, leadership and motivation of each individual plus the collective culture and teamwork of our entire 2,200-strong team that makes the real difference. And the difference we try to make is to understand each one of our customers' individual situations

corporate business objectives with the aspirations of our employees." Our human resource strategies are consistent with this mission and as in the past, in 2001 too several new strategies and initiatives were rolled out, many of which were pioneering efforts in Sri Lanka's banking sector.



*Winning team of the Interdepartmental/branch softball cricket tournament*

### **Leading the way in People Productivity**

Commercial Bank has since 1997 led the industry in terms of people productivity. That is the total number of staff divided by the number of branches. This figure currently stands at 23. To achieve this position many successful initiatives have been implemented in the sphere of Human Resources with the active involvement of Line Management. More importantly, improvements to the operational processes are



*Training programme conducted at Staff Development Centre for external participants*

so that we can consistently deliver the value they seek.

Our mission in developing our people is "to create and maintain a winning combination of a well contented, highly motivated, exceptionally productive workforce harmonizing the



*Interbranch/Dep. quiz competition*

## Our People

being done on a continuous basis and we are constantly working towards improving this figure.

### **Our reservoir of Trainees – the Bankers of tomorrow**

Our Banking Trainee Scheme, which was the first scheme of its kind to be introduced in the



*Taking oaths at the conclusion of a training programme on employee befrienders*



*Training programme for staff members*

Sri Lankan Banking Sector, was another, pioneering effort. Results of such programmes will be seen over the long term. Today we have over 400 Banking Trainees undergoing training in all aspects of Banking. The maiden batch will graduate this year. Trainees are provided a structured training during a period of 2 to 3 years. The focus is on knowledge and skills plus the all-important attributes of correct attitude, culture and work ethics. The best trainees are recruited after graduation.



*Christmas party for the children of the staff*

### **Growing our Executive cadres – whilst rationalizing where possible**

Restructuring of the Executive Cadre resulted in the establishment of a Junior Executive Officer grade to which the former Staff Officers were promoted on merit, through a selection process.

This has tremendously improved the overall performance of these Officers and enhanced organisational effectiveness.

A Voluntary Resignation Scheme, which was first introduced in 2000, was re-introduced for the year 2001 in order to provide an opportunity to employees of certain identified categories to leave the services of the Bank



## Our People

voluntarily and avail themselves of a lump sum payment. Approximately 23 employees availed themselves of this scheme during the year 2001 and resigned end of January, 2002, in addition to the 56 employees who opted for it during the year 2000. This has further streamlined our staff numbers.

### Our Training – encompassing even our Suppliers’ personnel

Another landmark in the field of Human Resources was the establishment of an out-sourcing unit to look after the welfare of the personnel who provide out-sourced services to the Bank. Commercial Bank uses out-sourced services extensively. In order to enhance the quality of out-sourced staff, arrangements have been made to enter into agreements with the service providers encompassing better terms and conditions and also performance appraisal, training facilities, etc.

### Employee Relations Unit

In pursuance of the objective of enhancing the level of motivation and contentment of employees and as a part of forward planning, an Employee Relations Unit has been established in order to manage employee and industrial relations, welfare services and employee communication. A grievance handling procedure has been established and grievance resolution should certainly improve employee morale. In another pioneering effort, the Bank trained 21 Employee Counsellors in order to assist employees to overcome situations of employee stress. This is the first time in the Banking Industry that a concerted effort has been made to provide employee-counselling service to the employees.

### We continue to offer our services to others as well

Our Staff Development Centre whilst meeting the needs of the organisation, has embarked on extending its services to other Banks and leading Corporates in the country. The Staff Development Centre whilst focussing on its mission “to become the State of the Art Human Resource Development Centre in Sri Lanka offering the most effective and innovative solutions,” has intensified its activities and strengthened itself to become “a Quality Training Outfit”. The following statistics manifest the rapid growth of its activities and also the magnitude of its contribution to the Bank – helping it to become “the Best Bank in Sri Lanka.”

Use of training as a corporate strategy to achieve organizational goals:

Type	No. of participants	
	2000	2001
In-house	3,268	5,651
External	324	282
Overseas	38	35
<b>Total</b>	<b>3,630</b>	<b>5,968</b>

Providing HRD services to external organisations in 2001:

Type	No. of	
	Programmes	Participants
Fee Levying Basis	10	453
Social Responsibility Measures	01	200
<b>Total</b>	<b>11</b>	<b>653</b>

In moving towards the realisation of its vision “to become the Centre of Learning Excellence in Sri Lanka”, the Staff Development Centre has already made arrangements to forge links with prestigious overseas training Institutes in U.S., Europe and Asia in order to provide excellent Training & Development products to its Sri Lankan clientele.

## Our People

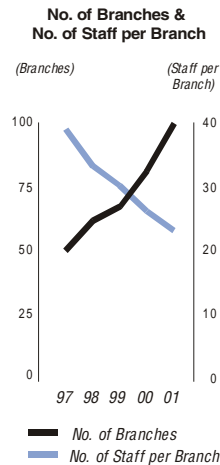
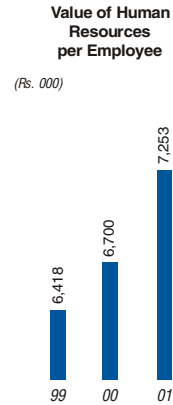
### Human Resource Accounting

The non-human capital is recognised as an asset in the books of account whereas the human capital is totally ignored. However, the definition of wealth as a source of income inevitably leads to the recognition of human capital as one of several forms of wealth such as money, securities and physical capital. It is encouraging to note that more and more firms are gradually moving towards recognising their human resource as a form of wealth.

The Lev & Schwartz model has been used to compute the value of the Bank's human resource as at December 31, 2001.

The Human Resource Valuation is based on the following assumptions:

1. All the existing employees will continue in employment up to retirement.
2. Employee remuneration includes all direct and indirect benefits earned by them.
3. Annual increment is granted at 8% p.a. on average.
4. Total future remuneration of all the employees for each year is discounted to the present value at 10%.



Year	No. of Employees	Total Value of Human Resource Rs. '000	Value of Human Resource per Employee Rs. '000
<b>2001</b>	<b>2,259</b>	<b>16,383,868</b>	<b>7,253</b>
2000	2,067	13,849,053	6,700
1999	1,996	12,811,298	6,418

## Our People

### Staff Strength

<i>As at 31st December</i>	1997	1998	1999	2000	2001
Corporate Management	12	12	12	15	<b>14</b>
Executives	236	250	389	564	<b>715</b>
Staff Officers and Allied	318	347	235	89	<b>30</b>
Banking Assistants and Allied	1,116	1,174	1,155	1,017	<b>905</b>
Banking Trainees	–	–	–	183	<b>402</b>
Office Assistants & Others	207	202	205	199	<b>193</b>
Total	1,889	1,985	1,996	2,067	<b>2,259</b>
Income per Employee (Rs.'000)	2,001	2,004	2,377	2,949	<b>3,631</b>
Profit per Employee (Before Tax) (Rs.'000)	345	387	406	556	<b>587</b>
Assets per Employee (Rs.'000)	14,642	17,383	20,986	24,001	<b>26,160</b>

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

Age Group (Years)	Corporate Mgt.	Executives	Staff Officers & Allied	Banking Assist. & Allied	Banking Trainees	Office Asst. & Others	2001	2000
Above 60	–	1	–	–	–	–	<b>1</b>	–
51 - 60	10	29	–	4	–	13	<b>56</b>	50
41 - 50	04	245	19	91	–	79	<b>438</b>	407
31 - 40	–	340	10	408	–	73	<b>831</b>	746
21 - 30	–	100	1	402	400	28	<b>931</b>	864
Below 20	–	–	–	–	2	–	<b>2</b>	–
	14	715	30	905	402	193	<b>2,259</b>	2,067

*Average age of the employees as at December 31, 2001 was 33.8 years (2000 - 34.6 years)*

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

Service (Years)	Corporate Mgt.	Executives	Staff Officers & Allied	Banking Assist. & Allied	Banking Trainees	Office Asst. & Others	2001	2000
Above 20	7	210	14	62	–	76	<b>369</b>	295
16 - 20	4	107	7	48	–	17	<b>183</b>	224
11 - 15	–	182	3	187	–	34	<b>406</b>	366
6 - 10	3	175	6	356	–	51	<b>591</b>	635
Below 5	–	41	–	252	402	15	<b>710</b>	547
	14	715	30	905	402	193	<b>2,259</b>	2067

*Average service of the employees as at December 31, 2001 was 10.7 years (2000 - 11.0 years)*

*The service of the employees absorbed from Eastern Bank Ltd. and Mercantile Bank Ltd. is also included.*

## Social and Environmental Responsibility

The evolving relationship between Banks and the public is a fascinating study. The market is a much friendlier place, these days! And Banks have adopted a more outward looking ethos. The relationship between a customer and a Bank is much less one-sided, and this has led to extending such relationships beyond the

We take this aspect of the life of the Bank extremely seriously.

Thus, this year too, we put forth a programme of activity, through our branch network, designed to benefit the community at large, whilst also strengthening the economy.



*Sponsorship of Badminton at National level*

### Forming Young Minds

Shaping the course of life for the younger generation in Sri Lanka has been a particularly fulfilling pursuit for the Bank. Moulding minds and offering career options constituted the thrust of the Bank's activity in this sphere.



*A gift being presented to an "Arunalu" Account holder*

bounds of formal banking; into sectors such as social activities, education, health, sports, environment etc.

The Commercial Bank has always regarded contributing to the well being of society as its number one priority. To us, a vibrant and healthy community makes excellent customers and more importantly, long-term relationships and unwavering loyalty.



*Arunalu - Spells prosperity for little ones*



## Social and Environmental Responsibility

We conducted seminars on “Money and Banking” for Advanced Level students - a great introduction to the world of finance for young minds!

We also organized career guidance seminars for students of several schools with the help of our Staff Development Centre.

The Bank organized a health education programme, with particular emphasis on the killer disease, Dengue.



*A Career Guidance Seminar at Isipatana College*

### Supporting Society and the Community

The needs of a community are many and varied. The social fabric of this country is a rich tapestry of intertwining races, cultures, religions and peoples of every circumstance – those for whom life is full of prosperity and those much less fortunate.

The Commercial Bank supports a variety of activities that contribute to the “fabric of life” in Sri Lanka. This we consider a singular honour, which is why we include it in this report.

It is no accident that, following on from our endeavours to educate the young, our support for community and society should focus on youth.

The Bank supported a “Poson Bakthi Gee” programme amongst Kandy schools, and a “Wesak Lantern Competition and Exhibition” amongst schools in Kurunegala, to mark two significant religious events of the year gone by.



*Promoting road safety*



*A Poson Bakthi Gee Programme*

## Social and Environmental Responsibility

We opened Arunalu Savings Accounts for children of several children's homes, to help them stand on their own one day, and also to inculcate the invaluable habit of – saving for a rainy day!

Our Negombo Branch celebrated its 20th Anniversary by visiting and donating ceiling fans, books, toys etc. to children at a children's home in the area.

### Keeping the Shuttle in the Air

The Bank continued to sponsor Badminton at the National level, for the fifth year in succession. Sri Lanka today is an increasingly "sports conscious" nation. People from every walk of life have begun to exercise, walk, jog and participate in some form of sport to remain fit and healthy. This augurs really well for the health and well-being of the nation – which is why the Commercial Bank continues to support Badminton – at a National level. Our support has helped the sport to grow and improve. The results speak for themselves!

### Good old friends

An important aspect of our work within society is the continuity we endeavour to establish over the years. Quite a few of our projects originated several years ago, and have been nurtured and developed to establish healthy relationships, trust and friendship which are invaluable both to the Bank and the relevant social group, alike.

A good example would be our relationship with the little children of Giriagama Primary School, Kandy.

Our association began back in 1998. The students at this school all came from a low-income sector of society. Facilities for basic education were minimal.

Since 1998, the Bank has donated various items with the aim of improving their level of education. The Bank also recognised good performers at scholarship examinations with special gifts and books.

But perhaps the greatest manifestation of the relationship the Bank has built over the years with Giriagama can be seen in the near 300 Minor's Savings Accounts the students have opened with us. Put in the context of a community of children who have very few financial resources, this is a great step towards their future financial well-being and an eloquent example of how well a financial institution can integrate with and assist a community.

### A friend of the environment

We are continuing with our education and consciousness-building project in the coastal areas of the Country to promote protection and preservation of our beaches and oceans. This programme attempts to highlight the importance of conserving Sri Lanka's unique marine environment and eco-systems.

Commercial Bank is also conscious of the impact its customers' activities have on the environment and this consciousness is now playing an increasingly important role in our client evaluations.

*A Winner - Wesak Lantern Competition and Exhibition*



## **FINANCIAL CALENDAR**

Thirty-Third Annual General Meeting to be held on	March 27, 2002
Final Dividend for 2000 paid on	March 29, 2001
Interim Dividend for 2001 paid on	December 21, 2001
Final Dividend for 2001 proposed to be paid on	March 27, 2002
Annual Report and Accounts for 2001 signed on	February 25, 2002

### **Quarterly Reports in terms of Rule 8.3 of the Colombo Stock Exchange:**

For the three months ended March 31, 2001 (unaudited)	May 13, 2001
For the six months ended June 30, 2001 (unaudited)	July 27, 2001
For the nine months ended September 30, 2001 (unaudited)	October 26, 2001
Annual Report and Accounts for 2001 (audited)	February 25, 2002

# Financial Reports

## Directors' Report

The Directors have pleasure in presenting to the members their Report together with the audited accounts of the Commercial Bank of Ceylon Ltd., 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, for the year ended December 31, 2001.

These were approved by the Directors on February 25, 2002.

### Review of the year

The Chairman's Message and the Managing Director's Report describe in detail the Company's affairs and important events of the year.

### Principal Activities

#### Bank

The principal activities of the Bank continued to be banking and related activities such as 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, local and international credit cards, telebanking facilities, Internet Banking, Intranet facilities to customers etc. During the year, the Bank commenced the business of bullion trading and factoring.

#### Subsidiaries

The principal activities of Commercial Development Co. Ltd. and Commercial Bank Primary Dealer Ltd. are property development and dealing in Government securities as a Primary Dealer respectively.

#### Associates

The principal activities of Commercial Leasing Company Ltd., Equity Investments Lanka Ltd. and Commercial Fund Management (Pvt.) Ltd. are leasing and factoring, venture capital and fund management respectively.

### Profit

The profit before tax was up by 15.17% (2000 - 42.12%) and profit after tax up by 7.91% (2000 - 42.14%), details of which are given below:

	2001 Rs.	2000 Rs.
Profit for the year after payment of all expenses of management and providing for depreciation, possible loan losses and contingencies	<b>1,324,967,320</b>	1,150,455,115
Provision for taxation	<b>315,000,000</b>	214,500,000
Net profit after taxation	<b>1,009,967,320</b>	935,955,115
Unappropriated profit brought forward from previous year	<b>10,587,333</b>	1,345,235
Profit available for appropriation	<b>1,020,554,653</b>	937,300,350
<b>Appropriations</b>		
Transfer to General Reserve 14% (14% in 2000)	<b>798,000,000</b>	770,000,000
Interim Dividend paid 31% (31% in 2000)	<b>58,506,193</b>	48,755,161
Final Dividend proposed 13% Dividend payable on Cumulative Redeemable Preference Shares	<b>129,549,428</b>	107,957,856
	<b>32,932,772</b>	-
Unappropriated profit to be carried forward	<b>1,566,260</b>	10,587,333

### Dividends

The Directors recommend the payment of 31% final dividend for the year 2001 (2000 - 31%). An interim dividend of 14% was paid in December 2001 (2000 - 14%).

Interim dividend included Rs. 10.383 million (Rs. 2.836 million in 2000) paid out of exempt dividends received and hence be exempt from income tax in the hands of the shareholders.

## Directors' Report

### Provision for Taxation

Provision for taxation has been computed at 30% on the taxable income arising from the domestic operations of the Bank and at 10% on the taxable income arising from on-shore banking operations of the Off-shore Banking Centre. In addition, the surcharge on income tax at 20% too has been provided in 2001.

It is the Bank's policy to provide for deferred taxation on timing differences except on assets leased to customers on the liability method.

### Property, Plant & Equipment

Expenditure on Property, Plant & Equipment and Capital Work-in-Progress amounted to Rs. 296.148 million (2000 - Rs. 213.293 million), details of which are given in Note 21 to the Accounts. Expenditure approved and contracted for after the year-end is included in Note 32 to the Financial Statements.

### Reserves

The total reserves of the Bank stood at Rs. 5,420.425 million as at December 31, 2001, details of which are given in Notes 28 and 29 to the Financial Statements.

### Directors

#### List of Directors

The Board of Directors of Commercial Bank of Ceylon Ltd. consists of 9 Directors with wide financial knowledge and experience. The following were the Directors during the year:

M.J.C. Amarasuriya (*Chairman*)  
J.S. Mather (*Deputy Chairman*)  
A.L. Gooneratne (*Managing Director*)  
Dr. H S Wanasinghe  
B.R.L. Fernando  
M.L. Mack  
A.N. Fonseka  
P. Amarasinghe  
P.A. Pematilaka (*Resigned w.e.f. March 30, 2001*)  
S. Abeysinghe

### Interests in Ordinary Shares

Shareholdings of Directors at the beginning and at the end of the year are as follows:

	As at 31.12.01	As at 01.01.01
M.J.C. Amarasuriya	21,580	4,650
	4,480	900
	(non-voting)	(non-voting)
J.S. Mather	-	-
A.L. Gooneratne	23,157	19,293
	5,198	4,332
	(non-voting)	(non-voting)
Dr. H.S. Wanasinghe	-	-
B.R.L. Fernando	1,412	1,177
	(non-voting)	(non-voting)
M.L. Mack	-	-
A.N. Fonseka	178	149
	(non-voting)	(non-voting)
P. Amarasinghe	-	-
S. Abeysinghe	-	-

Directors' shareholdings have not changed subsequent from the date of the Balance Sheet up to January 25, 2002 being one month prior to the date of Notice of the Annual General Meeting.

### Interest in Cumulative Redeemable Preference Shares

There were no Cumulative Redeemable Preference Shares registered in the names of the Directors as at the end of the year.

### Interest in Debentures

There were no debentures registered in the names of the Directors as at the beginning and at the end of the year.

### Appointments and Resignations

In accordance with Articles 85 and 86 of the Articles of Association of the Company, Mr. B.R.L. Fernando and Mr. A.N. Fonseka retire by rotation and being eligible for re-election are recommended for re-election.

## Directors' Report

Mr. P.A. Pematilaka who had been appointed to the Board in terms of Article 74 of the Articles of Association of the Company resigned from the Board on March 30, 2001.

Messrs. P Amarasinghe and S. Abeysinghe were appointed to the Board on March 8, 2001 and on June 18, 2001 respectively in terms of Article 74 of the Articles of Association of the Company.

### Directors' Interests In Contracts

Directors' interests in contracts or proposed contracts with the Company, both direct and indirect are disclosed in Note 34 to the Financial Statements. These interests have been declared at Directors' Meetings. Directors have no direct or indirect interest in any other contract or proposed contract with the Company.

### 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 these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 17 of 1982, the Banking Act No. 30 of 1988 and the Listing Rules of the Colombo Stock Exchange.

### Human Resources

The Bank continued to implement appropriate Human Resource Management policies and practices to develop its employees and also to ensure their optimum contribution towards the achievement of corporate goals. Specific measures taken in this regard are detailed in the section on Our People appearing on page 33.

### Branch Expansion

Branch expansion policy continued during the year and the Bank opened 9 Branches, 8 Customer Service Points and 2 MiniComs.

### Share Capital

During the year the Company made a scrip issue of one bonus share for every five shares held thereby increasing the issued and paid up ordinary share capital of the Bank from Rs. 348.251 million to Rs. 417.901 million, details of which are given in Note 27 on page 79.

The total issued and paid up ordinary share capital as at December 31, 2001 was Rs. 417.901 million, consisting of 39,000,000 ordinary shares of Rs. 10/- each and 2,790,138 non-voting ordinary shares of Rs. 10/- each.

In addition, the Company issued Cumulative Redeemable Preference Shares during the year and raised Rs. 906.555 million. These funds are being used to expand the leasing and other long term credit facilities.

### Shareholdings

There were 4,633 registered shareholders holding voting ordinary shares and 1,125 registered shareholders holding non-voting ordinary shares of the Bank as at December 31, 2001. The distribution of shareholding is given on page 96 of this Report.

### Vision, Mission and Corporate Conduct

The Bank's Vision and Mission are given on page 1 of the Report. The business activities of the Bank are conducted with the highest level of ethical standards in achieving its Vision and Mission.

### Corporate Governance

Systems and procedures are in place to ensure that corporate governance is properly practised. Specific measures taken in this regard are elaborated on page 47 of this Report.

# Directors' Report

## Audit Committee

The following Non-Executive Directors of the Board served as members of the Board Audit Committee.

Mr. J.S. Mather  
Dr. H.S. Wanasinghe  
Mr. B.R.L. Fernando  
Mr. A.N. Fonseka

Mr. A.L. Gooneratne attends the meetings by invitation.

The report of the Audit Committee is given on page 50 of this Report.

## Going Concern

The Board of Directors 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.

## Risk Management

Specific steps taken by the Bank in managing both banking and non-banking risks are detailed on page 30 of this Report.

## Donations

During the year donations amounting to Rs. 499,700/- (Rs. 703,555/- in 2000) of which Rs. 466,195/- (Rs. 648,825/- in 2000) was to Government approved charities were made by the Bank.

## Auditors

The retiring Auditors, Messrs. KPMG Ford, Rhodes, Thornton & Company have signified their willingness to continue in office and a resolution to re-appoint them as Auditors, and authorizing the Directors to fix their remuneration will be proposed at the Annual General Meeting.

## System of Internal Controls

The Board of Directors has instituted an effective and comprehensive system of Internal Controls 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.

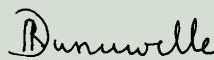
## Post Balance Sheet Events

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 36 to the Financial Statements.

## Notice of Meeting

Notice of Meeting relating to Thirty Third Annual General Meeting is given on page 109.

By Order of the Board,



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

February 25, 2002  
Colombo



## Directors' Responsibility for Financial Reporting

Under Section 143 of the Companies Act No. 17 of 1982, 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 Company 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 50 of this Report. The Financial Statements for the year 2001 prepared and presented in this Annual Report are consistent with the underlying books of account and are in conformity with the requirements of the Companies Act, Sri Lanka Accounting Standards, the Banking Act No. 30 of 1988 and the Listing Rules of the Colombo Stock Exchange. The Directors consider that, in preparing the Financial Statements exhibited on pages 52 to 90 inclusive, they have adopted appropriate accounting policies on a consistent basis and supported by reasonable and prudent judgements and estimates.

The Directors also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company 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, M/s. KPMG Ford, Rhodes, Thornton & Company 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.

M/s. KPMG Ford, Rhodes, Thornton & Company, the auditors of the Company 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 51 of the Annual Report.

By Order of the Board



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

February 25, 2002  
Colombo



## Corporate Governance

For us at Commercial Bank, Corporate governance in essence is the enhancement of shareholder value whilst being ethical and accountable to the society. In this regard, our Board of Directors acts as the representative of shareholders and ensures that the Corporate Management acts in the best interests of the shareholders. Transparency and equitable treatment to all shareholders, both big as well as small, are the hallmarks of the strategy adopted by our Board in enhancing shareholder value.

### Enhancing Shareholder Value

Good corporate governance is reflected in whatever we do at Commercial Bank. Enhancing shareholder value is the ultimate objective of good corporate governance. Even under fairly depressed overall share market conditions, the current market capitalization of Commercial Bank's shares and the Bank's track record on dividends and scrip issues bear ample testimony to our concerted efforts at enhancing shareholder value.

### Board of Directors - in full control of the Bank's affairs

Our Board of Directors is in full control of the Bank's affairs and is also fully accountable to our shareholders.

Commercial Bank's Board of Directors comprise of nine Directors with one Executive Director who is the CEO and eight Non-Executive Directors. Of these eight Non-Executive Directors, four represent the two major shareholders, namely the Government of Sri Lanka and the DFCC Bank. The remaining four Directors which include both the current Chairman and Deputy Chairman are appointed by the shareholders at the Annual General Meeting.

The Directors of Commercial Bank are all professionals drawn from different disciplines and they have no material interest in shares or other business relationships with the Bank. They are therefore in a position to add value and bring independent judgement to bear on the decision making process of the Company, free from any undue influence or control of other parties.

A well-streamlined Management Information System (MIS) is in place at Commercial Bank enabling the Board

of Directors to have timely access to financial and other information in relation to the functions and performance of the Bank. In addition, the Board also receives regular updates on the economic and business activities in the country with special emphasis on the banking and financial services sector. These inputs help them to arrive at well-informed decisions in the best interests of the shareholders and other main stakeholders of the Bank.

The Board regularly meets at their monthly meetings. In addition, special meetings are also arranged as required.

The Board of Directors of Commercial Bank gives utmost priority to safeguard the interests of the Bank. Therefore, they do not leave room for any conflict between their personal interests and those of the Bank. The Board also ensures that there is no such conflict of interests between the Bank and its stakeholders such as shareholders, customers and employees.

### Commercial Bank - model corporate citizen

Commercial Bank's Board of Directors ensures that the Bank conducts itself as a model corporate citizen. Towards this end, they have specified corporate values for the Bank and stipulated a code of conduct/ethics for the employees. This ensures that the employees maintain their dignity and integrity, building customer confidence in the Bank.

The Board has formulated proper checks & balances and controls. It also ensures that adequate technology, systems, procedures and strategic planning are in place. The effectiveness of these systems is periodically reviewed by the Board and it also ensures that effective internal and external audit procedures are in place and these functions are carried out by independent and competent persons. The Board also reviews the reports arising from the internal and external audits and also monitors the progress of the Bank by evaluating the results against the budget and the industry performance.

Your Directors have also put in place an effective risk management and compliance system so that no legal, banking, company, stock market and other regulations are violated.

# Corporate Governance

## The Role of the Management

Even though the Board of Directors is ultimately responsible for the operations and financial soundness of the Bank, the day to day management of the Bank, is entrusted with the Corporate Management of the Bank headed by the Chief Executive Officer. In this connection the Board:

- Appoints the Chief Executive Officer and Corporate Management, defines their job responsibilities and plans for their succession.
- Sets goals and objectives to the Chief Executive Officer and Corporate Management and assesses their performance. The Managing Director/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 Board.
- Ensures that a proper decision making and accountability structure is established throughout the Bank so that the staff down the line is fully accountable to the Corporate Management.

The Board has delegated appropriate authority to the Management to implement policies and other strategic objectives of the Bank. The Management exercises this authority within the policy framework stipulated by the Board and in line with the ethical and professional standards applicable to the banking industry. In short, the Management strives to preserve and nurture our unique corporate culture that has enabled us to earn the goodwill of our shareholders and other stakeholders.

## Continuous Improvement

Commercial Bank has always welcomed active participation of the shareholders at the Annual General Meetings and solicited their views at all times, thereby promoting a healthy dialogue. Whenever possible, the Bank has also implemented their suggestions.

## Transparency

We at Commercial Bank, attach high priority to timely publication of quarterly and annual results with comprehensive details far in excess of statutory requirements, enabling both existing and prospective shareholders to make a timely and fair assessment of the Bank's performance. In addition, we strictly adhere to the accounting formats and other procedures laid down by the regulatory authorities in the submission of all periodic returns and other information.

## Committees

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.

### Audit Committee

The Audit Committee is headed by the Deputy Chairman and represented by three other Non-Executive Directors. The Managing Director attends the meetings by invitation. The full report of this Committee is given on page 50 of this report.

### Credit Committee

The Credit Committee formulates the Bank's Credit Policy and monitors the management of credit risk. Facilities over and above the delegated authority of the management are also referred to this committee for approval. The Credit Committee comprises of the Chairman, Managing Director, and a Non-Executive Director.

## Corporate Governance

The Composition of each Board Sub-Committee is given in the table below:

Name of the Director	Audit	Credit	Personnel & Remuneration	Corporate Planning
A.L. Gooneratne	✓	✓	✓	✓
M.J.C. Amarasuriya		● ✓	● ✓	● ✓
J.S. Mather	● ✓			✓
Dr. H.S. Wanasinghe	✓		✓	
B.R.L.Fernando	✓	✓		
A.N.Fonseka	✓			✓
M.L.Mack			✓	✓
P. A. Amarasinghe			✓	✓

● *Chairman of the Committee*

### Personnel and Remuneration Committee

This Committee maintains a market oriented remuneration policy for the Bank's management and the executive staff. This enables the Bank to attract the best personnel in the market while maintaining a contented staff. The Personnel and Remuneration Committee also makes recommendations to the Board on appointments to the Corporate Management and their succession planning. This Committee comprises of the Chairman, Managing Director and three other Non-Executive Directors.

### Corporate Planning Committee

This Committee ensures that a proper planning procedure is in place and also strives to promote a target driven culture within the Bank. The Committee is headed by the Chairman and also comprises of four other Non-Executive Directors and the Managing Director.

In addition to the advice offered by the above Committees, the Board obtains independent professional advice from external sources whenever the Board deems it necessary.

## Audit Committee Report

The Audit Committee comprises four non-Executive Members of the Board and the Managing Director, who attends by invitation. The Bank's Deputy General Manager – Inspection functions as the Secretary of the Committee.

The Audit Committee is empowered, among other things, to examine any matter relating to the financial affairs of the Bank and to review all internal and external audit and inspection programmes, internal control procedures, accounting policies, etc., to ensure that a sound financial reporting system is in place and is well managed in order to provide accurate, appropriate and timely information to the Management, Regulatory Authorities and Shareholders and that the Bank's operations conform to rules, regulations and accepted ethical guidelines and meet the Management policies.

During the year under review, the Committee met four times and reviewed over 130 Audit and Inspection Reports on Branches and Head Office Departments with special emphasis on credit administration and quality of operations and provided directions and guidance wherever operational deficiencies have been observed. The Committee keeps a close and continuous watch over those Branches and Departments where overall performance was found to be below acceptable levels. The Committee also reviewed the External Auditors' Management Letter and the Management response thereto.

Besides reviewing Audit and Inspection Reports and Management Letter, the Audit Committee met with Auditors and also visited some Branches with a view to having a better understanding of the Branch operations.

Regular reports of the proceedings of the Audit Committee Meetings were made to the full Board.

Along with the other Members of the Board, the Audit Committee reviewed in detail at least quarterly the Bank's Compliance with the Mandatory Banking and other Statutory requirements and at least bi-annually, the Bank's adherence to the Risk Management Measures approved by the Board. 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.

The Audit Committee reviewed the effectiveness of the internal financial controls and the procedures established for assessing and managing risks particularly in the background of the rapid expansion in the Branch network, complexity of operations, advanced information technology and the diversity of products and services offered. The Committee also reviewed all major decisions taken by the Assets and Liabilities Committee of the Bank and the exceptional items charged to the Income Statement during the year.

In view of the rapid expansion in the Branch network and business volumes, the Audit Committee with the concurrence of the Board enlisted 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 periodic branch inspections.

The Audit Committee has recommended to the Board of Directors that M/s. KPMG Ford, Rhodes, Thornton & Company be re-appointed as Auditors for the financial year ending December 31, 2002 subject to the approval of the Shareholders at the next Annual General Meeting.

**J S Mather**  
*Chairman*

*Audit Committee*  
February 25, 2002

## Auditors' Report



# KPMG Ford, Rhodes, Thornton & Co.

(CHARTERED ACCOUNTANTS)

32 A, Sir Mohamed Macan Markar Mawatha,  
P.O. Box 186,  
Colombo 3,  
Sri Lanka.

Telephone: (94-1) 445871,  
451201 (17 Autolines)  
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446058, 541249  
E-mail: frt@kpmg.lk

### TO THE MEMBERS OF COMMERCIAL BANK OF CEYLON LTD.

We have audited the Balance Sheet of Commercial Bank of Ceylon Ltd. as at December 31, 2001, the Consolidated Balance Sheet of the Bank and its Subsidiaries and the related Statements of Income, Cash Flows and Changes in Equity for the year then ended, together with the Accounting Policies and Notes exhibited on pages 52 to 90 of the Annual Report.

### Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing and presenting these financial statements in accordance with the Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements, based on our audit.

### Basis of Opinion

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the Directors, evaluating the overall presentation of the financial statements, and determining whether the said financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. 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 Company maintained proper books of account for the year ended December 31, 2001, and to the best of our

information and according to the explanations given to us, the said Balance Sheet, and related Statements of Income, Cash Flows, Changes in Equity and the Accounting Policies and Notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act No.17 of 1982 and the Banking Act No. 30 of 1988 and give a true and fair view of the Company's state of affairs as at December 31, 2001, and of its profit and cash flows for the year then ended.

In our opinion, the Consolidated Balance Sheet and Statements of Income, Cash Flows, Changes in Equity and the Accounting Policies and Notes thereto have been properly prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act No.17 of 1982 and the Banking Act No. 30 of 1988 and give a true and fair view of the state of affairs as at December 31, 2001, and of its profit and cash flows for the year then ended of the Company and its Subsidiaries dealt with thereby, so far as concerns the Members of the Company.

### Directors' Interests in Contracts with the Company

According to information made available to us, the Directors of the Company were not directly or indirectly interested in contracts with the Company during the year ended December 31, 2001, except as stated in Note 34 to these financial statements.

Chartered Accountants

Colombo  
February 25, 2002



KPMG Ford Rhodes, Thornton & Co.  
is a member of KPMG International,  
a Swiss Association

R. N. Asirwatham, F.C.A.  
M. R. Mihular, F.C.A.

A. N. Fernando, F.C.A.  
Ms. M. P. Perera, F.C.A.  
T. J. S. Rajakarier, F.C.A.

R. Seevaratnam, F.C.A.  
P. Y. S. Perera, F.C.A.  
W.W.J.C. Perera, A.C.A.

S. Sirikananathan, F.C.A.  
C.P. Jayatilake, F.C.A.

## Income Statement

For the year ended 31st December	Note	Bank			Group	
		2001 Rs.'000	2000 Rs.'000	Change %	2001 Rs.'000	2000 Rs.'000
<b>Net income</b>	1	<b>7,665,050</b>	5,727,034	33.84	<b>8,545,918</b>	5,902,834
Interest income	2	<b>6,509,850</b>	4,796,171	35.73	<b>7,446,345</b>	5,003,594
Less: Interest expenses	3	<b>4,174,096</b>	2,776,361	50.34	<b>5,008,659</b>	2,971,630
Net interest income		<b>2,335,754</b>	2,019,810	15.64	<b>2,437,686</b>	2,031,964
Foreign exchange profit		<b>563,390</b>	420,733	33.91	<b>563,390</b>	420,733
Other income	4	<b>732,215</b>	599,534	22.13	<b>685,845</b>	569,348
		<b>3,631,359</b>	3,040,077	19.45	<b>3,686,921</b>	3,022,045
Less: Turnover Tax		<b>11,594</b>	11,938	(2.88)	<b>12,397</b>	12,135
National Security Levy		<b>128,811</b>	77,468	66.28	<b>137,265</b>	78,706
		<b>3,490,954</b>	2,950,671	18.31	<b>3,537,259</b>	2,931,204
Less: Operating expenses	5					
Personnel costs		<b>957,399</b>	777,194	23.19	<b>961,436</b>	782,621
Premises, equipment and establishment expenses		<b>615,920</b>	530,939	16.01	<b>565,690</b>	482,065
Provision for staff retirement benefits	6	<b>64,853</b>	42,050	54.23	<b>64,853</b>	42,050
Other overhead expenses		<b>291,138</b>	265,409	9.69	<b>273,457</b>	270,799
		<b>1,929,310</b>	1,615,592	19.42	<b>1,865,436</b>	1,577,535
Profit before loan losses and provisions and provision for fall in value of investments/investment properties		<b>1,561,644</b>	1,335,079	16.97	<b>1,671,823</b>	1,353,669
Less: Loan losses and provisions	7	<b>236,677</b>	180,178	31.36	<b>236,677</b>	180,178
Fall in value of investments/ investment properties		<b>-</b>	4,446	(100.00)	<b>3,725</b>	4,446
Profit after loan losses and provisions and provision for fall in value of investments/investment properties		<b>1,324,967</b>	1,150,455	15.17	<b>1,431,421</b>	1,169,045
Add/(Less): Share of profit/(loss) before tax of Associate Companies	8	<b>-</b>	-	-	<b>(9,877)</b>	9,960
		<b>1,324,967</b>	1,150,455	15.17	<b>1,421,544</b>	1,179,005
Goodwill on consolidation written-off		<b>-</b>	-	-	<b>-</b>	14,842
<b>Profit before taxation</b>		<b>1,324,967</b>	1,150,455	15.17	<b>1,421,544</b>	1,164,163
Less: Provision for taxation	9	<b>315,000</b>	214,500	46.85	<b>374,882</b>	227,600
<b>Profit after taxation</b>		<b>1,009,967</b>	935,955	7.91	<b>1,046,662</b>	936,563
Less: Minority interest		<b>-</b>	-	-	<b>1,401</b>	1,312
Profit attributable to shareholders		<b>1,009,967</b>	935,955	7.91	<b>1,045,261</b>	935,251
Earnings per Ordinary Share	10	<b>Rs. 23.38</b>	Rs. 22.40	4.38	<b>24.22</b>	Rs. 22.38
Dividend per Ordinary Share		<b>Rs. 4.50</b>	Rs. 4.50	0.00	<b>Rs. 4.50</b>	Rs. 4.50

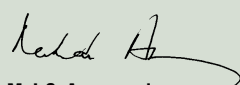
The Accounting Policies and the Notes from pages 57 to 90 form an integral part of these Financial Statements.

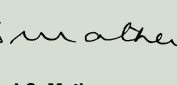
## Balance Sheet

As at 31st December		Bank			Group	
		Note	2001 Rs.'000	2000 Rs.'000	Change %	2001 Rs.'000
<b>ASSETS</b>						
Cash and short-term funds	13	4,271,561	5,456,230	(21.71)	4,285,884	5,456,230
Balance with Central Bank of Sri Lanka	14	3,090,702	2,583,244	19.64	3,090,702	2,583,244
Government of Sri Lanka Treasury						
Bills and Bonds		5,307,500	1,066,609	397.61	12,936,275	4,233,358
Commercial paper		1,170,000	330,400	254.12	1,170,000	330,400
Securities purchased under re-sale agreements		1,014,635	–	100.00	929,477	501,933
Investment securities	15	462,385	208,485	121.78	462,485	208,585
Treasury Bonds maturing after one year		–	381,969	(100.00)	–	381,969
Bills of exchange	16.1	2,367,793	2,331,031	1.58	2,367,793	2,331,031
Loans and advances	16.2	36,581,694	31,571,143	15.87	36,581,694	31,571,143
Lease receivable within one year	16.3	674,296	535,536	25.91	666,371	529,915
Lease receivable from one to five years	16.4	844,948	726,163	16.36	830,704	706,150
		<u>55,785,514</u>	<u>45,190,810</u>	23.44	<u>63,321,385</u>	<u>48,833,958</u>
Investment properties	17	147,550	133,324	10.67	147,550	133,324
Investments in Associate Companies	18	78,331	78,331	0.00	99,637	119,826
Investments in Subsidiary Companies	19	424,393	424,393	0.00	–	–
Interest and fees receivable		334,583	268,532	24.60	334,583	268,532
Other assets	20	916,003	2,209,732	(58.55)	1,214,000	2,217,488
Goodwill on consolidation		–	–	–	–	–
Property, Plant & Equipment	21	1,409,508	1,305,596	7.96	1,616,152	1,520,883
		<u>59,095,882</u>	<u>49,610,718</u>	19.12	<u>66,733,307</u>	<u>53,094,011</u>
<b>FINANCED BY:</b>						
<b>LIABILITIES</b>						
Deposits from customers	22	46,305,769	37,522,999	23.41	46,186,622	37,369,387
Borrowings	23	1,862,675	2,316,713	(19.60)	1,862,675	2,316,713
Securities sold under re-purchase agreements		227,694	1,430,134	(84.08)	7,737,335	4,896,753
Other liabilities	24	3,048,053	2,493,825	22.22	3,237,498	2,673,489
Deferred taxation	25	165,000	150,000	10.00	173,714	152,490
Tax payable		79,327	41,560	90.87	83,425	20,819
Dividends payable		162,483	107,958	50.51	162,963	107,958
Debentures	26	500,000	500,000	0.00	500,000	500,000
		<u>52,351,001</u>	<u>44,563,189</u>	17.48	<u>59,944,232</u>	<u>48,037,609</u>
<b>SHAREHOLDERS' FUNDS</b>						
Share capital	27	1,324,456	348,251	280.32	1,324,456	348,251
Statutory Reserve Fund	28	1,009,000	1,009,000	0.00	1,009,000	1,009,000
Reserves	29	4,411,425	3,690,278	19.54	4,443,012	3,686,571
Shareholders' funds		<u>6,744,881</u>	<u>5,047,529</u>	33.63	<u>6,776,468</u>	<u>5,043,822</u>
Minority interest		–	–	–	12,607	12,580
		<u>6,744,881</u>	<u>5,047,529</u>	33.63	<u>6,789,075</u>	<u>5,056,402</u>
Total liabilities and shareholders' funds		<u>59,095,882</u>	<u>49,610,718</u>	19.12	<u>66,733,307</u>	<u>53,094,011</u>
Commitments and contingencies	31	19,749,140	17,879,548	10.46	19,749,140	17,879,548

The Accounting Policies and the Notes from pages 57 to 90 form an integral part of these Financial Statements.

Approved and signed for and on behalf of the Board

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

  
**J.S. Mather**  
 Deputy Chairman

  
**A.L. Gooneratne**  
 Managing Director

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

February 25, 2002  
 Colombo



## Cash Flow Statement

<i>For the year ended 31st December</i>	<b>Bank</b>		<b>Group</b>	
	<b>2001</b> Rs.'000	2000 Rs.'000	<b>2001</b> Rs.'000	2000 Rs.'000
<b>Cash Flows from Operating Activities</b>				
Interest and commission receipts	<b>7,145,597</b>	5,301,565	<b>8,082,092</b>	5,508,820
Interest payments	<b>(4,174,096)</b>	(2,776,361)	<b>(5,008,659)</b>	(2,971,630)
Recoveries on loans previously provided/written-off	<b>18,526</b>	24,372	<b>18,526</b>	24,372
Foreign exchange profit and other income	<b>585,968</b>	438,886	<b>567,022</b>	438,392
Cash payments to employees and suppliers	<b>(1,919,997)</b>	(1,540,910)	<b>(1,848,968)</b>	(1,491,860)
Operating profit before changes in operating assets	<b>1,655,998</b>	1,447,552	<b>1,810,013</b>	1,508,094
(Increase)/Decrease in operating assets:				
Balance with Central Bank of Sri Lanka	<b>(507,458)</b>	60,271	<b>(507,458)</b>	60,271
Funds advanced to customers	<b>(5,555,761)</b>	(7,731,476)	<b>(5,559,226)</b>	(7,709,146)
Increase/(Decrease) in operating liabilities:				
Deposits from customers	<b>8,199,167</b>	6,782,368	<b>8,233,632</b>	6,650,871
Negotiable certificates of deposit	<b>583,603</b>	612,492	<b>583,603</b>	612,492
Net cash from operating activities before income tax	<b>4,375,549</b>	1,171,207	<b>4,560,564</b>	1,122,582
Income tax paid	<b>(262,233)</b>	(134,206)	<b>(286,682)</b>	(138,691)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>4,113,316</b>	1,037,001	<b>4,273,882</b>	983,891
<b>Cash Flows from Investing Activities</b>				
Dividends received	<b>50,387</b>	31,073	<b>20,619</b>	1,549
Interest received	<b>5,001</b>	10,398	<b>5,001</b>	10,398
Placements with banks	–	288,920	–	288,920
Government of Sri Lanka Treasury Bills and Bonds	<b>(4,240,891)</b>	1,165,062	<b>(8,706,642)</b>	(2,001,687)
Securities purchased under re-sale agreements	<b>(1,014,635)</b>	–	<b>(427,544)</b>	(501,933)
Securities sold under re-purchase agreements	<b>(1,202,440)</b>	(1,941,074)	<b>2,840,582</b>	1,525,545
Commercial paper	<b>(839,600)</b>	414,600	<b>(839,600)</b>	414,600
Treasury Bonds	<b>381,969</b>	959,200	<b>381,969</b>	959,200
Additions to investments	<b>(277,818)</b>	(226,752)	<b>(277,817)</b>	(76,752)
Income from Associate Companies	–	–	<b>5,942</b>	7,967
Proceeds from matured investments	<b>35,800</b>	125,000	<b>35,800</b>	125,000
Purchase of Property, Plant & Equipment	<b>(296,148)</b>	(213,295)	<b>(301,573)</b>	(243,006)
Proceeds from sale of Property, Plant & Equipment	<b>11,493</b>	19,026	<b>11,493</b>	19,024
<b>Net cash inflow/(outflow) from investing activities</b>	<b>(7,386,882)</b>	632,158	<b>(7,251,770)</b>	528,825



## Cash Flow Statement

	Bank		Group	
	2001 Rs.'000	2000 Rs.'000	2001 Rs.'000	2000 Rs.'000
<i>For the year ended 31st December</i>				
<b>Cash Flows from Operating Activities</b>				
Interest and commission receipts	7,145,597	5,301,565	8,082,092	5,508,820
Interest payments	(4,174,096)	(2,776,361)	(5,008,659)	(2,971,630)
Recoveries on loans previously provided/written-off	18,526	24,372	18,526	24,372
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Funds advanced to customers	(5,555,761)	(7,731,476)	(5,559,226)	(7,709,146)
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Negotiable certificates of deposit	583,603	612,492	583,603	612,492
Net cash from operating activities before income tax	4,375,549	1,171,207	4,560,564	1,122,582
Income tax paid	(262,233)	(134,206)	(286,682)	(138,691)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>4,113,316</b>	<b>1,037,001</b>	<b>4,273,882</b>	<b>983,891</b>
<b>Cash Flows from Investing Activities</b>				
Dividends received	50,387	31,073	20,619	1,549
Interest received	5,001	10,398	5,001	10,398
Placements with banks	-	288,920	-	288,920
Government of Sri Lanka Treasury Bills and Bonds	(4,240,891)	1,165,062	(8,706,642)	(2,001,687)
Securities purchased under re-sale agreements	(1,014,635)	-	(427,544)	(501,933)
Securities sold under re-purchase agreements	(1,202,440)	(1,941,074)	2,840,582	1,525,545
Commercial paper	(839,600)	414,600	(839,600)	414,600
Treasury Bonds	381,969	959,200	381,969	959,200
Additions to investments	(277,818)	(226,752)	(277,817)	(76,752)
Income from Associate Companies	-	-	5,942	7,967
Proceeds from matured investments	35,800	125,000	35,800	125,000
Purchase of Property, Plant & Equipment	(296,148)	(213,295)	(301,573)	(243,006)
Proceeds from sale of Property, Plant & Equipment	11,493	19,026	11,493	19,024
<b>Net cash inflow/(outflow) from investing activities</b>	<b>(7,386,882)</b>	<b>632,158</b>	<b>(7,251,770)</b>	<b>528,825</b>

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## Statement of Changes in Equity

For the year ended 31st December		Share Capital			Reserve Fund	Share Premium	Revaluation Reserve	General Reserve	Income Statement	Total
		Ordinary Voting Shares	Ordinary Non-voting Shares	Cum. Red. Preference Shares						
Note	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
<b>BANK</b>										
		325,000	23,251	–	1,009,000	641,780	157,286	2,110,624	1,346	4,268,287
		–	–	–	–	–	–	–	935,955	935,955
		–	–	–	–	–	770,000	(770,000)	–	–
	11	–	–	–	–	–	–	–	(156,713)	(156,713)
		325,000	23,251	–	1,009,000	641,780	157,286	2,880,624	10,588	5,047,529
		–	–	–	–	–	–	11,883	–	11,883
		65,000	4,650	–	–	(69,650)	–	–	–	–
		–	–	–	–	(10,064)	–	–	–	(10,064)
		–	–	906,555	–	–	–	–	–	906,555
		–	–	–	–	–	–	–	1,009,967	1,009,967
		–	–	–	–	–	798,000	(798,000)	–	–
	11	–	–	–	–	–	–	–	(220,989)	(220,989)
		390,000	27,901	906,555	1,009,000	562,066	157,286	3,690,507	1,566	6,744,881
<b>GROUP</b>										
		325,000	23,251	–	1,009,000	641,780	157,286	2,110,624	(1,657)	4,265,284
		–	–	–	–	–	–	–	935,251	935,251
		–	–	–	–	–	770,000	(770,000)	–	–
	11	–	–	–	–	–	–	–	(156,713)	(156,713)
		325,000	23,251	–	1,009,000	641,780	157,286	2,880,624	6,881	5,043,822
		–	–	–	–	–	–	11,883	–	11,883
		65,000	4,650	–	–	(69,650)	–	–	–	–
		–	–	–	–	(10,064)	–	–	–	(10,064)
		–	–	906,555	–	–	–	–	–	906,555
		–	–	–	–	–	–	–	1,045,261	1,045,261
		–	–	–	–	–	798,000	(798,000)	–	–
	11	–	–	–	–	–	–	–	(220,989)	(220,989)
		390,000	27,901	906,555	1,009,000	562,066	157,286	3,690,507	33,153	6,776,468

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

# Principal Accounting Policies

## 1. General

### 1.1 Accounting Convention

The Financial Statements of the Bank are prepared under the historical cost convention in conformity with Sri Lanka Accounting Standards laid down by The Institute of Chartered Accountants of Sri Lanka. No adjustment has been made for inflationary factors affecting the Financial Statements except that certain land and buildings are stated at valuation as explained in Note 21 to the Financial Statements. The accounting principles are applied consistently with due regard to prudence, materiality and substance over form criteria as explained in Sri Lanka Accounting Standard No. 3 on Presentation of Financial Statements on accrual basis. These Financial Statements are prepared in Sri Lanka Rupees unless otherwise stated. Where appropriate the accounting policies are disclosed in the succeeding notes.

### 1.2 Basis of Consolidation

The Group Financial Statements with comparative balances have been prepared as per the Sri Lanka Accounting Standard No. 26 on Consolidated Financial Statements and Accounting for Investments in Subsidiaries.

The Group Financial Statements comprise consolidation of the Financial Statements of the Bank, its Subsidiaries and the proportionate share of the profit/loss of its Associate Companies in terms of Sri Lanka Accounting Standard No. 26 on Consolidated Financial Statements and Accounting for Investments in Subsidiaries and Sri Lanka Accounting Standard No. 27 on Accounting for Investments in Associates respectively.

#### 1.2.1 Subsidiaries

Subsidiaries included in the Consolidated Financial Statements are those companies in which the Group directly or indirectly has an interest of over 50% of the voting rights and/or has the power to exercise control over the financial and operating policies of the companies so as to obtain benefits from their activities.

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.

The financial year-end of Commercial Development Co. Ltd. was changed during the year to December 31 from March 31 earlier. However, interim Financial Statements as at December 31, 2000 were used for the purpose of consolidation for the year 2000, after carrying out a limited review of these interim Financial Statements by the Auditors.

A listing of the Group's Subsidiaries is set out in Note 19 to the Financial Statements.

The interest of the outside shareholders of the Group is disclosed separately under the heading "Minority Interest".

# Principal Accounting Policies

## *1.2.2 Associates*

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies.

The investments in Associate Companies are accounted under the Equity Method whereby the carrying amount of the investment is increased/decreased by the Company's share of profits/losses and reduced by the distributions received from the investee. No goodwill 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.

## *1.2.3 Goodwill*

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net assets acquired. Acquired goodwill is recognised in the Consolidated Balance Sheet and amortised on the straight-line basis over a period of 5 years. In respect of Associates the amount of goodwill included in the carrying amount, if any, is amortised over a period of 5 years.

## *1.2.4 Inter-company Transactions and Balances*

Inter-company transactions and balances and any unrealised gains arising from such inter-company transactions and balances have been eliminated 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.

## **1.3 Foreign Currency Translation**

**1.3.1** Assets and liabilities in foreign currencies are translated at the middle rate of exchange ruling on the date of the Balance Sheet except as indicated in 1.3.2. below. Translation gains and losses are dealt with through the Income Statement.

**1.3.2** Forward exchange contracts are valued at the forward market rates ruling on the date of the Balance Sheet. Unrealized gains and losses are dealt with through the Income Statement.

## **1.4 Taxation**

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. 38 of 2000 at the rates specified in Note No. 9 to the Financial Statements.

## **1.5 Deferred Taxation**

Deferred taxation is provided on the liability method and the balance of the Deferred Taxation Account represents income tax applicable to the difference between the written down values for tax purposes of the assets on which depreciation allowances are claimed and the net book value of such assets. Provision has not been made for deferred taxation on assets leased to customers by reference to the Partial Application Method since timing differences on these assets are not expected to reverse for the next three years and is unlikely to reverse within a reasonable period thereafter either, in view of the Bank maintaining the current scale of leasing activity.

## Principal Accounting Policies

Commercial Leasing Co. Ltd. has, by using the partial application method made no provision in its Financial Statements for deferred taxation. No provision has been made for deferred tax since these timing differences arising out of capital allowances claimed on Property, Plant & Equipment and leased assets are not expected to reverse for at least the next two years and there is reasonable expectation that these timing differences are unlikely to reverse after this period.

### 1.6 Comparative Figures

Wherever necessary amounts shown for the previous year have been reclassified to facilitate comparison.

### 1.7 Post Balance Sheet Events

All the material post balance sheet events have been considered and appropriate adjustments/disclosures have been made in the Financial Statements, where necessary.

## 2. Assets and Bases of their Valuation

### 2.1 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.

#### 2.1.1 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:

<b>Period Outstanding</b>	<b>Classification</b>	<b>Provision made net of realisable value of security</b>
6 to 12 months	Sub-standard	20%
12 to 18 months	Doubtful	50%
18 months and over	Loss	100%

In addition, as a matter of prudence, general provisions are made wherever necessary based on past experience and judgement taking into account risks inherent in any portfolio.

Provisions are applied to write off advances, in part or in whole, when loans are considered partly or wholly irrecoverable.

### 2.2 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.

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.

## Principal Accounting Policies

### *2.2.1 Provision for Lease Receivable*

Specific provision has been made in relation to identified bad and doubtful leases. In addition general provisions for losses on lease receivable are made at 3% of the total lease receivable, in conformity with the industry practice.

### **2.3 Credit Card Receivable**

Amounts receivable on Credit Cards are included in advances to customers at the amounts expected to be recovered.

### *2.3.1 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.

### **2.4 Investments**

#### *2.4.1 Dealing Securities*

These are marketable securities acquired and held with the intention of resale over a short period of time. Such securities are recorded at the lower of cost and market value on an individual investment basis.

#### *2.4.2 Investment Securities*

These are acquired and held for yield or capital growth in the medium to long term. Such securities are generally recorded at cost. Interest and dividend income is accrued.

#### *2.4.3 Investment Properties*

Land and buildings that are not occupied substantially for use by or in the operations of the Bank are classified as investment properties on the Balance Sheet and are stated at cost less provisions for fall in value.

The Bank considers the changes in their fair value to be more significant than their depreciation and therefore would revalue them periodically on a systematic basis for disclosure purposes.

#### *2.4.4 Investments in Associates*

Investments in Associates are accounted for under the Cost Method in the Bank's Financial Statements in accordance with the Sri Lanka Accounting Standard No. 27 on Accounting for Investments in Associates.

#### *2.4.5 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 on Consolidated Financial Statements and Accounting for Investments in Subsidiaries.

#### *2.4.6 Fall in Value of Investments*

Unrealized losses on revaluation of dealing securities at the lower of cost and market value are taken to the Income Statement as per the provisions of Sri Lanka Accounting Standard No. 22 on Accounting for Investments. This is a departure from the historical cost convention but is considered to be a prudent accounting practice. Interest on non performing loans and advances is credited to the Interest in Suspense Account.



## Principal Accounting Policies

### 2.5 Property, Plant & Equipment

2.5.1 Property, Plant & Equipment are recorded at cost of purchase or construction or valuation together with any incidental expenses thereon. These assets are stated at cost less accumulated depreciation which is provided for on the basis specified in 2.5.2 below.

2.5.2 Depreciation is provided at the following rates on straight-line basis over the periods appropriate to the estimated useful lives of the different types of assets:

Leasehold properties	over the period of lease
Freehold buildings	2.5% per annum
Motor vehicles	20% per annum
Computer equipment	16.67% per annum
Office equipment	20% per annum
Furniture & fittings	10% per annum

Depreciation is provided on a pro-rata basis on the assets purchased/disposed of during the year. Depreciation is not provided for freehold land.

Depreciation is provided in the Financial Statements of Commercial Development Co. Ltd. at the following rates on straight-line basis over the periods appropriate to the estimated useful lives of the different types of assets:

Leasehold properties	amortised over 99 years
Freehold buildings	2.5% per annum
Motor vehicles	20% per annum
Computer equipment	20% per annum
Office equipment	10% per annum
Machinery & equipment	10% per annum

Full depreciation is provided on the assets purchased and used during the year. Depreciation is not provided on the assets disposed of during the year.

## 3. Liabilities and Provisions

### 3.1 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of other liabilities.

### 3.2 Defined Benefit Plans

#### 3.2.1 Pensions and Retirement Benefits

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 or 50 years of age depending on the retirement age applicable to the respective employees (55 years or 60 years) as at 1st January 1992 are covered by the Pension Fund in order to leave a minimum contribution for a period of 10 years before they are eligible for pension.

An actuarial valuation is undertaken at least every three years to ascertain the full liability. The liability is calculated on ongoing basis.

## Principal Accounting Policies

An Actuarial Valuation of the Pension Fund and the Widows' & Orphans' Pension Scheme was carried out as at December 31, 2001 by M/s Actuarial & Management Consultants (Pvt) Ltd. The Valuation has been carried out based on the Projected Unit Credit method, the most commonly used form of Accrued Benefit Valuation Method under the Benchmark treatment recommended by the Sri Lanka Accounting Standard No. 16 on Retirement Benefit Costs.

The principal assumptions used in the Valuation are as follows:

Rate of interest	12.75% per annum
Salary Increases	8% - 10% per annum
Post retirement pension Increase	6% per annum
Retirement age	55 - 60 years

The results revealed that there is a past service deficit totalling to Rs. 420.887 million in the Pension Fund and the Widows' & Orphans' Pension Scheme due to the changes in actuarial assumptions that took place since the previous actuarial valuation as at December 31, 1999.

However, since both the Pension Fund and the Widows' & Orphans' Pension Scheme are solvent on discontinuance basis (i.e. assuming that these funds are terminated on the valuation date) the Actuary recommended the amortisation of the past service deficit by regular contributions over the full working lifetime of the current employees by incorporating it into the ongoing contribution rate. Commencing January 2002, contributions are made to the Pension Fund and to the Widows' & Orphans' Pension Scheme by the Bank and the employees as recommended by the Actuary.

### *3.2.2 Gratuity*

Provision is not made in these Financial Statements for gratuities payable to employees who complete 5 or more years of continuous service, payable under the Payment of Gratuity Act No.12 of 1983, as the Bank has its own non-contributory pension scheme in force. However, if an employee who is eligible for gratuity resigns before retirement the Bank is liable to pay gratuity to such employees.

### **3.3 Defined Contribution Plans**

Contributions to defined contribution plans are recognized as an expense in the Income Statement as incurred.

#### *3.3.1 Provident Fund*

The Bank and employees contribute to the approved private Provident Fund. The total amount recognized as an expense for the current year is Rs. 63.779 million (2000 - Rs. 41.445 million).

#### *3.3.2 Trust Fund*

The Bank contributes to the Employees' Trust Fund. The total amount recognized as an expense for the current year is Rs. 15.882 million (2000 - Rs. 9.964 million).

## **4. Income Statement**

### **4.1 Revenue Recognition**

#### *4.1.1 Interest Income*

Interest receivable is recognized on accrual basis. Interest ceases to be taken into revenue when the recovery of interest or principal is in arrears for over three months. Thereafter interest on advances is accounted for on cash basis. Interest on non-performing loans and advances is credited to the Interest in Suspense Account.

## Principal Accounting Policies

### *4.1.2 Lease Income*

Income recognized on assets leased to customers is the interest component of the lease rentals receivable during the year. The unearned lease 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.

### *4.1.3 Dividend Income*

Dividend income from shares and units is recognized in the period in which they are declared.

### *4.1.4 Rental Income*

Rental income is recognized on accrual basis.

### *4.1.5 Credit Card Receivable*

Interest and fees receivable on Credit Cards is recognised on accrual basis. Interest and fees ceases 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.

### *4.1.6 Gains or losses on Disposal of Property, Plant & Equipment*

Net gains and losses resulting from the disposal of Property, Plant & Equipment have been accounted for in the Income statement.

### **4.2 Interest Expense**

Interest payable is recognized on accrual basis.

### **4.3 Terminal Benefits**

The actual amounts paid as pension and retirement gratuities to those employees, who are not covered by the Pension Fund as per 3.2 above, are charged to the Income Statement.

### **4.4 Off-Balance Sheet Transactions**

The Bank enters into off-balance sheet transactions such as forward exchange contracts and currency swaps. Unrealised gains and losses are dealt with through the Income Statement.

## **5. 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, call deposits and short-term placements/balances with foreign banks.

## **6. Segmental Reporting**

Segmental information is presented in accordance with the Sri Lanka Accounting Standard No. 28 on Reporting Financial Information by Segment in respect of the Group Accounts. These segments comprise of banking, leasing, treasury and property/investments.

## **7. Directors' Responsibility Statement**

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements. Please refer page 46 for the Directors' Responsibility for Financial Reporting.

## Notes to the Accounts

### 1. Net Income

	Bank		Group	
	2001 Rs.'000	2000 Rs.'000	2001 Rs.'000	2000 Rs.'000
Gross Income	<b>8,203,122</b>	6,096,478	<b>9,093,247</b>	6,273,713
Less: Turnover based taxes:				
Turnover tax recovered from customers	<b>40,840</b>	38,320	<b>40,840</b>	38,320
Turnover tax paid by the Bank/Group	<b>11,594</b>	11,938	<b>12,397</b>	12,135
National Security Levy collected from customers	<b>356,827</b>	241,718	<b>356,827</b>	241,718
National Security Levy paid by the Bank/Group	<b>128,811</b>	77,468	<b>137,265</b>	78,706
Net income	<b>7,665,050</b>	5,727,034	<b>8,545,918</b>	5,902,834

Income of the Bank resulted mainly from the business of banking and related activities.

### 2. Interest Income

Customer advances	<b>5,600,079</b>	4,370,867	<b>5,595,927</b>	4,365,413
Treasury Bills, Treasury Bonds, placements with other Banks and other money market instruments	<b>909,771</b>	425,304	<b>1,850,418</b>	638,181
	<b>6,509,850</b>	4,796,171	<b>7,446,345</b>	5,003,594

### 3. Interest Expense

Customer deposits	<b>3,837,061</b>	2,599,588	<b>3,837,061</b>	2,599,588
Debentures	<b>73,315</b>	67,155	<b>73,315</b>	67,155
Short-term borrowings and refinance	<b>253,278</b>	79,008	<b>1,092,044</b>	274,277
Other interest expenses	<b>10,442</b>	30,610	<b>6,239</b>	30,610
	<b>4,174,096</b>	2,776,361	<b>5,008,659</b>	2,971,630

### 4. Other Income

Fee and commission income	<b>635,747</b>	505,394	<b>635,747</b>	505,226
Income from investment securities (quoted)	<b>14,870</b>	1,505	<b>14,870</b>	1,505
Income from investment securities (unquoted)	<b>3,165</b>	10,442	<b>3,165</b>	10,442
Income from investments in Associates (quoted)	<b>5,942</b>	5,500	<b>5,942</b>	5,500
Income from investments in Associates (unquoted)	–	2,467	–	2,467
Income from investments in Subsidiaries (quoted)	<b>23,826</b>	21,557	–	–
Income from investments in Subsidiaries (unquoted)	–	–	–	–
Income from Unit Trust Company	<b>7,585</b>	–	<b>7,585</b>	–
Bad debts recovered (including recovery of debts written-off)	<b>18,526</b>	24,372	<b>18,526</b>	24,372
Profit/(Loss) on sale of Property, Plant & Equipment	<b>(24)</b>	10,144	<b>(24)</b>	10,144
Rental and other income	<b>22,578</b>	18,153	<b>5,976</b>	17,659
	<b>732,215</b>	599,534	<b>691,787</b>	577,315
Less: Dividends received from Associate Companies transferred to investment account	–	–	<b>5,942</b>	7,967
	<b>732,215</b>	599,534	<b>685,845</b>	569,348

## Notes to the Accounts

### 5. Operating Expenses

	Bank		Group	
	2001 Rs.'000	2000 Rs.'000	2001 Rs.'000	2000 Rs.'000
Operating expenses include the following:				
Executive Director's emoluments	8,799	4,171	8,799	4,171
Directors' fees	2,102	1,571	2,228	1,679
Auditors' remuneration	1,666	1,200	1,711	1,225
Terminal benefits	21,144	19,758	21,347	19,791
Depreciation/amortisation	180,719	162,120	194,787	174,548
Professional and legal expenses	14,009	19,756	14,053	19,756
Donations	500	704	527	732

### 6. Provision for Staff Retirement Benefits

A sum of Rs. 64.853 million (Rs. 42.050 million in 2000) has been charged against profits being the total of monthly contributions for the year to the approved Pension Fund and Widows' & Orphans' Pension Scheme.

### 7. Loan Losses and Provisions

	Bank		Group	
	2001 Rs.'000	2000 Rs.'000	2001 Rs.'000	2000 Rs.'000
Provision for bad & doubtful debts :				
Specific provision on loans and advances	190,536	127,903	190,536	127,903
General provision on loans and advances	–	32,250	–	32,250
General provision on credit card receivables	–	11,720	–	11,720
Specific provision on credit card receivables	27,928	–	27,928	–
General provision on lease receivable	10,300	4,500	10,300	4,500
Total provision made during the year	228,764	176,373	228,764	176,373
Direct write-offs	7,913	3,805	7,913	3,805
	<b>236,677</b>	<b>180,178</b>	<b>236,677</b>	<b>180,178</b>

#### 7 (a) Movement in the provision for bad & doubtful Bills of Exchange:

	Bank		Group	
	2001 Rs.'000	2000 Rs.'000	2001 Rs.'000	2000 Rs.'000
<b>Specific</b>				
Opening balance	36,484	30,065	36,484	30,065
Amount provided	8,150	6,853	8,150	6,853
Amount reversed	(917)	(434)	(917)	(434)
Closing balance	<b>43,717</b>	<b>36,484</b>	<b>43,717</b>	<b>36,484</b>

## Notes to the Accounts

	<b>Bank</b>		<b>Group</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>Rs. '000</b>	Rs. '000	<b>Rs. '000</b>	Rs. '000
<b>7 (b) Movement in the provision for bad &amp; doubtful loans and advances:</b>				
<b>Specific</b>				
Opening balance	<b>458,400</b>	465,819	<b>458,400</b>	465,819
Amount provided	<b>242,907</b>	121,051	<b>242,907</b>	121,051
Exchange rate variance on foreign currency provisions	<b>5,244</b>	3,139	<b>5,244</b>	3,139
Amount reversed	<b>(61,840)</b>	(131,609)	<b>(61,840)</b>	(131,609)
Closing balance	<b>644,711</b>	458,400	<b>644,711</b>	458,400
<b>General</b>				
Opening balance	<b>63,787</b>	20,000	<b>63,787</b>	20,000
Amount provided	<b>178,178</b>	122,720	<b>178,178</b>	122,720
Amount made specific	<b>(212,126)</b>	(78,933)	<b>(212,126)</b>	(78,933)
Closing balance	<b>29,839</b>	63,787	<b>29,839</b>	63,787
Total provision	<b>674,550</b>	522,187	<b>674,550</b>	522,187
<b>7 (c) Movement in the provision for bad &amp; doubtful lease receivable:</b>				
<b>Specific</b>				
Opening balance	<b>763</b>	809	<b>763</b>	809
Amount provided	<b>7,033</b>	-	<b>7,033</b>	-
Amount reversed	<b>(450)</b>	(46)	<b>(450)</b>	(46)
Closing balance	<b>7,346</b>	763	<b>7,346</b>	763
<b>General</b>				
Opening balance	<b>36,800</b>	32,300	<b>36,800</b>	32,300
Amount provided	<b>10,300</b>	4,500	<b>10,300</b>	4,500
Amount made specific/reversed	<b>(7,033)</b>	-	<b>(7,033)</b>	-
Closing balance	<b>40,067</b>	36,800	<b>40,067</b>	36,800
Total provision	<b>47,413</b>	37,563	<b>47,413</b>	37,563
<b>Total</b>	<b>765,681</b>	596,234	<b>765,681</b>	596,234



## Notes to the Accounts

### 7 (d) Provision for bad & doubtful debts - Summary

	<b>Bank</b>		<b>Group</b>	
	<b>2001</b> Rs.'000	2000 Rs.'000	<b>2001</b> Rs.'000	2000 Rs.'000
Opening balance	<b>596,234</b>	548,993	<b>596,234</b>	548,993
Provision made during the year	<b>228,764</b>	176,373	<b>228,764</b>	176,373
Exchange rate variance on foreign currency provisions	<b>5,244</b>	3,139	<b>5,244</b>	3,139
Recoveries/Reversals during the year	<b>(64,561)</b>	(132,271)	<b>(64,561)</b>	(132,271)
Closing balance	<b>765,681</b>	596,234	<b>765,681</b>	596,234

### 8. Share of Profit/(Loss) before tax of Associate Companies

Commercial Leasing Co. Ltd.	-	-	<b>(9,399)</b>	9,848
Equity Investments Lanka Ltd.	-	-	<b>212</b>	711
Commercial Fund Management (Pvt) Ltd.	-	-	<b>(690)</b>	(599)
	<u>-</u>	<u>-</u>	<u><b>(9,877)</b></u>	<u>9,960</u>

### 9. Provision for Taxation

#### 9.1 Charge to taxation is as follows:

#### **Bank:**

Income tax on profits for the year	<b>300,000</b>	192,800	<b>300,000</b>	192,800
Transfer to deferred taxation	<b>15,000</b>	42,900	<b>21,224</b>	43,204
(Over)/Under provision for previous years	-	(21,200)	-	(21,200)
	<u><b>315,000</b></u>	<u>214,500</u>	<u><b>321,224</b></u>	<u>214,804</u>

#### **Subsidiary Companies:**

Commercial Development Co. Ltd.	-	-	<b>18,043</b>	10,396
Commercial Bank Primary Dealer Ltd.	-	-	<b>31,245</b>	2,400

#### **Associate Companies:**

Income tax on profits of Commercial Leasing Co. Ltd.	-	-	<b>3,454</b>	-
Income tax on profits of Equity Investments Lanka Ltd.	-	-	<b>916</b>	-
Income tax on profits of Commercial Fund Management (Pvt) Ltd.	-	-	-	-
	<u><b>315,000</b></u>	<u>214,500</u>	<u><b>374,882</b></u>	<u>227,600</u>

Income tax has been provided at 30% on the taxable income arising from the domestic operations of the Bank and at 10% on the taxable income arising from on-shore banking operations of the Off-shore Banking Centre. In addition, the surcharge on income tax at 20% too has been provided in 2001 in arriving at the above provisions.

## Notes to the Accounts

### 9.2 Reconciliation of Accounting Profit and Taxable Income

	<b>Bank</b>	
	<b>2001</b> Rs.'000	2000 Rs.'000
Net profit as per the Income Statement	<b>1,324,967</b>	1,150,455
Add: Disallowable expenses	<b>349,658</b>	347,739
	<b>1,674,625</b>	1,498,194
Less: Allowable expenses	<b>679,477</b>	496,753
Assessable income	<b>995,148</b>	1,001,441
Less: Qualifying payments	<b>466</b>	648
Taxable Income	<b>994,682</b>	1,000,793
Income tax provision for the year is made up as follows:		
Income tax on profit of the Demoestic Banking Unit	<b>240,707</b>	117,859
Income tax on profit of the Off-shore Banking Unit	<b>59,293</b>	53,741
Provision for deferred tax	<b>15,000</b>	42,900
	<b>315,000</b>	214,500
Effective Tax Rate	<b>23.77%</b>	18.64%

### 9.3 Capital gains on the revaluation surplus of Property, Plant & Equipment

The revaluation surplus of Rs. 314.572 million (only 50% of which is accounted) arising from the revaluation of Property, Plant & Equipment in 1993 would be liable to a capital gains tax of Rs. 32.448 million, if realised by disposal. However, no provision has been made in the Financial Statements for such capital gains tax as these properties are not held for disposal.

## 10. Earnings per Ordinary Share

Earnings per ordinary share has been calculated by dividing profit after taxation attributable to the ordinary shareholders by the number of ordinary shares in issue (both voting and non-voting) as at December 31 as shown below. The previous year's figures have been adjusted for the scrip issue made during the year.

	<b>Bank</b>		<b>Group</b>	
	<b>2001</b> Rs.'000	2000 Rs.'000	<b>2001</b> Rs.'000	2000 Rs.'000
Profit after taxation and Minority Interest	<b>1,009,967</b>	935,955	<b>1,045,261</b>	935,251
Less: Dividend on Cumulative Redeemable Preference Shares	<b>32,934</b>	-	<b>32,934</b>	-
Profit attributable to Ordinary Shareholders	<b>977,033</b>	935,955	<b>1,012,327</b>	935,251
Number of Ordinary Shares used as denominator	<b>41,790,138</b>	41,790,138	<b>41,790,138</b>	41,790,138
Earnings per Ordinary Share (Rs.)	<b>23.38</b>	22.40	<b>24.22</b>	22.38

## Notes to the Accounts

### 11. Dividends

#### On Ordinary Shares:

			Bank		Group	
			2001	2000	2001	2000
	Interim 14% (Paid on 21 Dec.'01) Rs.'000	Final 31% (Proposed) Rs.'000	45% Total Rs.'000	45% Total Rs.'000	45% Total Rs.'000	45% Total Rs.'000
Net dividend paid/ payable to the shareholders	58,277	128,910	187,187	156,176	187,187	156,176
Withholding Tax deducted/to be deducted at source from the non-resident shareholders	229	639	868	537	868	537
Gross dividend	58,506	129,549	188,055	156,713	188,055	156,713

#### On Preference Shares:

13% Dividend payable on Cumulative Redeemable Preference Shares of Rs. 10/- each for the period September 21 to December 31, 2001

Net dividend payable			32,933	–	32,933	–
Withholding Tax to be deducted at source from the non-resident shareholders			1	–	1	–
Gross dividend			32,934	–	32,934	–
Total dividend			220,989	156,713	220,989	156,713

Withholding Tax to be deducted at source from the non-resident Ordinary Shareholders on the proposed final dividend is estimated based on the composition of shareholders as at December 31.

14% interim dividend paid in December 2001 to the Ordinary Shareholders included Rs. 10.383 million (Rs. 2.836 million in 2000) paid out of exempt dividends received by the Bank. Accordingly, the effective interim dividend rate was 15.34%.

Proposed final dividend to the Ordinary Shareholders of 31% will be paid out of the taxable profits of the Bank.

### 12. Unappropriated Profit/(Loss) carried forward

	Bank		Group	
	2001 Rs.'000	2000 Rs.'000	2001 Rs.'000	2000 Rs.'000
Commercial Bank of Ceylon Ltd.	1,566	10,588	(72,645)	(63,614)
<b>Subsidiary Companies:</b>				
Commercial Development Co. Ltd.	–	–	18,537	18,048
Commercial Bank Primary Dealer Ltd.	–	–	65,955	10,953
<b>Associate Companies:</b>				
Commercial Leasing Co. Ltd.	–	–	33,219	52,014
Equity Investments Lanka Ltd.	–	–	(8,038)	(7,334)
Commercial Fund Management (Pvt) Ltd.	–	–	(3,875)	(3,186)
	1,566	10,588	33,153	6,881

## Notes to the Accounts

### 13. Cash and Short-Term Funds

	Bank		Group	
	2001 Rs.'000	2000 Rs.'000	2001 Rs.'000	2000 Rs.'000
Coins and notes held in local currency	795,575	723,756	795,575	723,756
Coins and notes held in foreign currency	92,430	136,696	92,430	136,696
Current Account with Central Bank of Sri Lanka	-	-	14,323	-
Placements/balances with foreign banks (maturing within one year)	1,633,556	3,191,778	1,633,556	3,191,778
Loans at call and short notice	1,750,000	1,400,000	1,750,000	1,400,000
Pro-notes	-	4,000	-	4,000
	<b>4,271,561</b>	<b>5,456,230</b>	<b>4,285,884</b>	<b>5,456,230</b>

### 14. Balance with Central Bank of Sri Lanka

	2001 Rs.'000	2000 Rs.'000	2001 Rs.'000	2000 Rs.'000
Bank's Current Account	<b>3,090,702</b>	2,583,244	<b>3,090,702</b>	2,583,244

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, 2001 the minimum cash reserve requirement was 10% (11% as at December 31, 2000) 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.

### 15. Investment Securities

	As at 31.12.01		As at 31.12.00		As at 31.12.01		As at 31.12.00	
	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>Quoted</b>								
<b>SHARES</b>								
Sampath Bank Ltd. (1,000 Ordinary Shares of Rs. 10/- each)	49	63 (@ Rs. 63/-)	49	42 (@ Rs. 41.50)	49	63 (@ Rs. 63/-)	49	42 (@ Rs. 41.50)
Hatton National Bank Ltd. (2,500 Ordinary Shares of Rs. 10/- each)	254	130 (@ Rs. 52/-)	254	115 (@ Rs. 46/-)	254	130 (@ Rs. 52/-)	254	115 (@ Rs. 46/-)
Seylan Bank Ltd. (1,000 Ordinary Shares of Rs. 10/- each)	24	26 (@ Rs. 26/-)	24	17 (@ Rs. 16.75)	24	26 (@ Rs. 26/-)	24	17 (@ Rs. 16.75)
DFCC Bank (3,368,359 Ordinary Shares of Rs. 10/- each) (251,166 Ordinary Shares in 2000)	251,545	387,361 (@ Rs. 115/-)	24,045	20,093 (@ Rs. 80/-)	251,545	387,361 (@ Rs. 115/-)	24,045	20,093 (@ Rs. 80/-)
National Development Bank of Sri Lanka (1,500 Ordinary Shares of Rs. 10/- each)	198	108 (@ Rs. 71.75)	198	62 (@ Rs. 41.50)	198	108 (@ Rs. 71.75)	198	62 (@ Rs. 41.50)
Nations Trust Bank Ltd. (1,000 Ordinary Shares of Rs. 10/- each)	14	15 (@ Rs. 15/-)	14	12 (@ Rs. 11.50)	14	15 (@ Rs. 15/-)	14	12 (@ Rs. 11.50)
Mercantile Leasing Ltd. (325,000 Ordinary Shares of Rs. 10/- each)	6,500	4,388 (@ Rs. 13.50)	6,500	3,738 (@ Rs. 11.50)	6,500	4,388 (@ Rs. 13.50)	6,500	3,738 (@ Rs. 11.50)

## Notes to the Accounts

	<b>Bank</b>				<b>Group</b>			
	<b>As at 31.12.01</b>		As at 31.12.00		<b>As at 31.12.01</b>		As at 31.12.00	
	<b>Cost</b>	<b>Market Value/ Manager's Buying Price</b>	Cost	Market Value/ Manager's Buying Price	<b>Cost</b>	<b>Market Value/ Manager's Buying Price</b>	Cost	Market Value/ Manager's Buying Price
<b>Rs.'000</b>	<b>Rs.'000</b>	Rs.'000	Rs.'000	<b>Rs.'000</b>	<b>Rs.'000</b>	Rs.'000	Rs.'000	
<b>DEBENTURES</b>								
Ceylon Glass Co. Ltd. (50,000 Debentures of Rs. 100/- each in 2000)	-	-	5,000	5,000	-	-	5,000	5,000
				(@ Rs.100/-)				(@ Rs.100/-)
National Development Bank of Sri Lanka (10,000 Debentures of Rs. 1,000/- each)	<b>10,000</b>	<b>8,600</b>	10,000	10,000	<b>10,000</b>	<b>8,600</b>	10,000	10,000
		(@ Rs. 860/-)		(@ Rs.1,000/-)		(@ Rs. 860/-)		(@ Rs.1,000/-)
Sri Lanka Telecom Ltd. (10,000 Debentures of Rs. 1,000/- each)	<b>10,000</b>	<b>9,250</b>	10,000	10,000	<b>10,000</b>	<b>9,250</b>	10,000	10,000
		(@ Rs. 925/-)		(@ Rs.1,000/-)		(@ Rs. 925/-)		(@ Rs.1,000/-)
<b>UNITS</b>								
Comtrust Equity Fund (25,281,998 Units of Rs.10/-each)	<b>132,730</b>	<b>132,730</b>	120,848	104,162	<b>132,730</b>	<b>132,730</b>	120,848	104,162
		(@ Rs.5.25)		(@ Rs.4.12)		(@ Rs. 5.25)		(@ Rs.4.12)
Namal Optima Fund (5,000,000 Units of Rs.10/-each)	<b>50,000</b>	<b>51,700</b>	-	-	<b>50,000</b>	<b>51,700</b>	-	-
		(@ Rs. 10.34)				(@ Rs. 10.34)		
	<b>461,314</b>	<b>594,371</b>	176,932	153,241	<b>461,314</b>	<b>594,371</b>	176,932	153,241
<b>Unquoted SHARES</b>								
Credit Information Bureau of Sri Lanka (4,400 Ordinary Shares of Rs. 100/- each)	<b>440</b>	<b>440</b>	440	440	<b>440</b>	<b>440</b>	440	440
		(@ Rs. 100/-)		(@ Rs. 100/-)		(@ Rs. 100/-)		(@ Rs. 100/-)
Fitch Ratings Lanka Ltd. (62,500 Ordinary Shares of Rs. 10/- each) (31,250 Ordinary Shares of Rs. 10/- each in 2000)	<b>625</b>	<b>625</b>	313	313	<b>625</b>	<b>625</b>	313	313
		(@ Rs. 10/-)		(@ Rs. 10/-)		(@ Rs. 10/-)		(@ Rs. 10/-)
NDB Bank Ltd. (600 Ordinary Shares Rs.10/- each)	<b>6</b>	<b>6</b>	-	-	<b>6</b>	<b>6</b>	-	-
		(@ Rs. 10/-)				(@ Rs. 10/-)		
Commercial Insurance Brokers (Pvt.) Ltd. (80,000 Ordinary Shares of Rs. 10/- each)	-	-	-	-	<b>100</b>	<b>800</b>	100	800
						(@ Rs. 10/-)		(@ Rs. 10/-)
<b>BONDS</b>								
DFCC Bank 7% Development Bonds redeemable at par (Redeemed on Sep. 30, 2001)	-	-	30,800	30,800	-	-	30,800	30,800
	<b>1,071</b>	<b>1,071</b>	31,553	31,553	<b>1,171</b>	<b>1,871</b>	31,653	32,353
	<b>462,385</b>	<b>595,442</b>	208,485	184,794	<b>462,485</b>	<b>596,242</b>	208,585	185,594

The appreciation of value in the investment in Comtrust Equity Fund has been written back to its market value based on the Unit Trust Manager's buying price which amount has been credited to the General Reserve.

## Notes to the Accounts

### 16. Loans and Advances

	Bank		Group	
	2001 Rs.'000	2000 Rs.'000	2001 Rs.'000	2000 Rs.'000
<b>16.1 Bills of Exchange</b>				
Export bills	<b>1,918,421</b>	1,988,503	<b>1,918,421</b>	1,988,503
Import bills	<b>493,089</b>	379,012	<b>493,089</b>	379,012
	<b>2,411,510</b>	2,367,515	<b>2,411,510</b>	2,367,515
Less: Loan loss provision [Note 7(a)]	<b>43,717</b>	36,484	<b>43,717</b>	36,484
Interest in suspense	-	-	-	-
	<b>2,367,793</b>	2,331,031	<b>2,367,793</b>	2,331,031

The maturity analysis of Bills of Exchange is given in Note 30.

### 16.2 Loans and Advances

Sri Lanka Rupee and Foreign Currency loans and advances [Note 16.2(a)]	<b>39,458,966</b>	33,849,994	<b>39,458,966</b>	33,849,994
Less: Loan loss provision [Note 7(b)]	<b>674,550</b>	522,188	<b>674,550</b>	522,188
Interest in suspense (Note 16.6)	<b>2,202,722</b>	1,756,663	<b>2,202,722</b>	1,756,663
	<b>36,581,694</b>	31,571,143	<b>36,581,694</b>	31,571,143

The maturity analysis of loans and advances is given in Note 30.

### 16.2 (a) Sri Lanka Rupee and Foreign Currency Loans and Advances

#### Sri Lanka Rupee loans and advances:

Overdrafts	<b>9,669,293</b>	8,320,331	<b>9,669,293</b>	8,320,331
Loans	<b>17,980,876</b>	15,364,987	<b>17,980,876</b>	15,364,987
Packing credit	<b>542,614</b>	627,298	<b>542,614</b>	627,298
Trust receipts	<b>15,621</b>	28,557	<b>15,621</b>	28,557
Staff loans	<b>926,710</b>	762,477	<b>926,710</b>	762,477
Other accounts	<b>1,450,377</b>	1,231,477	<b>1,450,377</b>	1,231,477
	<b>30,585,491</b>	26,335,127	<b>30,585,491</b>	26,335,127

#### Foreign Currency loans and advances:

Overdrafts	<b>1,092,512</b>	871,632	<b>1,092,512</b>	871,632
Loans	<b>4,758,463</b>	4,510,706	<b>4,758,463</b>	4,510,706
Packing credit	<b>3,022,500</b>	2,132,529	<b>3,022,500</b>	2,132,529
	<b>8,873,475</b>	7,514,867	<b>8,873,475</b>	7,514,867
Total	<b>39,458,966</b>	33,849,994	<b>39,458,966</b>	33,849,994

## Notes to the Accounts

	Bank		Group	
	2001 Rs.'000	2000 Rs.'000	2001 Rs.'000	2000 Rs.'000
<b>16.3 Lease receivable within one year</b>				
Total lease rentals receivable	<b>2,272,908</b>	1,821,723	<b>2,250,739</b>	1,789,012
Less: Lease rentals receivable from one to five years from Balance Sheet date	<b>1,262,686</b>	1,048,481	<b>1,248,442</b>	1,022,943
Lease rentals receivable within one year from Balance Sheet date	<b>1,010,222</b>	773,242	<b>1,002,297</b>	766,069
Less: Unearned lease income	<b>197,199</b>	134,785	<b>197,199</b>	133,842
GST recoverable	<b>117,683</b>	86,977	<b>117,683</b>	86,368
Loan Loss Provision	<b>21,044</b>	15,944	<b>21,044</b>	15,944
	<b>674,296</b>	535,536	<b>666,371</b>	529,915
<b>16.4 Lease receivable from one to five years</b>				
Lease rentals receivable from one to five years from Balance Sheet date	<b>1,262,686</b>	1,048,481	<b>1,248,442</b>	1,022,943
Less: Unearned lease income	<b>245,308</b>	182,763	<b>245,308</b>	179,405
GST recoverable	<b>146,060</b>	117,936	<b>146,060</b>	115,769
Loan Loss Provision	<b>26,370</b>	21,619	<b>26,370</b>	21,619
	<b>844,948</b>	726,163	<b>830,704</b>	706,150

*The maturity analysis of lease receivable is given in Note 30.*

*There were no lease rentals receivable beyond 5 years.*

### 16.5 Non-Performing Loans and Advances

Net exposure on non-performing loans and advances as at December 31, before discounting the value of the securities obtained is given below:

	Bank				Group			
	2001 Rs.'000	%	2000 Rs.'000	%	2001 Rs.'000	%	2000 Rs.'000	%
Non-performing loans and advances	<b>4,183,900</b>	<b>9.95</b>	3,169,877	8.73	<b>4,183,900</b>	<b>9.95</b>	3,169,877	8.73
Less: Interest in suspense included in overdrafts **	<b>693,495</b>		544,067		<b>693,495</b>		544,067	
Net non-performing loans and advances	<b>3,490,405</b>	<b>8.44</b>	2,625,810	7.34	<b>3,490,405</b>	<b>8.44</b>	2,625,810	7.34
Less: Prov. for bad & doubtful debts	<b>765,680</b>		596,235		<b>765,680</b>		596,235	
Net exposure	<b>2,724,725</b>	<b>6.71</b>	2,029,575	5.77	<b>2,724,725</b>	<b>6.71</b>	2,029,575	5.77

\*\* This does not tally with the total interest in suspense included in Note 16.6 below due to the interest receivable on non-performing loans not being included.

Net exposure of Rs. 2,724.725 million (Rs. 2,029.575 million as at December 31, 2000) is almost covered by securities held covering land and buildings valued at Rs. 2,664.315 million (Rs. 1,998.367 million as at December 31, 2000) excluding machinery and stocks.



## Notes to the Accounts

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 and suspend interest thereon 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 Account.

### 16.6 Movement in the Interest in Suspense Account

	Bank		Group	
	2001 Rs.'000	2000 Rs.'000	2001 Rs.'000	2000 Rs.'000
Opening balance	1,756,663	1,516,687	1,756,663	1,516,687
Interest suspended during the year	596,339	324,033	596,339	324,033
Amount recovered during the year	(150,280)	(84,057)	(150,280)	(84,057)
Closing balance	<u>2,202,722</u>	<u>1,756,663</u>	<u>2,202,722</u>	<u>1,756,663</u>

### 16.7 Concentration of Credit Risk

Sectorwise analysis of Bank's loans and advances portfolio reflecting the exposure to credit risk in the various sectors of the economy is given below:

	Bank		Group	
	2001 Rs.'000	2000 Rs.'000	2001 Rs.'000	2000 Rs.'000
Exports	12,985,740	9,444,681	12,985,740	9,444,681
Tourism and allied	962,006	818,853	962,006	818,853
Industrial	3,714,123	3,006,279	3,714,123	3,006,279
Agriculture and fishing	794,220	640,044	794,220	640,044
Commercial trading	3,169,989	2,840,668	3,169,989	2,840,668
Imports	5,936,442	7,426,353	5,936,442	7,426,353
Consumption	418,999	367,854	418,999	367,854
Services	1,958,624	3,692,437	1,936,456	3,666,803
Housing and construction	1,344,603	1,400,842	1,344,603	1,400,842
Others	12,152,388	7,878,760	12,166,631	7,878,760
Gross loans and advances	<u>43,437,134</u>	<u>37,516,771</u>	<u>43,429,209</u>	<u>37,491,137</u>

### 17. Investment Properties

Opening balance	133,324	94,788	133,324	94,788
Additions during the year	14,226	42,982	14,226	42,982
	<u>147,550</u>	<u>137,770</u>	<u>147,550</u>	<u>137,770</u>
Less: Provision for fall in value	-	4,446	-	4,446
Closing balance	<u>147,550</u>	<u>133,324</u>	<u>147,550</u>	<u>133,324</u>

The Investment Properties as at December 31, include the following:

	Extent			Bank	
	A	R	P	2001	2000
				Rs.'000	Rs.'000
1. Land and Building at Kochchikade, Negombo	2	2	36.91	81,310	75,124
2. Land at Katuwapitiya Road, Negombo	1	0	5.00	4,283	4,283
3. Land at Thaladena, Pamunugama	11	1	5.60	20,717	20,717
4. Land and Building at Negombo Road, Narammala	0	1	2.50	8,200	8,200
5. Land at Puttalam Road, Kurunegala	2	3	6.00	25,000	25,000
6. Land at Colombo Road, Kurunegala	0	0	30.00	3,400	-
7. Land at Light House Street, Galle	0	0	21.52	4,640	-
Total as above				<u>147,550</u>	<u>133,324</u>

A = Acres, R = Roods, P = Perches

# Notes to the Accounts

## 18. Investment in Associate Companies

	% Holding	31.12.01		31.12.00		31.12.01		31.12.00	
		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.									
(2,200,001 Ordinary Shares of									
Rs. 10/- each fully paid)									
	30.00	20,000	46,200	20,000	59,400	20,000	46,200	20,000	59,400
			(@ Rs. 21/-)		(@ Rs. 27/-)		(@ Rs. 21/-)		(@ Rs. 27/-)
Add: Share of profit/(loss) applicable to the Bank:									
Balance at the beginning of the year		-		-		52,014		47,666	
Current year's share of profit/(loss) after tax		-		-		(12,853)		9,848	
Less: Dividend received during the year		-		-		(5,942)		(5,500)	
Current year's retained profit/(loss)		-		-		(18,795)		4,348	
		-		-		33,219		52,014	
Balance at the end of the year		20,000	46,200	20,000	59,400	53,219	46,200	72,014	59,400
<b>Unquoted</b>									
Equity Investments Lanka Ltd.									
(4,110,938 Ordinary Shares of									
Rs.10/- each fully paid)									
	22.92	44,331	36,293	44,331	36,997	44,331	36,293	44,331	36,997
Add/(Less): Share of profit/(loss) applicable to the Bank:									
Balance at the beginning of the year		-		-		(7,334)		(5,578)	
Current year's share of profit/(loss) after tax		-		-		(704)		711	
Less: Dividend received during the year		-		-		-		(2,467)	
Current year's retained profit/(loss)		-		-		(704)		(1,756)	
		-		-		(8,038)		(7,334)	
Balance at the end of the year		44,331	36,293	44,331	36,997	36,293	36,293	36,997	36,997
Commercial Fund Management (Pvt.) Ltd.									
(125,000 Ordinary Shares of									
Rs.100/- each)									
	50.00	12,500	8,625	12,500	9,315	12,500	8,625	12,500	9,315
(15,000 Preference Shares of									
Rs.100/- each)									
		1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Add: Share of profit/(loss) applicable to the Bank:									
Balance at the beginning of the year		-		-		(3,185)		(2,586)	
Current year's share of profit/(loss) after tax		-		-		(690)		(599)	
Less: Dividend received during the year		-		-		-		-	
Current year's retained profit/(loss)		-		-		(690)		(599)	
		-		-		(3,875)		(3,185)	
Balance at the end of the year		14,000	10,125	14,000	10,815	10,125	10,125	(10,815)	10,815
		58,331	46,418	58,331	47,812	46,418	46,418	47,812	47,812
Total Value of Investments in									
Quoted & Unquoted Associate Companies									
		78,331		78,331		99,637		119,826	
Total Market Value/Directors' Valuation									
of Investments in Associate Companies									
		92,618		107,212		92,618		107,212	

## Notes to the Accounts

### 19. Investment in Subsidiary Companies

	% Holding	Bank				Group			
		31.12.01		31.12.00		31.12.01		31.12.00	
		Cost	Market Value/ Directors' Valuation	Cost	Market Value/ Directors' Valuation	Cost	Market Value/ Directors' Valuation	Cost	Market Value/ Directors' Valuation
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
<b>Quoted</b>									
Commercial Development Co. Ltd.									
(11,345,705 Ordinary Shares of									
Rs.10/- each fully paid)									
	94.55	<b>274,393</b>	<b>161,676</b>	274,393	136,148	-	-	-	-
			(@ Rs. 14.25)		(@ Rs. 12/-)				
<b>Unquoted</b>									
Commercial Bank Primary Dealer Ltd.									
(15,000,007 Ordinary Shares of									
Rs.10/- each fully paid)									
	100.00	<b>150,000</b>	<b>150,000</b>	150,000	150,000	-	-	-	-
			(@ Rs. 10/-)		(@ Rs. 10/-)				
		<b>424,393</b>	<b>311,676</b>	424,393	286,148	-	-	-	-

### 20. Other Assets

	Bank		Group	
	2001	2000	2001	2000
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Deposits and prepayments	<b>81,635</b>	71,063	<b>59,617</b>	58,769
Clearing account balance	<b>389,702</b>	1,028,813	<b>389,702</b>	1,028,813
Others	<b>444,666</b>	1,109,856	<b>764,681</b>	1,129,906
	<b>916,003</b>	2,209,732	<b>1,214,000</b>	2,217,488

### 21. Property, Plant & Equipment

	Freehold Land & Buildings	Leasehold Land & Buildings	Computer Equipment	Motor Vehicles	Office Equipment & Furniture	Capital Work-in- Progress	<b>31.12.01 Total</b>	31.12.00 Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Bank</b>								
Cost/Valuation								
as at beginning of the year	766,216	23,425	903,147	40,285	541,271	21,855	<b>2,296,199</b>	2,113,695
Additions for the year	4,942	-	143,582	2,122	113,763	31,739	<b>296,148</b>	213,293
Disposals	-	-	-	-	(13,507)	-	<b>(13,507)</b>	(24,959)
Transfers/Adjustments	17,819	-	(1,633)	(11)	(1,701)	(20,798)	<b>(6,324)</b>	(5,830)
As at end of the year	<b>788,977</b>	<b>23,425</b>	<b>1,045,096</b>	<b>42,396</b>	<b>639,826</b>	<b>32,796</b>	<b>2,572,516</b>	2,296,199
Accumulated depreciation								
as at beginning of the year	79,482	2,152	589,020	27,825	292,124	-	<b>990,603</b>	850,392
Charge for the year	15,399	193	94,234	5,477	65,416	-	<b>180,719</b>	162,120
Disposals	-	-	-	-	(9,494)	-	<b>(9,494)</b>	(22,494)
Transfers/Adjustments	(54)	54	442	389	349	-	<b>1,180</b>	585
As at end of the year	<b>94,827</b>	<b>2,399</b>	<b>683,696</b>	<b>33,691</b>	<b>348,395</b>	<b>-</b>	<b>1,163,008</b>	990,603
<b>Net book value as at 31.12.01</b>	<b>694,150</b>	<b>21,026</b>	<b>361,400</b>	<b>8,705</b>	<b>291,431</b>	<b>32,796</b>	<b>1,409,508</b>	
Net book value as at 31.12.00	686,734	21,273	314,127	12,460	249,147	21,855		1,305,596

## Notes to the Accounts

	Freehold Land & Buildings Rs.'000	Leasehold Land & Buildings Rs.'000	Computer Equipment Rs.'000	Motor Vehicles Rs.'000	Office Equipment & Furniture Rs.'000	Capital Work-in- Progress Rs.'000	<b>31.12.01 Total Rs.'000</b>	31.12.00 Total Rs.'000
<b>Group</b>								
<b>Cost/Valuation</b>								
as at beginning of the year	940,663	67,285	903,346	68,015	569,913	21,855	<b>2,571,077</b>	2,358,860
Additions for the year	4,942	–	143,707	7,422	113,763	31,739	<b>301,573</b>	243,006
Disposals	–	–	–	–	(13,507)	–	<b>(13,507)</b>	(24,959)
Transfers/Adjustments	17,819	–	(1,633)	(11)	(1,701)	(20,798)	<b>(6,324)</b>	(5,830)
As at end of the year	<u>963,424</u>	<u>67,285</u>	<u>1,045,420</u>	<u>75,426</u>	<u>668,468</u>	<u>32,796</u>	<b><u>2,852,819</u></b>	<u>2,571,077</u>
<b>Accumulated depreciation</b>								
as at beginning of the year	108,640	5,555	589,166	34,061	312,772	–	<b>1,050,194</b>	897,555
Charge for the year	19,760	697	94,273	12,931	67,126	–	<b>194,787</b>	174,548
Disposals	–	–	–	–	(9,494)	–	<b>(9,494)</b>	(22,494)
Transfers/Adjustments	(54)	54	442	389	349	–	<b>1,180</b>	585
As at end of the year	<u>128,346</u>	<u>6,306</u>	<u>683,881</u>	<u>47,381</u>	<u>370,753</u>	<u>–</u>	<b><u>1,236,667</u></b>	<u>1,050,194</u>
<b>Net book value as at 31.12.01</b>	<b><u>835,078</u></b>	<b><u>60,979</u></b>	<b><u>361,539</u></b>	<b><u>28,045</u></b>	<b><u>297,715</u></b>	<b><u>32,796</u></b>	<b><u>1,616,152</u></b>	
Net book value as at 31.12.00	<u>832,023</u>	<u>61,730</u>	<u>314,180</u>	<u>33,954</u>	<u>257,141</u>	<u>21,855</u>		<u>1,520,883</u>

With the permission of the Monetary Board of the Central Bank of Sri Lanka all freehold land and buildings of the Bank were revalued by professionally qualified independent valuers as at December 31, 1993. 50% of the surplus on the revaluation amounting to Rs. 157.286 million has been credited to the Revaluation Reserve Account.

The carrying amount of these freehold land and buildings if they were carried at cost less accumulated depreciation is as follows:

	<b>Cost Rs.'000</b>	<b>Accumulated Depreciation Rs.'000</b>	<b>Net Book Value Rs.'000</b>
Land	23,374	–	23,374
Buildings	94,639	40,112	54,527
Total	<u>118,013</u>	<u>40,112</u>	<u>77,901</u>

## 22. Deposits from Customers

	<b>Bank</b>		<b>Group</b>	
	<b>2001 Rs.'000</b>	<b>2000 Rs.'000</b>	<b>2001 Rs.'000</b>	<b>2000 Rs.'000</b>
<b>Local Currency Deposits</b>				
Current account deposits	<b>3,951,161</b>	3,481,620	<b>3,832,014</b>	3,328,008
Savings deposits	<b>10,705,911</b>	8,709,123	<b>10,705,911</b>	8,709,123
Time deposits	<b>15,195,022</b>	13,211,883	<b>15,195,022</b>	13,211,883
Certificates of deposit	<b>3,118,473</b>	2,534,870	<b>3,118,473</b>	2,534,870
	<b><u>32,970,567</u></b>	<u>27,937,496</u>	<b><u>32,851,420</u></b>	<u>27,783,884</u>

## Notes to the Accounts

	Bank		Group	
	2001 Rs.'000	2000 Rs.'000	2001 Rs.'000	2000 Rs.'000
<b>Foreign Currency Deposits</b>				
Current account deposits	532,455	451,297	532,455	451,297
Savings deposits	5,933,271	4,383,117	5,933,271	4,383,117
Time deposits	6,869,476	4,751,089	6,869,476	4,751,089
	<u>13,335,202</u>	<u>9,585,503</u>	<u>13,335,202</u>	<u>9,585,503</u>
Total Deposits	<u>46,305,769</u>	<u>37,522,999</u>	<u>46,186,622</u>	<u>37,369,387</u>

### 22 (a) Analysis of Deposits

Deposits from Banks	58,567	79,671	58,567	79,671
Deposits from Finance Companies	174,517	87,339	174,517	87,339
Deposits from other Customers	46,072,685	37,355,989	45,953,538	37,202,377
	<u>46,305,769</u>	<u>37,522,999</u>	<u>46,186,622</u>	<u>37,369,387</u>

The maturity analysis of deposits is given in Note 30.

### 23. Borrowings

Foreign bank balances	843,325	1,538,880	843,325	1,538,880
Refinance borrowings	1,019,350	777,833	1,019,350	777,833
	<u>1,862,675</u>	<u>2,316,713</u>	<u>1,862,675</u>	<u>2,316,713</u>

### 24. Other Liabilities

Accrued expenditure and interest	1,775,924	1,267,414	1,766,200	1,440,894
Others	1,272,129	1,226,411	1,471,298	1,232,595
	<u>3,048,053</u>	<u>2,493,825</u>	<u>3,237,498</u>	<u>2,673,489</u>

### 25. Deferred Taxation

	Bank				Group			
	As at 31.12.01		As at 31.12.00		As at 31.12.01		As at 31.12.00	
	Timing Difference Rs.'000	Tax Effect Rs.'000	Timing Difference Rs.'000	Tax Effect Rs.'000	Timing Difference Rs.'000	Tax Effect Rs.'000	Timing Difference Rs.'000	Tax Effect Rs.'000
As at beginning of the year	499,784	150,000	356,921	107,100	508,087	152,490	364,207	109,286
Amount originating/(reversing) during the year	50,782	15,000	142,863	42,900	71,529	21,224	143,880	43,204
As at end of the year	<u>550,566</u>	<u>165,000</u>	<u>499,784</u>	<u>150,000</u>	<u>579,616</u>	<u>173,714</u>	<u>508,087</u>	<u>152,490</u>

Provision has not been made for deferred taxation on assets leased to customers by reference to the Partial Application Method.

## Notes to the Accounts

Tax effect on timing differences of assets leased to customers is given below:

	Bank				Group			
	As at 31.12.01		As at 31.12.00		As at 31.12.01		As at 31.12.00	
	Timing	Tax	Timing	Tax	Timing	Tax	Timing	Tax
	Difference	Effect	Difference	Effect	Difference	Effect	Difference	Effect
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
As at beginning of the year	<b>577,568</b>	<b>173,270</b>	605,861	181,758	<b>577,568</b>	<b>173,270</b>	605,861	181,758
Amount originating/(reversing) during the year	<b>360,660</b>	<b>108,198</b>	(28,293)	(8,488)	<b>360,660</b>	<b>108,198</b>	(28,293)	(8,488)
As at end of the year	<b>938,228</b>	<b>281,468</b>	577,568	173,270	<b>938,228</b>	<b>281,468</b>	577,568	173,270

### 26. Debentures

Consists of 500,000 Unsecured Subordinated Redeemable 5 year debentures of Rs. 1,000/- each issued by the Bank in 1998 in two tranches of 250,000 debentures each.

No. of Debentures	Value Rs. '000	Allotment Date	Maturity Date	Rate of Interest
250,000	250,000	20.07.1998	20.07.2003	Fixed - 13.5% p.a. payable quarterly (Effective Annual Yield 14.2% p.a.)
250,000	250,000	08.10.1998	08.10.2003	Floating Coupon Rate equivalent to the Weighted Average Yield of the three months G.O.S.L. Treasury Bills plus 1% p.a. payable quarterly subject to a maximum of 16% p.a. and a minimum of 12% p.a.
<u>500,000</u>	<u>500,000</u>			

These debentures are quoted on the Colombo Stock Exchange.

These debentures were issued mainly to raise long-term funds to expand on long-term credit facilities.

There were no material changes in the use of funds raised through debentures.

### 27. Share Capital

	Bank		Group	
	2001	2000	2001	2000
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Authorised</b>				
250,000,000 Ordinary voting Shares of Rs. 10/- each (100,000,000 Shares in 2000)	<b>2,500,000</b>	1,000,000	<b>2,500,000</b>	1,000,000
50,000,000 Ordinary Non-voting Shares of Rs. 10/- each (30,000,000 Shares in 2000)	<b>500,000</b>	300,000	<b>500,000</b>	300,000
200,000,000 Cumulative Redeemable Preference Shares of Rs. 10/- each	<b>2,000,000</b>	—	<b>2,000,000</b>	—
	<b>5,000,000</b>	1,300,000	<b>5,000,000</b>	1,300,000

## Notes to the Accounts

	<b>Bank</b>		<b>Group</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>Rs.'000</b>	Rs.'000	<b>Rs.'000</b>	Rs.'000
<b>Issued &amp; Fully Paid</b>				
<b>Ordinary Shares - Voting</b>				
Opening balance - 32,500,000 Shares of Rs. 10/- each	<b>325,000</b>	325,000	<b>325,000</b>	325,000
Scrip Issue of 6,500,000 Shares of Rs. 10/- each	<b>65,000</b>	-	<b>65,000</b>	-
Closing balance - 39,000,000 Shares of Rs. 10/- each (32,500,000 Shares in 2000)	<b>390,000</b>	325,000	<b>390,000</b>	325,000
<b>Ordinary Shares - Non-voting</b>				
Opening balance - 2,325,115 Shares of Rs. 10/- each	<b>23,251</b>	23,251	<b>23,251</b>	23,251
Scrip Issue of 465,023 Shares of Rs. 10/- each	<b>4,650</b>	-	<b>4,650</b>	-
Closing balance - 2,790,138 Shares of Rs. 10/- each (2,325,115 Shares in 2000)	<b>27,901</b>	23,251	<b>27,901</b>	23,251
<b>Cumulative Redeemable Preference Shares</b>				
Opening balance	-	-	-	-
Issue of 90,655,500 Shares of Rs. 10/- each	<b>906,555</b>	-	<b>906,555</b>	-
Closing balance - 90,655,500 Shares of Rs. 10/- each	<b>906,555</b>	-	<b>906,555</b>	-
Total	<b>1,324,456</b>	348,251	<b>1,324,456</b>	348,251

These shares are quoted on the Colombo Stock Exchange.

The above Cumulative Redeemable Preference Shares were allotted on September 21, 2001 and will be redeemed on September 20, 2006. Bank intends to build up a Capital Redemption Reserve Fund out of the profits otherwise available for dividends in order to redeem the Preference Shares at maturity.

### 28. Statutory Reserve Fund

	<b>Bank</b>		<b>Group</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>Rs.'000</b>	Rs.'000	<b>Rs.'000</b>	Rs.'000
Opening balance	<b>1,009,000</b>	1,009,000	<b>1,009,000</b>	1,009,000
Add: Transfers during the year	-	-	-	-
Closing balance	<b>1,009,000</b>	1,009,000	<b>1,009,000</b>	1,009,000

Since the balance in the Statutory Reserve Fund is far in excess of the paid up ordinary share capital of the Bank, no further appropriations were made to it.



## Notes to the Accounts

### 29. Reserves

	Bank		Group	
	2001 Rs.'000	2000 Rs.'000	2001 Rs.'000	2000 Rs.'000
<b>Capital Reserves</b>				
Share Premium Account [Refer Note 29 (a)]	562,066	641,780	562,066	641,780
Revaluation Reserve (Refer Note 21)	157,286	157,286	157,286	157,286
	<b>719,352</b>	<b>799,066</b>	<b>719,352</b>	<b>799,066</b>
<b>Revenue Reserves</b>				
General Reserve [Refer Note 29 (b)]	3,690,507	2,880,624	3,690,507	2,880,624
Unappropriated profit carried forward (Refer Note 12)	1,566	10,588	33,153	6,881
	<b>3,692,073</b>	<b>2,891,212</b>	<b>3,723,660</b>	<b>2,887,505</b>
Total	<b>4,411,425</b>	<b>3,690,278</b>	<b>4,443,012</b>	<b>3,686,571</b>
<b>29 (a) Share Premium Account</b>				
Opening balance	641,780	641,780	641,780	641,780
Utilised for the scrip issue of shares	(69,650)	-	(69,650)	-
Writing-off of share issue expenses	(10,064)	-	(10,064)	-
Closing balance	<b>562,066</b>	<b>641,780</b>	<b>562,066</b>	<b>641,780</b>
<b>29 (b) General Reserve</b>				
Opening balance	2,880,624	2,110,624	2,880,624	2,110,624
Add: Transfer from the Income Statement	798,000	770,000	798,000	770,000
Appreciation in the value of investment in Comtrust Equity Fund	11,883	-	11,883	-
Closing balance	<b>3,690,507</b>	<b>2,880,624</b>	<b>3,690,507</b>	<b>2,880,624</b>

### 30. Maturity Analysis

#### 30 (a) 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 31.12.01 Rs.'000	Total as at 31.12.00 Rs.'000
<b>Interest earning assets:</b>							
Loans at call and short notice	1,550,000	200,000	-	-	-	1,750,000	1,400,000
Placements with foreign banks	1,315,498	-	-	-	-	1,315,498	2,977,507
Government of Sri Lanka							
Treasury Bills and Bonds	450,000	200,000	4,657,500	-	-	5,307,500	1,448,577
Commercial paper	893,000	277,000	-	-	-	1,170,000	330,400
Pro-notes	-	-	-	-	-	-	4,000
Securities purchased under re-sale agreements	1,014,634	-	-	-	-	1,014,634	-
Investments	-	-	50,000	20,000	-	70,000	55,800
Bills of exchange	2,367,794	-	-	-	-	2,367,794	2,367,515
Loans and advances	22,413,277	3,741,105	5,583,233	2,674,066	2,170,013	36,581,694	31,534,660
Lease receivable	168,574	505,721	675,959	168,990	-	1,519,244	1,261,699
	<b>30,172,777</b>	<b>4,923,826</b>	<b>10,966,692</b>	<b>2,863,056</b>	<b>2,170,013</b>	<b>51,096,364</b>	<b>41,380,158</b>

## Notes to the Accounts

	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 31.12.01 Rs.'000	Total as at 31.12.00 Rs.'000
<b>Non-interest earning assets:</b>							
Cash in hand	888,004	-	-	-	-	<b>888,004</b>	860,452
Balance with Central Bank of Sri Lanka	2,032,967	666,449	165,731	114,834	110,721	<b>3,090,702</b>	2,583,244
Balances with foreign banks	318,058	-	-	-	-	<b>318,058</b>	214,271
Investments	-	-	-	-	1,042,659	<b>1,042,659</b>	788,733
Interest and fees receivable	334,584	-	-	-	-	<b>334,584</b>	268,532
Other assets	916,003	-	-	-	-	<b>916,003</b>	2,209,732
Property, Plant & Equipment	-	-	-	-	1,409,508	<b>1,409,508</b>	1,305,596
	<u>4,489,616</u>	<u>666,449</u>	<u>165,731</u>	<u>114,834</u>	<u>2,562,888</u>	<b><u>7,999,518</u></b>	<u>8,230,560</u>
<b>Total Assets</b>	<b>34,662,393</b>	<b>5,590,275</b>	<b>11,132,423</b>	<b>2,977,890</b>	<b>4,732,901</b>	<b>59,095,882</b>	49,610,718
<b>Percentage - 31.12.01</b>	<b>58.65</b>	<b>9.46</b>	<b>18.84</b>	<b>5.04</b>	<b>8.01</b>	<b>100.00</b>	
Percentage - 31.12.00	63.80	9.59	9.63	5.08	11.90		100.00

(ii) An analysis of the total capital 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 31.12.01 Rs.'000	Total as at 31.12.00 Rs.'000
<b>Interest bearing liabilities:</b>							
Deposits	26,033,845	10,330,607	1,923,597	1,304,430	1,726,065	<b>41,318,544</b>	33,056,452
Borrowings	1,019,350	-	-	-	-	<b>1,019,350</b>	777,833
Securities sold under REPOs	227,694	-	-	-	-	<b>227,694</b>	1,430,134
Debentures	-	-	500,000	-	-	<b>500,000</b>	500,000
	<u>27,280,889</u>	<u>10,330,607</u>	<u>2,423,597</u>	<u>1,304,430</u>	<u>1,726,065</u>	<b><u>43,065,588</u></b>	<u>35,764,419</u>
<b>Non-interest bearing liabilities</b>							
Deposits	4,987,225	-	-	-	-	<b>4,987,225</b>	4,466,547
Foreign bank balances	843,325	-	-	-	-	<b>843,325</b>	1,538,880
Other liabilities	3,048,053	-	-	-	-	<b>3,048,053</b>	2,493,825
Deferred taxation	-	-	-	165,000	-	<b>165,000</b>	150,000
Tax payable	31,433	47,894	-	-	-	<b>79,327</b>	41,560
Dividends payable	162,483	-	-	-	-	<b>162,483</b>	107,958
Shareholders' funds	-	-	-	906,555	5,838,326	<b>6,744,881</b>	5,047,529
	<u>9,072,519</u>	<u>47,894</u>	<u>-</u>	<u>1,071,555</u>	<u>5,838,326</u>	<b><u>16,030,294</u></b>	<u>13,846,299</u>
<b>Total Liabilities</b>	<b>36,353,408</b>	<b>10,378,501</b>	<b>2,423,597</b>	<b>2,375,985</b>	<b>7,564,391</b>	<b>59,095,882</b>	49,610,718
<b>Percentage - 31.12.01</b>	<b>61.52</b>	<b>17.56</b>	<b>4.10</b>	<b>4.02</b>	<b>12.80</b>	<b>100.00</b>	
Percentage - 31.12.00	61.15	16.01	5.33	2.74	14.77		100.00

## Notes to the Accounts

### 30 (b) 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 31.12.01 Rs.'000	Total as at 31.12.00 Rs.'000
<b>Interest earning assets:</b>							
Loans at call and short notice	1,550,000	200,000	–	–	–	1,750,000	1,400,000
Placements with foreign banks	1,315,498	–	–	–	–	1,315,498	2,977,507
Government of Sri Lanka							
Treasury Bills and Bonds	4,240,752	2,756,310	5,792,555	61,500	–	12,851,117	4,615,324
Commercial paper	893,000	277,000	–	–	–	1,170,000	330,400
Pro-notes	–	–	–	–	–	–	4,000
Securities purchased under							
re-sale agreements	1,014,634	–	–	–	–	1,014,634	501,933
Investments	–	–	50,000	20,000	100	70,100	55,800
Bills of exchange	2,367,794	–	–	–	–	2,367,794	2,367,515
Loans and advances	22,413,277	3,741,105	5,583,233	2,674,066	2,170,013	36,581,694	31,534,662
Lease receivable	166,593	499,777	664,564	166,141	–	1,497,075	1,236,065
	<u>33,961,548</u>	<u>7,474,192</u>	<u>12,090,352</u>	<u>2,921,707</u>	<u>2,170,113</u>	<u>58,617,912</u>	<u>45,023,206</u>
<b>Non-interest earning assets:</b>							
Cash in hand	902,328	–	–	–	–	902,328	860,452
Balance with Central Bank							
of Sri Lanka	2,032,967	666,449	165,731	114,834	110,721	3,090,702	2,583,244
Balances with foreign banks	318,058	–	–	–	–	318,058	214,271
Investments	–	–	–	–	639,572	639,572	405,935
Interest and fees receivable	334,583	–	–	–	–	334,583	268,532
Other assets	1,214,000	–	–	–	–	1,214,000	2,217,488
Property, Plant & Equipment	–	–	–	–	1,616,152	1,616,152	1,520,883
	<u>4,801,936</u>	<u>666,449</u>	<u>165,731</u>	<u>114,834</u>	<u>2,366,445</u>	<u>8,115,395</u>	<u>8,070,805</u>
<b>Total Assets</b>	<u>38,763,484</u>	<u>8,140,641</u>	<u>12,256,083</u>	<u>3,036,541</u>	<u>4,536,558</u>	<u>66,733,307</u>	<u>53,094,011</u>
<b>Percentage - 31.12.01</b>	<b>58.09</b>	<b>12.20</b>	<b>18.36</b>	<b>4.55</b>	<b>6.80</b>	<b>100.00</b>	
Percentage - 31.12.00	62.74	11.13	10.57	4.75	10.81		100.00

(ii) An analysis of the total capital 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 31.12.01 Rs.'000	Total as at 31.12.00 Rs.'000
<b>Interest bearing liabilities:</b>							
Deposits	25,914,700	10,330,607	1,923,597	1,304,430	1,726,065	41,199,399	33,056,452
Borrowings	1,019,350	–	–	–	–	1,019,350	777,833
Securities sold under REPOs	5,336,010	1,313,208	1,074,529	13,587	–	7,737,334	4,896,753
Debentures	–	–	500,000	–	–	500,000	500,000
	<u>32,270,060</u>	<u>11,643,815</u>	<u>3,498,126</u>	<u>1,318,017</u>	<u>1,726,065</u>	<u>50,456,083</u>	<u>39,231,038</u>

## Notes to the Accounts

	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 31.12.01 Rs.'000	Total as at 31.12.00 Rs.'000
<b>Non-interest bearing liabilities:</b>							
Deposits	4,987,224	–	–	–	–	<b>4,987,224</b>	4,312,935
Foreign Bank Balances	843,325	–	–	–	–	<b>843,325</b>	1,538,880
Other liabilities	3,237,498	–	–	–	–	<b>3,237,498</b>	2,673,498
Deferred taxation	–	–	–	173,714	–	<b>173,714</b>	152,490
Tax payable	35,531	47,894	–	–	–	<b>83,425</b>	20,819
Dividends payable	162,963	–	–	–	–	<b>162,963</b>	107,958
Minority interest	–	–	–	–	12,607	<b>12,607</b>	12,580
Shareholders' funds	–	–	–	906,555	5,869,913	<b>6,776,468</b>	5,043,813
	<u>9,266,541</u>	<u>47,894</u>	<u>–</u>	<u>1,080,269</u>	<u>5,882,520</u>	<b><u>16,277,224</u></b>	<u>13,862,973</u>
<b>Total Liabilities</b>	<b>41,536,602</b>	<b>11,691,709</b>	<b>3,498,126</b>	<b>2,398,286</b>	<b>7,608,585</b>	<b>66,733,307</b>	<b>53,094,011</b>
<b>Percentage - 31.12.01</b>	<b>62.24</b>	<b>17.52</b>	<b>5.24</b>	<b>3.59</b>	<b>11.41</b>	<b>100.00</b>	
Percentage - 31.12.00	63.72	14.92	4.98	2.56	13.82		100.00

- Notes:
- Bills of exchange, loans and advances and lease receivable are shown net of interest in suspense and provision for bad & doubtful debts.
  - Balance with Central Bank of Sri Lanka has been apportioned into the maturity groups based on the maturity pattern of the rupee deposits of the Domestic Banking Unit.
  - 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.
  - Total 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.

### 31. Commitments and Contingencies

31 (a) In the normal course of business the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

	Bank		Group	
	2001 Rs.'000	2000 Rs.'000	2001 Rs.'000	2000 Rs.'000
<b>Commitments:</b>				
Commitments for unutilised facilities				
(Direct Advances)	<b>3,847,517</b>	2,987,088	<b>3,847,517</b>	2,987,088
<b>Contingent Liabilities:</b>				
Acceptances	<b>1,604,249</b>	1,186,183	<b>1,604,249</b>	1,186,183
Documentary credits	<b>2,445,383</b>	3,870,755	<b>2,445,383</b>	3,870,755
Guarantees	<b>7,532,261</b>	6,670,671	<b>7,532,261</b>	6,670,671
Bills for collection	<b>3,663,071</b>	2,555,902	<b>3,663,071</b>	2,555,902
	<u><b>15,244,964</b></u>	<u>14,283,511</u>	<u><b>15,244,964</b></u>	<u>14,283,511</u>
Forward exchange contracts (net)	<b>656,659</b>	608,949	<b>656,659</b>	608,949
	<u><b>15,901,623</b></u>	<u>14,892,460</u>	<u><b>15,901,623</b></u>	<u>14,892,460</u>
Total commitments and contingencies	<b>19,749,140</b>	17,879,548	<b>19,749,140</b>	17,879,548

## Notes to the Accounts

### 31 (b) Litigation against the Bank

- (i) Court action has been initiated by a customer in Case Number 110/96 (i) requesting for cancellation of a Caveat registered by the Bank subsequent to a release of a property mortgaged to the Bank and further to claim a sum of Rs. 4.500 million together with damages and interest. Same is in appeal against the High Court order.
- (ii) 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 foreign exchange contract. Legal opinion has been obtained by the Bank and the Bank is defending the action.
- (iii) 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 appealed against the judgement.
- (iv) Court action has been initiated by an ex-employee in proceedings Number 5230/Spl regarding the withholding of the payment of pension on the grounds of making a wrongful and incorrect declaration to secure a premature retirement from the Bank.
- (v) Nine labour tribunal cases filed by nine ex-employees on termination of employment are pending against the Bank.
- (vi) Labour Tribunal set aside an application filed by the Ceylon Banks Employees' Union on behalf of an ex-employee whose services was terminated consequent upon him being found guilty of the charges preferred against him at the Domestic Inquiry, viz. breach of oath of secrecy. The Ceylon Bank Employees' Union has appealed to the High Court against the order of the Labour Tribunal.
- (vii) Court action has been initiated by the Ceylon Bank Employees' Union and 5 others in proceedings Number 5570/Spl regarding the creation of a new executive grade in the Bank.
- (viii) Court action has been initiated by an ex-employee in proceedings Number 5571/Spl regarding the creation of a new executive grade in the Bank.
- (ix) 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 an interest refund claimed on a Current Account.
- (x) Court action has been initiated by an insurance company claiming damages in a sum of Rs. 2.000 million up to the date of plaint and continuing damages of Rs. 2.000 million per month in proceedings Number 26783/MR. This is in sequel to the Bank filing action against this insurance company claiming a sum of approximately Rs. 106.000 million together with legal interest on an insurance claim.
- (xi) There were Enjoining Orders issued by the District Court of Colombo in proceedings Numbers 5902/SPL and 5905/SPL preventing the Bank from proceeding further in connection with the proposed Employee Share Option Plan. In Case Number 5902/Spl, the Court has delivered its Order on January 16, 2002 refusing the issue of the Interim Injunction as prayed for by the Plaintiffs. In Case Number 5905/Spl, the Court has postponed the Order to April 23, 2002 without reference to the Enjoining Order. The Plaintiff in 5902/Spl has sought to appeal against the Order of the District Court to the Court of Appeal.

## Notes to the Accounts

### 32. Capital Commitments

Capital expenditure approved by the Board of Directors for which provision has not been made in these accounts amounted to approximately:

	Bank		Group	
	2001 Rs.'000	2000 Rs.'000	2001 Rs.'000	2000 Rs.'000
Approved and contracted for	31,014	21,602	31,014	21,602
Approved but not contracted for	9,800	10,000	9,800	10,000
	<b>40,814</b>	<b>31,602</b>	<b>40,814</b>	<b>31,602</b>

### 33. Financial Reporting by Segment as per the provisions of Sri Lanka Accounting Standard No. 28

#### (a) Business Segments

##### Revenue from external customers :

	Banking		Leasing		Treasury		Property/ Investments		Unallocated		Total	
	2001 Rs.'000	2000 Rs.'000	2001 Rs.'000	2000 Rs.'000	2001 Rs.'000	2000 Rs.'000	2001 Rs.'000	2000 Rs.'000	2001 Rs.'000	2000 Rs.'000	2001 Rs.'000	2000 Rs.'000
Interest	5,264,406	4,128,641	-	-	1,774,216	583,936	-	-	-	-	7,038,622	4,712,577
Exchange	362,227	247,773	-	-	201,163	172,960	-	-	-	-	563,390	420,733
Lease income	-	-	258,061	200,176	-	-	-	-	-	-	258,061	200,176
Commissions	587,633	473,144	-	-	1,744	2,232	-	-	-	(168)	589,377	475,208
Other	60,050	49,617	-	-	-	-	36,442	34,379	(24)	10,144	96,468	94,140
Total revenue from external customers	6,274,316	4,899,175	258,061	200,176	1,977,123	759,128	36,442	34,379	(24)	9,976	8,545,918	5,902,834
Inter-segment revenue	(95,877)	(153,914)	-	-	95,877	153,914	-	-	-	-	-	-
Total revenue	6,178,439	4,745,261	258,061	200,176	2,073,000	913,042	36,442	34,379	(24)	9,976	8,545,918	5,902,834
Segment result	1,658,838	1,401,183	90,346	82,732	128,047	196,375	36,442	34,379	(24)	9,976	1,913,649	1,724,645
Unallocated expenses											(492,105)	(560,482)
Profit from operations											1,421,544	1,164,163
Net financing costs											-	-
Income from Associates											-	-
Income tax expense											(374,882)	(227,600)
Minority interest											(1,401)	(1,312)
Extraordinary items											-	-
Net profit for the year											1,045,261	935,251
Segment assets	50,892,444	41,195,425	1,519,244	1,261,699	10,447,212	6,168,249	610,035	341,909	3,164,735	4,006,903	66,633,670	52,974,185
Investment in Associates	-	-	-	-	-	-	99,637	119,826	-	-	99,637	119,826
Unallocated assets	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	50,892,444	41,195,425	1,519,244	1,261,699	10,447,212	6,168,249	709,672	461,735	3,164,735	4,006,903	66,733,307	53,094,011
Segment liabilities	13,395,779	23,509,516	-	-	27,862,193	21,565,518	-	-	18,686,259	2,962,575	59,944,231	48,037,609
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	13,395,779	23,509,516	-	-	27,862,193	21,565,518	-	-	18,686,259	2,962,575	59,944,231	48,037,609
Cash flows from operating activities	3,678,735	756,412	515,606	414,795	341,774	-	-	-	(262,233)	(187,316)	4,273,882	983,891
Cash flows from investing activities	(7,085,309)	53,389	-	-	(826,591)	771,978	(826,591)	49,797	1,788,294	(103,333)	(6,950,197)	771,831
Cash flows from financing activities	2,287,815	173,179	-	-	-	-	-	-	(480,273)	9,572	1,807,542	182,751
Capital expenditure	(301,573)	(243,006)	-	-	-	-	-	-	-	-	(301,573)	(243,006)

## Notes to the Accounts

### (b) Geographical Segments

	2001		Bank		2001		Group	
			2000				2000	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
<b>Assets</b>								
Domestic Banking Unit	45,577,240	77.12	40,533,380	81.70	53,214,665	79.74	44,016,673	82.90
Foreign Currency Banking Unit	13,518,642	22.88	9,077,338	18.30	13,518,642	20.26	9,077,338	17.10
	<b>59,095,882</b>	<b>100.00</b>	<b>49,610,718</b>	<b>100.00</b>	<b>66,733,307</b>	<b>100.00</b>	<b>53,094,011</b>	<b>100.00</b>
<b>Gross Income</b>								
Domestic Banking Unit	7,528,212	91.77	5,350,654	87.77	8,418,337	92.58	5,527,889	88.11
Foreign Currency Banking Unit	674,910	8.23	745,824	12.23	674,910	7.42	745,824	11.89
	<b>8,203,122</b>	<b>100.00</b>	<b>6,096,478</b>	<b>100.00</b>	<b>9,093,247</b>	<b>100.00</b>	<b>6,273,713</b>	<b>100.00</b>
<b>Profit before Tax</b>								
Domestic Banking Unit	878,875	66.33	626,769	54.48	975,452	68.62	640,477	55.02
Foreign Currency Banking Unit	446,092	33.67	523,686	45.52	446,092	31.38	523,686	44.98
	<b>1,324,967</b>	<b>100.00</b>	<b>1,150,455</b>	<b>100.00</b>	<b>1,421,544</b>	<b>100.00</b>	<b>1,164,163</b>	<b>100.00</b>
<b>Profit after Tax</b>								
Domestic Banking Unit	623,168	61.70	466,010	49.79	659,863	63.04	466,618	49.82
Foreign Currency Banking Unit	386,799	38.30	469,945	50.21	386,799	36.96	469,945	50.18
	<b>1,009,967</b>	<b>100.00</b>	<b>935,955</b>	<b>100.00</b>	<b>1,046,662</b>	<b>100.00</b>	<b>936,563</b>	<b>100.00</b>

### 34. Directors' Interests in Contracts with the Company

- 34 (a) Banking facilities are made available to the following Directors in the ordinary course of business on commercial terms and conditions. The total amount of facilities granted by the Bank and the balances as at December 31, are given below:

	Total amount of facility granted	Balance as at 31.12.01	Balance as at
	Rs.	Rs.	Rs.
Mr. M.J.C. Amarasuriya - Overdraft - City Office	440,000.00	181,021.75	Credit Balance
		<b>Debit</b>	

- (b) Mr. A. L. Gooneratne, Mr. J.S. Mather and Dr. H.S. Wanasinghe who were Directors of the Company as at December 31, 2001 were also Directors of Commercial Development Co. Ltd. which Company has leased part of its premises to the Bank at an annual rental of Rs. 50,223,620/- excluding GST and National Security Levy, and has hired motor vehicles to the Bank for which a hiring charge of Rs. 17,021,000/- was charged. Further, Commercial Development Company has paid Rs. 10,849,706/- to the Bank as lease rentals for the motor vehicles leased from the Bank.
- (c) Banking facilities amounting to Rs. 5,000,000/- were made available to Unawatuna Beach Resorts Ltd. in which Mr. M.J.C. Amarasuriya held 186,464 shares as at December 31, 2001. The balance outstanding on these facilities as at December 31, 2001 was Rs. 2,775,931/-. The provisions of Section 47 of the Banking Act No. 30 of 1988 have been complied with.



## Notes to the Accounts

- (d) Banking facilities amounting to Rs. 216,000/- were made available to Clodagh Western Estate in which Mr. M.J.C. Amarasuriya is a co-partner. The balance outstanding as at December 31, 2001 was Rs. 215,836/-. The provisions of Section 47 of the Banking Act No. 30 of 1988 have been complied with.
- (e) Banking facilities amounting to Rs. 300,000/- in the form of an International MasterCard were made available to Dr. H.S. Wanasinghe during the year. The balance outstanding as at December 31, 2001 was Rs. 11,888/-. The provisions of Section 47 of the Banking Act No. 30 of 1988 have been complied with.
- (f) Banking facilities amounting to Rs. 250,000/- in the form of an International MasterCard were made available to Mr. A.L. Gooneratne during the year. The balance outstanding as at December 31, 2001 was nil. The provisions of Section 47 of the Banking Act No. 30 of 1988 have been complied with.
- (g) Banking facilities amounting to Rs. 425,000/- in the form of an International MasterCard were made available to Mr. P. Amarasinghe during the year. The balance outstanding as at December 31, 2001 was Rs. 3,995/-. The provisions of Section 47 of the Banking Act No. 30 of 1988 have been complied with.

### 35. Related Party Transactions

The Bank carries out transactions in the ordinary course of its business on an arm's length basis at commercial rates with related parties. These related parties, names of Directors, their relationships, accommodation granted and the balances outstanding as at December 31, 2001 are listed below:

Name of Related Party	Name of Director	Relationship	Accommodation Granted	Limit Rs.	Balance Outstanding Rs.
Coates (Lanka) Ltd.	Mr. J.S. Mather	Alternate Director	Overdraft	3,000,000	Credit Balance
			Short-Term Loan-MMA/C (Sub Limit of O/D)	(3,000,000)	3,000,000
			Letters of Credit	7,000,000	1,329,694
			Import Loans/DA (Sub Limit of L/C)	(6,000,000)	5,603,935
			Shipping Guarantees	5,000,000	Nil
United Motors Lanka Ltd.	Mr. M.J.C. Amarasuriya	Chairman	Overdraft	25,000,000	Credit Balance
	Mr. J.S. Mather	Director	Short-Term Loan	75,000,000	72,700,000
			Letters of Credit	75,000,000	5,732,354
			Import Loans/DA (Sub Limit of L/C)	(50,000,000)	19,918,893
			Letters of Gurantee	15,000,000	1,700,000
Commercial Leasing Co. Ltd.	Mr. M.J.C. Amarasuriya	Director	Overdraft	25,000,000	Credit Balance
	Mr. A.L. Gooneratne	Director	Short-Term Loan	50,000,000	50,000,000
			Commercial Paper	100,000,000	Credit Balance
			Letters of Credit	10,000,000	Nil
			Letters of Guarantee	5,000,000	500,000

## Notes to the Accounts

Name of Related Party	Name of Director	Relationship	Accommodation Granted	Limit Rs.	Balance Outstanding Rs.
Acme Packaging & Printing Ltd.	Mr. J.S. Mather	Director	Overdraft	10,000,000	12,489,771
			Letters of Credit	15,000,000	3,462,436
	Mr. M.L. Mack	Director	Import Demand Loans (Sub Limit of L/C)	(7,500,000)	4,807,293
			Import Loans D/A (Sub Limit of L/C)	(7,500,000)	3,994,627
			Letters of Guarantee	2,500,000	Nil
Ceylon Tobacco Co. Ltd.	Mr. J.S. Mather	Director	Overdraft	15,000,000	Credit Balance
The Central Finance Co. Ltd.	Mr. J.S. Mather	Director	Overdraft	25,000,000	Credit Balance
			Short-Term Loan	150,000,000	78,000,000
			Short-Term Loan	150,000,000	Nil
			Short-Term Loan	100,000,000	Nil
Chemical Industries Colombo Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft	50,000,000	4,933,094
			Mr. J.S. Mather	Director	Short-Term Loan (Combined Limit with Overdraft)
	Term Loans	75,000,000			53,200,000
	Letters of Credit	100,000,000			Nil
	CIC Fertilizers (Pvt.) Ltd.	Mr. B.R.L. Fernando	Chairman	Import D/A (Sub Limit of L/C)	(100,000,000)
Overdraft				100,000,000	Credit Balance
Short-Term Loan (Combined Limit with Overdraft)				(100,000,000)	Nil
Temporary Overdraft				50,000,000	Nil
Letters of Guarantee				5,000,000	165,920
Aitken Spence Company Ltd.	Mr. M.L. Mack	Director	Letters of Credit	100,000,000	Nil
			Draft Availised	–	102,098,142
			Overdraft	400,000,000	Credit Balance
			Commercial Paper (Sub Limit of Overdraft)	(400,000,000)	300,000,000
			Short-Term Loan (Sub Limit of Overdraft)	(400,000,000)	Nil
DFCC Bank	Mr. A.N. Fonseka	Director	Overdraft	100,000,000	Credit Balance
			Mr. M.L. Mack	Director	Overdraft
	Mr. M.J.C. Amarasuriya	Director			Overdraft
			Overdraft	–	962,786
	Overdraft	–	259,776		
	Money Market Placements	600,000,000	Nil		
	Letters of Credit	360,000,000	24,484,611		
	D/A (Sub Limit of L/C)	(250,000,000)	65,518,260		
	Shipping Guarantee (Sub Limit of L/C)	(250,000,000)	196,332,000		
	Bills Receivable	–	12,390,708		

## Notes to the Accounts

Name of Related Party	Name of Director	Relationship	Accommodation Granted	Limit Rs.	Balance Outstanding Rs.
Commercial Fund Management (Pvt.) Ltd.	Mr. M.J.C. Amarasuriya	Chairman	Leasing	600,000	354,845
	Mr. A.L.Gooneratne	Director			
Commercial Development Co. Ltd.	Mr. A.L.Gooneratne	Director	Overdraft	–	2,168
	Dr. H.S.Wanasinghe	Director	Leasing	32,605,266	22,364,138
	Mr. J.S.Mather	Director			
Rainwear (Pvt) Ltd.	Mr. B.R.L.Fernando	Director	Overdraft	US\$ 112,000	US\$ 112,605
			Letters of Credit	US\$ 183,000	US\$ 16,151
			Import Demand Loans (Sub Limit of L/C)	(US\$ 183,000)	US\$ 173,238
Chemanex Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft	15,000,000	2,510,692
			Short-Term Loan (Sub Limit of Over Draft)	(15,000,000)	15,000,000
			Letters of Credit	15,000,000	2,864,349
			Import D/A	–	3,978,052
			Shipping Guarantees	–	5,958,000
			Letters of Guarantee	–	50,000
The Light House Hotel Ltd.	Mr. B.R.L. Fernando	Director	Overdraft	10,000,000	Credit Balance
Gestetner of Ceylon Ltd.	Mr. B.R.L. Fernando	Director	Overdraft	12,500,000	14,273,271
			Short-Term Loan	7,000,000	7,000,000
			Letters of Credit	20,000,000	2,555,666
			Import D/A	12,000,000	30,793,069
			Shipping Guarantees	–	50,565,000
			Letters of Guarantee	5,000,000	3,646,018
CISCO Speciality Packaging (Pvt) Ltd.	Mr. B.R.L.Fernando	Chairman	Overdraft	8,000,000	9,021,753
			Letters of Credit	15,000,000	80,907
			Import Demand Loan	3,000,000	7,105,894
			Term Loan	2,000,000	1,708,043
			Import D/A	–	818,717
Ceylon Petroleum Corporation	Mr. S. Abeysinghe	Director	Overdraft (Stand by Limit)	10,000,000	4,755,609
			Short-Term Loan	500,000,000	Nil
			Letters of Credit	3,000,000,000	Nil
			Import D/A (Sub Limit of L/C)	(3,000,000,000)	Nil
			Short-Term Loan (Sub Limit of L/C)	(1,000,000,000)	Nil
CIC Agri Biotech (Pvt) Ltd.	Mr. B.R.L. Fernando	Director	Overdraft	–	51,753

### 36. Post Balance Sheet Events

No circumstances have arisen the Balance Sheet date which would require adjustments to or disclosure in the Financial Statements.

## Income Statement

<i>For the year ended 31st December</i>	<b>Bank</b>			<b>Group</b>	
	<b>2001</b>	2000	Change	<b>2001</b>	2000
	<b>US\$'000</b>	US\$'000	%	<b>US\$'000</b>	US\$'000
<b>Net income</b>	<b>82,287</b>	69,377	18.61	<b>91,764</b>	71,506
Interest income	<b>69,886</b>	58,100	20.29	<b>79,939</b>	60,613
Less: Interest expense	<b>44,810</b>	33,632	33.24	<b>53,770</b>	35,998
Net interest income	<b>25,076</b>	24,468	2.48	<b>26,169</b>	24,615
Foreign exchange profit	<b>6,048</b>	5,097	18.66	<b>6,048</b>	5,097
Other income	<b>7,861</b>	7,262	8.25	<b>7,363</b>	6,897
	<b>38,985</b>	36,827	5.86	<b>39,580</b>	36,609
Less: Turnover Tax	<b>124</b>	145	(14.48)	<b>133</b>	147
National Security Levy	<b>1,383</b>	938	47.44	<b>1,473</b>	952
	<b>37,478</b>	35,744	4.85	<b>37,974</b>	35,508
Less: Operating expenses					
Personnel costs	<b>10,279</b>	9,415	9.17	<b>10,321</b>	9,481
Premises, equipment and establishment expenses	<b>6,612</b>	6,432	2.80	<b>6,073</b>	5,840
Provision for staff retirement benefits	<b>696</b>	509	36.74	<b>696</b>	509
Other overhead expenses	<b>3,125</b>	3,215	(2.80)	<b>2,936</b>	3,280
	<b>20,712</b>	19,571	5.82	<b>20,026</b>	19,110
Profit before loan losses and provisions and provision for fall in value of investments/investment properties	<b>16,766</b>	16,173	3.66	<b>17,948</b>	16,398
Less: Loan losses and provisions	<b>2,541</b>	2,183	16.40	<b>2,541</b>	2,183
Fall in value of investments/investment properties	<b>-</b>	54	(100.00)	<b>40</b>	54
Profit after loan losses and provisions and provision for fall in value of investments/investment properties	<b>14,225</b>	13,936	2.07	<b>15,367</b>	14,161
Add/(Less): Share of profit/(loss) before tax of Associate Companies	<b>-</b>	-	-	<b>(106)</b>	121
	<b>14,225</b>	13,936	2.07	<b>15,261</b>	14,282
Goodwill on consolidation written-off	<b>-</b>	-	-	<b>-</b>	180
<b>Profit before taxation</b>	<b>14,225</b>	13,936	2.07	<b>15,261</b>	14,102
Less: Provision for taxation	<b>3,382</b>	2,598	30.18	<b>4,024</b>	2,757
<b>Profit after taxation</b>	<b>10,843</b>	11,338	(4.37)	<b>11,237</b>	11,345
Less: Minority interest	<b>-</b>	-	-	<b>15</b>	16
Profit attributable to ordinary shareholders	<b>10,843</b>	11,338	(4.37)	<b>11,222</b>	11,329
Earnings per Ordinary Share US\$	<b>0.25</b>	0.27	(7.49)	<b>0.26</b>	0.27
Dividend per Ordinary Share US\$	<b>0.05</b>	0.05	0.00	<b>0.05</b>	0.05

Exchange Rate 1 US\$ was Rs. 93.15 as at 31.12.2001 (Rs. 82.55 as at 31.12.2000)

## US DOLLAR ACCOUNTS

*The Income Statement and the Balance Sheet given on pages 91 and 92 are solely for the convenience of shareholders, investors, bankers and other users of Financial Statements.*

## Balance Sheet

As at 31st December	Bank			Group	
	2001 US\$'000	2000 US\$'000	Change %	2001 US\$'000	2000 US\$'000
<b>ASSETS</b>					
Cash and short-term funds	45,857	66,096	(30.62)	46,011	66,096
Balance with Central Bank of Sri Lanka	33,180	31,293	6.03	33,180	31,293
Government of Sri Lanka Treasury					
Bills and Bonds	56,978	12,921	340.97	138,876	51,283
Commercial paper	12,560	4,002	213.84	12,560	4,002
Securities purchased under					
re-sale agreements	10,892	–	100.00	9,978	6,080
Investment securities	4,964	2,527	96.52	4,965	2,527
Treasury Bonds maturing after one year	–	4,627	(100.00)	–	4,627
Bills of exchange	25,419	28,238	(9.98)	25,419	28,238
Loans and advances	392,718	382,439	2.69	392,718	382,439
Lease receivable within one year	7,239	6,491	11.52	7,154	6,423
Lease receivable from one to five years	9,071	8,802	3.06	8,918	8,560
	<b>598,878</b>	<b>547,436</b>	<b>9.40</b>	<b>679,779</b>	<b>591,568</b>
Investment properties	1,584	1,615	(1.92)	1,584	1,615
Investments in Associate Companies	841	949	(11.38)	1,070	1,452
Investments in Subsidiary Companies	4,556	5,141	(11.38)	–	–
Interest and fees receivable	3,592	3,253	10.42	3,592	3,253
Other assets	9,835	26,768	(63.26)	13,033	26,862
Goodwill on consolidation	–	–	–	–	–
Property, Plant & Equipment	15,132	15,816	(4.32)	17,350	18,424
	<b>634,418</b>	<b>600,978</b>	<b>5.56</b>	<b>716,408</b>	<b>643,174</b>
<b>FINANCED BY</b>					
<b>LIABILITIES</b>					
Deposits from customers	497,110	454,549	9.36	495,831	452,688
Borrowings	19,997	28,064	(28.75)	19,997	28,064
Securities sold under					
re-purchase agreements	2,444	17,324	(85.89)	83,063	59,319
Other liabilities	32,723	30,210	8.32	34,755	32,386
Deferred taxation	1,771	1,817	(2.53)	1,865	1,847
Tax payable	852	503	69.38	896	252
Dividends payable	1,744	1,308	33.33	1,749	1,308
Debentures	5,368	6,057	(11.38)	5,368	6,057
	<b>562,009</b>	<b>539,832</b>	<b>4.11</b>	<b>643,524</b>	<b>581,921</b>
<b>SHAREHOLDERS' FUNDS</b>					
Share capital	14,219	4,219	237.02	14,219	4,219
Statutory Reserve Fund	10,832	12,223	(11.38)	10,832	12,223
Reserves	47,358	44,704	5.94	47,697	44,659
Shareholders' funds	72,409	61,146	18.42	72,748	61,100
Minority interest	–	–	–	136	152
	<b>72,409</b>	<b>61,146</b>	<b>18.42</b>	<b>72,884</b>	<b>61,252</b>
Total liabilities and shareholders' funds	<b>634,418</b>	<b>600,978</b>	<b>5.56</b>	<b>716,408</b>	<b>643,174</b>
Commitments and contingencies	212,014	216,591	(2.11)	212,014	216,591

Exchange Rate 1 US\$ was Rs. 93.15 as at 31.12.2001 (Rs. 82.55 as at 31.12.2000)

## Subsidiary/Associate Companies

COMPANY	BANK'S INTEREST	PRINCIPAL ACTIVITY	DIRECTORS	PRE-TAX PROFIT/(LOSS)		DIVIDEND RATE	
				Rs. Mn.		%	
				2001	2000	2001	2000
<b>Commercial Development Co. Ltd.</b> "Commercial House", 21, Bristol Street, Colombo 1. Tel: 447300 Incorporated on 14.03.80	94.55%	Property Development	M.T.L. Fernando ( <i>Chairman</i> ) A.L. Gooneratne Deshabandu S.E. Captain J.S. Mather Dr. H.S. Wanasinghe M.A. Pemasiri G.L.H. Premaratne S.R. Pushpakumara ( <i>Company Secretary</i> )	<b>40.307</b>	33.918	<b>21.0</b>	19.0
<b>Commercial Leasing Co. Ltd.</b> "Commercial House", 21, Bristol Street, Colombo 1. Tel: 437039, 337616-7, 347264-5, 347267 Incorporated on 22.04.88	30.0%	Leasing and Factoring	H.D.S. Amarasuriya ( <i>Chairman</i> ) M.J.C. Amarasuriya A.L. Gooneratne M.P. Jayawardena K.K. Shah N.C. Peiris ( <i>Alternate</i> ) Mrs. R.K. Jayawardena ( <i>Company Secretary</i> )	<b>45.628</b>	28.699	<b>15.0</b>	27.0
<b>Equity Investments Lanka Ltd.</b> 108 A, 1st Floor, Maya Avenue, Colombo 6. Tel: 075-373745, 507605, 507606 Incorporated on 08.08.90	22.92%	Venture Capital	M.J.C. Amarasuriya ( <i>Chairman</i> ) H.D.S. Amarasuriya S.T. Nagendra A.L. Gooneratne Deshabandu S.E. Captain Y.A.M.T.T.S.I.I.T. Ja'afar E.A.D. Perera N.C. Peiris ( <i>Alternate</i> ) P.P.J. Perera Mrs. R.R. Dunuwille ( <i>Company Secretary</i> )	<b>(3,684)</b>	12.612	-	6.0
<b>Commercial Fund Management (Pvt) Ltd.</b> 108 A, 1/1, Maya Avenue, Colombo 6. Tel: 074-515262, 075-373747 Incorporated on 20.01.92	50.0%	Fund Management	M.J.C. Amarasuriya ( <i>Chairman</i> ) H.D.S. Amarasuriya A.L. Gooneratne R. Melville R. Hill E. Perera ( <i>Alternate</i> ) Mrs. R.R. Dunuwille ( <i>Company Secretary</i> )	<b>(954)</b>	(1.021)	-	-
<b>Commercial Bank Primary Dealer Ltd.</b> "Commercial House", 21, Bristol Street, Colombo 1. Tel: 445010-15, 336700, 328193-5, 332319 Incorporated on 18.10.99	100.0%	Primary Dealer for Government Securities	M.J.C. Amarasuriya ( <i>Chairman</i> ) J.S. Mather A.L. Gooneratne B.R.L. Fernando A.N. Fonseka G.L.H. Premaratne R. Samaranayake W.M.R.S. Dias D.S. Weeratunge S.R. Pushpakumara ( <i>Company Secretary</i> )	<b>86.247</b>	13.353	-	-

The figures of Commercial Fund Management (Pvt.) Ltd. for 2001 are provisional and subject to audit.

## Decade at a Glance

Year ended December 31 (Rs. Mn.)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>OPERATING RESULTS</b>										
Gross income	1,868	2,391	2,416	2,727	3,365	3,781	3,979	4,744	6,096	8,203
Interest income	1,415	1,819	1,875	2,038	2,553	2,876	3,031	3,762	4,796	6,510
Interest expense	(949)	(1,233)	(1,124)	(1,213)	(1,572)	(1,723)	(1,605)	(2,158)	(2,776)	(4,174)
Exchange income	181	198	156	187	219	320	362	274	420	563
Other income	272	287	299	393	461	440	440	517	600	732
Operating expenses	(514)	(701)	(966)	(916)	(1,081)	(1,261)	(1,459)	(1,586)	(1,890)	(2,306)
Profit before income tax	405	370	240	489	580	652	769	809	1,150	1,325
Income tax on profits	(133)	(90)	(98)	(160)	(147)	(110)	(178)	(151)	(214)	(315)
Profit after taxation	272	280	142	329	433	542	591	658	936	1,010
<i>As at December 31</i>										
<b>ASSETS</b>										
Cash and short-term funds	648	1,451	2,971	3,066	4,363	4,639	8,440	3,761	5,456	4,272
Statutory deposit with Central Bank	803	1,345	1,456	1,804	2,274	1,938	1,840	2,644	2,583	3,091
Govt. of Sri Lanka T. Bills and T. Bonds	-	-	-	-	-	-	409	3,573	1,449	5,307
Commercial paper	-	-	-	-	-	-	-	745	331	1,170
Investments	52	61	94	86	308	658	409	300	208	462
Securities purchased under re-sale agreements	-	-	-	26	20	-	70	-	-	1,015
Placements with banks maturing after one year	-	-	-	-	-	-	-	289	-	-
Bills of Exchange	1,233	1,694	1,598	1,564	2,135	2,074	1,597	1,873	2,331	2,368
Loans and advances	8,167	9,323	9,161	11,269	13,414	15,690	18,312	24,692	31,570	36,582
Lease receivable	-	-	-	-	177	489	730	1,047	1,263	1,519
	10,903	13,874	15,280	17,815	22,691	25,488	31,807	38,924	45,191	55,786
Investment properties	-	-	-	-	-	-	-	95	133	148
Investment in Associate Companies	305	298	329	414	128	128	78	78	78	78
Investment in Subsidiaries	-	-	-	-	274	274	274	274	424	424
Other assets	716	524	1,430	1,445	1,571	972	1,368	1,253	2,478	1,251
Property, Plant & Equipment	257	521	549	604	671	797	1,059	1,263	1,306	1,409
ASSETS EMPLOYED	12,181	15,217	17,588	20,278	25,335	27,659	34,586	41,887	49,610	59,096
<b>LIABILITIES</b>										
Deposits from customers	8,952	10,909	12,261	13,048	16,611	20,156	25,274	30,128	37,523	46,306
Borrowings	1,421	1,709	1,952	2,150	2,601	1,321	1,124	1,350	2,317	1,862
Securities sold under re-purchase agreements	-	-	-	1,213	1,030	1,468	2,130	3,371	1,430	228
Other liabilities	808	954	1,698	1,706	1,975	1,226	1,594	2,168	2,643	3,213
Taxation	84	63	37	75	38	(8)	(1)	4	42	79
Dividends payable	18	38	23	27	48	75	98	98	108	163
Debentures	-	-	-	-	-	-	500	500	500	500
	11,283	13,673	15,971	18,219	22,303	24,238	30,719	37,619	44,563	52,351
<b>SHAREHOLDERS' FUNDS</b>										
Share capital	100	125 *	125	125	268 @#!	268	348 +	348	348	1,324 ~ ^
Reserve fund	797	940	1,009	1,009	1,009	1,009	1,009	1,009	1,009	1,009
Reserves	1	479	483	925	1,755	2,144	2,510	2,911	3,690	4,412
CAPITAL EMPLOYED	12,181	15,217	17,588	20,278	25,335	27,659	34,586	41,887	49,610	59,096
Commitments and contingencies	10,861	9,559	13,222	11,027	10,517	13,768	14,612	15,445	17,880	19,749



## Decade at a Glance

### RATIOS

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Return on average - shareholders' funds (%)	33.73	22.92	9.00	18.00	17.00	16.80	16.20	16.21	20.09	17.95
Income growth (%)	35.97	27.97	1.06	12.88	23.40	15.71	5.24	19.25	28.49	34.56
Return on average assets (%)	2.50	2.03	0.86	1.74	1.90	2.05	1.90	1.72	2.05	1.86
Rate of dividend (%)	30.00	30.00	30.00	35.00	30.00	40.00	40.00	40.00	45.00	45.00
Ordinary share dividend cover (times)	9.07	7.46	3.78	7.25	5.39	3.90	4.24	4.73	5.91	5.20
Gross dividend to ordinary shareholders (Rs. Mn.)	30.00	37.50	37.50	45.37	80.40	107.10	139.30	139.30	156.71	188.06
Advances to deposits and refinance (%)	100.30	96.80	84.80	95.30	92.50	88.95	80.42	89.75	91.81	85.51
Property, Plant & Equipment to shareholders' funds (%)	28.62	33.74	33.99	29.12	22.14	23.29	27.37	29.72	25.87	20.90
Total assets to shareholders' funds (times)	13.56	9.85	10.88	9.26	8.36	8.09	8.94	9.81	9.83	8.77
Liquid assets to liabilities (%) (As specified in the Banking Act No. 30 of 1988)	31.81	32.48	27.12	20.74	28.17	25.36	24.97	22.19	27.22	27.72
Capital adequacy (%) Tier I	–	9.71	11.04	13.56	17.13	16.71	15.53	14.90	14.97	15.72
Tier I & II	–	10.45	11.67	13.94	17.47	17.63	18.45	17.14	16.62	16.20

### SHARE INFORMATION

Market value per share (Rs.)	196	350	288	200	124	150	120	115	93	127
Earnings per share (Rs.)	27	22	11	26	18	16	17	19	22	23
Price earnings ratio (times)	7	16	25	8	7	10	7	6	4	5
Net assets per share (Rs.)	89	124	129	165	113	128	111	123	121	140
Earnings yield (%)	14	6	4	13	15	11	14	16	29	18
Dividend payout ratio (%)	11	14	27	13	17	25	24	21	17	22

### OTHER INFORMATION

No. of employees	1,646	1,780	1,849	1,845	1,837	1,889	1,985	1,996	2,067	2,259
No. of branches	28	31	34	36	41	49	61	67	81	100
No. of Automated Teller Machines	8	9	14	19	29	44	60	67	79	109

\* Rights issue of one ordinary share for every four held was made in May 1993.

@ Scrip issue of three bonus shares for every five ordinary shares held was made in April 1996.

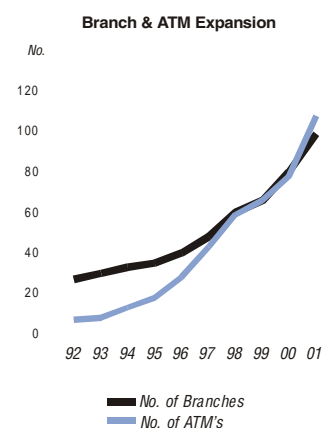
# Rights issue of one ordinary share for every four held was made in October 1996.

! Issue of 894,275 non-voting ordinary shares to the shareholders of Commercial Development Co. Ltd. was made during the year 1996 on the offer for share swap.

+ Scrip issue of three bonus shares for every ten ordinary Voting/Non-voting shares held was made in June 1998.

~ Scrip issue of one bonus share for every five ordinary Voting/Non-voting shares held was made in May 2001.

^ Issue of Cumulative Redeemable Preference Shares of Rs. 906.555 million was made in September 2001.



# Share and Debenture Information

## 1. Stock Exchange listing

The ordinary shares, both voting and non-voting, preference shares and debentures of the Bank are all listed in the Colombo Stock Exchange. The audited Income Statement for the year ended December 31, 2001 and the audited Balance Sheet of the Bank as at date will be submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

## 2. Ordinary Shareholders

As at December 31, 2001

### 2.1 Voting

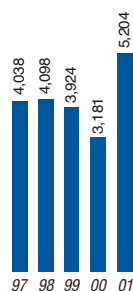
Range of Shareholdings	Resident		Non-Resident		Total		
	No. of Shareholders	No. of Shares	No. of Shareholders	No. of Shares	No. of Shareholders	No. of Shares	%
Less than 500 shares	2,108	419,949	26	6,819	2,134	426,768	1.09
501 - 5,000	2,113	3,511,512	50	76,344	2,163	3,587,856	9.20
5,001 - 10,000	164	1,159,792	2	13,764	166	1,173,556	3.01
10,001 - 20,000	71	924,098	1	20,000	72	944,098	2.42
20,001 - 30,000	26	639,246	2	41,245	28	680,491	1.74
30,001 - 40,000	17	594,482	0	0	17	594,482	1.52
40,001 - 50,000	13	607,988	0	0	13	607,988	1.56
50,001 - 100,000	15	983,677	0	0	15	983,677	2.52
100,001 - 1,000,000	19	5,947,380	3	774,600	22	6,721,980	17.24
over 1,000,000 shares	3	23,279,104	0	0	3	23,279,104	59.70
	<b>4,549</b>	<b>38,067,228</b>	<b>84</b>	<b>932,772</b>	<b>4,633</b>	<b>39,000,000</b>	<b>100.00</b>

There were 4,485 resident and 79 non-resident shareholders as at December 31, 2000.

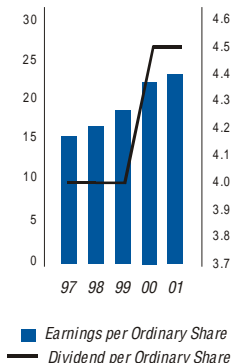
Analysis of Shareholders	December 31, 2001			December 31, 2000		
	No. of Shareholders	Total Holdings	%	No. of Shareholders	Total Holdings	%
Individuals	<b>4,370</b>	<b>7,740,778</b>	<b>19.85</b>	4,281	5,728,678	17.63
Institutions	<b>263</b>	<b>31,259,222</b>	<b>80.15</b>	283	26,771,322	82.37
	<b>4,633</b>	<b>39,000,000</b>	<b>100.00</b>	4,564	32,500,000	100.00

As per the Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at December 31, 2001 was 40.19% (40.42% as at December 31, 2000)

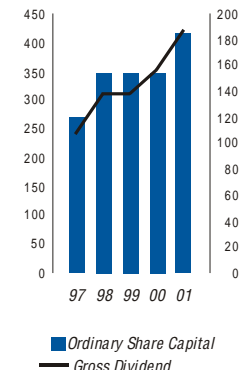
Market Capitalisation  
(Rs. Mn.)



Earnings per Ordinary Share & Dividend per Ordinary Share  
(Rs.)



Ordinary Share Capital & Gross Dividend on Ordinary Shares  
(Rs. Mn.)



## Share and Debenture Information

### 2.2 Non-Voting

Range of Shareholdings	Resident		Non-Resident		Total		
	No. of Shareholders	No. of Shares	No. of Shareholders	No. of Shares	No. of Shareholders	No. of Shares	%
Less than 500 shares	665	113,786	8	1,781	673	115,567	4.14
501 - 5,000	373	550,769	1	667	374	551,436	19.76
5,001 - 10,000	44	312,461	1	7,000	45	319,461	11.45
10,001 - 20,000	12	164,532	3	37,963	15	202,495	7.26
20,001 - 30,000	4	91,059	0	0	4	91,059	3.26
30,001 - 40,000	4	131,679	0	0	4	131,679	4.72
40,001 - 50,000	1	40,700	0	0	1	40,700	1.46
50,001 - 100,000	4	285,456	0	0	4	285,456	10.23
100,001 - 1,000,000	4	658,885	1	393,400	5	1,052,285	37.72
over 1,000,000 shares	0	0	0	0	0	0	0
	<b>1,111</b>	<b>2,349,327</b>	<b>14</b>	<b>440,811</b>	<b>1,125</b>	<b>2,790,138</b>	<b>100.00</b>

There were 1,002 resident and 11 non-resident shareholders as at December 31, 2000.

Analysis of Shareholders	December 31, 2001			December 31, 2000		
	No. of Shareholders	Total Holdings	%	No. of Shareholders	Total Holdings	%
Individuals	1,027	1,187,023	42.54	930	815,498	35.07
Institutions	98	1,603,119	57.46	83	1,509,617	64.93
	<b>1,125</b>	<b>2,790,142</b>	<b>100.00</b>	<b>1,013</b>	<b>2,325,115</b>	<b>100.00</b>

As per the Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at December 31, 2001 was 88.92% (89.04% as at December 31, 2000)

### 3. Twenty largest Shareholders as at December 31, 2001

#### Ordinary Voting Shares

Name of the Shareholder	2001		2000	
	No. of Shares	%	No. of Shares	%
DFCC Bank	11,611,881	29.77	9,676,568	29.77
Sri Lanka Insurance Corporation Ltd.	9,588,072	24.58	7,990,060	24.58
Sri Lanka Insurance Corporation Ltd. - Life Fund	2,079,151	5.33	1,671,026	5.14
Distilleries Company of Sri Lanka Ltd.	896,991	2.30	747,493	2.30
Ceylon Petroleum Corporation	748,800	1.92	624,000	1.92
Bank of Ceylon	719,120	1.84	560,000	1.72
Readywear Industires Ltd.	523,159	1.34	435,966	1.34
Bank of Ceylon A/c - CeyBank Unit Trust	451,711	1.16	425,226	1.31
Hongkong & Shanghai Banking Corporation Ltd. (Nat. Eq. Fund)	428,354	1.10	363,962	1.12
Lloyds TSB Bank PLC-Chelmsford S/A Aberdeen Asian Smaller Companies invest.	345,000	0.88	287,500	0.88
Lloyds TSB Bank PLC - Chelmsford S/A Aberdeen Emerging Economies invest.	288,000	0.74	240,000	0.74
Leesha Anne Captain	277,200	0.71	-	-
National Development Bank - A/c No. 3	253,132	0.65	394,944	1.22
Hongkong & Shanghai Banking Corporation Ltd. (Comtrust. Eq. Fund)	224,475	0.58	187,063	0.58
The Central Finance Co. Ltd.	205,702	0.53	175,419	0.54
Hongkong & Shanghai Banking Corporation (Pyramid Unit Trust)	183,860	0.47	48,550	0.14
Sholi Edulji Captain	172,710	0.44	42,425	0.13
Hatton National Bank Ltd.	167,020	0.43	180,850	0.56
Bil-berdeen Global Asian Equity Fund	141,600	0.36	135,000	0.42
Freudenberg Shipping Agencies Ltd.	131,360	0.34	92,800	0.29
Total	<b>29,437,298</b>	<b>75.48</b>	<b>24,278,852</b>	<b>74.70</b>

## Share and Debenture Information

### Ordinary Non-voting Shares

Name of the Shareholder	2001		2000	
	No. of Shares	%	No. of Shares	%
HSBC International Nominees Ltd. - HITL - The Moghul Fund	393,400	14.10	–	–
Sri Lanka Insurance Corporation Ltd.	296,301	10.62	246,918	10.62
Employee Trust Fund Board	139,432	5.00	601,610	25.87
The Central Finance Co. Ltd.	138,132	4.95	115,110	4.95
Chemanex Ltd. - A/c No. 1	104,520	3.75	87,100	3.75
Leesha Anne Captain	86,200	3.09	–	–
Distilleries Company of Sri Lanka Ltd.	74,928	2.69	62,440	2.69
The Associated Newspapers of Ceylon Ltd.	62,479	2.24	52,066	2.24
Hongkong & Shanghai Bk. Corporation Ltd.	61,849	2.22	51,541	2.22
Paints and General Industries (Exports) Ltd.	40,700	1.46	–	–
MJF Exports Ltd.	37,440	1.34	31,200	1.34
Indumathi Renuka Rajiyah	32,760	1.16	27,300	1.17
Lambert Maasiri Maalyn Dias	31,279	1.12	26,066	1.12
Ceylinco Securities and Financial Services Ltd.	30,200	1.08	–	–
Dickowita Kankanamge Weeratunga	27,000	0.97	20,000	0.86
Hi-Line Trading (Pvt.) Ltd.	22,500	0.80	–	–
William Ryan Herbert Perera	20,859	0.75	3,283	0.14
Mackwoods Ltd.	20,700	0.74	–	–
Interplast Asia Ltd.	18,720	0.67	18,600	0.67
R.A. Stone	16,400	0.59	–	–
<b>Total</b>	<b>1,655,799</b>	<b>59.34</b>	<b>1,343,234</b>	<b>57.64</b>

### 4. Market Value of Shares

	2001 Rs.	2000 Rs.
<b>Ordinary Shares</b>		
<b>Voting:</b>		
Highest	155.00	120.00
Lowest	70.50	70.50
Year end	127.00	93.00
<b>Non-Voting:</b>		
Highest	130.00	84.75
Lowest	55.00	57.00
Year end	90.00	68.00
<b>Preference Shares:</b>		
Highest	(Not	–
Lowest	traded during	–
Year end	the year)	–

### 5. Information on Debentures

	Fixed Interest Rate		Floating Interest Rate	
	2001 Rs.	2000 Rs.	2001 Rs.	2000 Rs.
<b>5.1 Market Value of Debentures</b>				
Highest	925.00	950.00	900.00	(Not
Lowest	800.25	900.00	800.00	traded
Year end	925.00	950.00	900.00	during
	(As at 26/11/01)	(As at 02/10/00)	(As at 03/10/01)	the year)

## Share and Debenture Information

	Fixed Interest Rate		Floating Interest Rate	
	2001 Rs.	2000 Rs.	2001 Rs.	2000 Rs.
<b>5.2 Interest Rates</b>				
Coupon Rate	<b>13.50%</b>	13.50%	<b>15.31%</b>	14.61%
Effective Annual Yield	<b>14.20%</b>	14.20%	<b>16.21%</b>	15.43%
* Floating coupon rate equivalent to the weighted average yield of the three months Government of Sri Lanka Treasury Bills plus 1% p.a. is payable quarterly subject to a maximum of 16% p.a. and a minimum of 12% p.a. These were the coupon rates paid for the respective quarters ending December 31.				
<b>5.3 Interest Rate of Comparable Government Security</b>				
Interest Rate of Comparable Government Security	<b>14.40%</b>	18.71%	<b>14.60%</b>	18.71%
<b>5.4 Other Ratios</b>				
Interest yield as at date of last trade	<b>15.35%</b>	14.95%	<b>18.65%</b>	(Not
	<b>(As at 26/11/01)</b>	(As at 02/10/00)	<b>(As at 03/10/01)</b>	traded
Yield to Maturity of last trade	<b>19.08%</b>	16.08%	<b>23.07%</b>	during
	<b>(As at 26/11/01)</b>	(As at 02/10/00)	<b>(As at 03/10/01)</b>	the year)
	<b>2001</b>	<b>2000</b>		
Debt Equity Ratio (%)	<b>8.56</b>	9.91		
Interest Cover (Times)	<b>14.77</b>	14.94		
Quick assets Ratio (%)	<b>27.72</b>	27.22		

## 6. Market Capitalisation

Market capitalisation of the Bank which is the number of ordinary shares in issue multiplied by the market value of a share was Rs. 5,204 million as at December 31, 2001 (Rs. 3,181 million in 2000). This accounted for 4.20% (3.59% in 2000) of the total Market Capitalisation of the Colombo Stock Exchange and ranked number 03 (number 04 in 2000) among the listed public companies.

## 7. Dividends

<b>On Ordinary Shares</b>	<b>2001</b>	<b>2000</b>
Interim paid	<b>14%</b>	14%
Final proposed/paid	<b>31%</b>	31%
Total	<b>45%</b>	45%

On Cumulative Redeemable Preference Shares - 13% payable for the period September 21, 2001 to December 31, 2001.

## 8. Share Trading

<b>Ordinary Shares</b>	<b>2001</b>	<b>2000</b>
No. of transactions	<b>3,051</b>	2,305
No. of shares traded	<b>5,455,656</b>	2,362,400
Value of shares traded (Rs.)	<b>553,907,417</b>	242,462,525

Cumulative Redeemable Preference Shares were not traded during the year.

## 9. Financial Ratios

Key financial ratios are given in the "Decade at a Glance" on page 95.

## 10. Investments

The details of investments in shares of Subsidiary/Associate Companies are given on page 93.

# Eighty One Years

## Tradition

- 1920** - The Eastern Bank Ltd. opened a branch office at Chatham Street, Colombo.
- 1939** - The branch office of the Eastern Bank, situated at Chatham Street, was shifted to the previous Commercial Bank, City Office premises, situated at 57, Sir Baron Jayatillake Mawatha.
- 1957** - The share capital of Eastern Bank Ltd. was acquired by the Chartered Bank.
- 1969** - The Commercial Bank of Ceylon Ltd. was duly incorporated in Sri Lanka (then Ceylon) with Eastern Bank holding 40% of its equity.  
The business of the Colombo branch of the Eastern Bank was acquired by the Commercial Bank of Ceylon Ltd.
- 1971** - The business of the Eastern Bank Ltd. was taken over by the Chartered Bank.
- 1972** - Two new branches were opened at Galewela and Matale.
- 1973** - A new branch was opened at Matara. The business of the Galle, Jaffna and Kandy branches of the Mercantile Bank Ltd. was acquired by the Bank.
- 1974** - Two new branches were opened at Wellawatte and Kollupitiya.
- 1975** - The Chartered Bank transferred its business to Standard Chartered Bank. A new branch was opened at Kotahena.
- 1979** - The Foreign Currency Banking Unit was formed in order to promote Off-shore banking business.
- 1980** - The Bank promoted a property development company, namely Commercial Development Company Ltd., to construct a Headquarters building for the Bank. The Bank enjoyed 40% equity participation in this company.
- 1981** - A new branch was opened at Negombo.
- 1983** - A new branch was opened at Hikkaduwa.
- 1984** - The Headquarters of the Bank was shifted to "Commercial House", 21, Bristol Street, Colombo 1, bringing the operation of the Head Office to a centralised location.  
The Bank embarked on a computerisation programme which would progressively cover the entire branch network.  
A new branch was opened at Hingurakgoda.
- 1985** - The Foreign Department of the Bank was elevated to the status of a fully-fledged branch. This move completed the reorganisation process whereby three independent offices representing City Office, Foreign Branch and Head Office were created by segregating the different operations.
- 1986** - A new branch was opened at Kurunegala.
- 1987** - An associate company, Commercial Insurance Services (Private) Ltd., was formed in which the Bank enjoyed 40% equity participation.  
The Eastern Bank Ltd. changed its name to Standard Chartered (UK) Holdings Ltd.
- 1988** - A new branch was opened at Maharagama. An associate company, Commercial Leasing Company Ltd. was formed.
- 1990** - Three new branches were opened at Nugegoda, Borella and Kegalle.  
Automated Teller Machines were installed at the Foreign, Borella, Nugegoda, Kotahena and Kollupitiya branches.  
An associate company, Equity Investments Lanka Ltd. was formed.
- 1991** - Two new branches were opened in the Katunayake Free Trade Zone and Narahenpita.  
An Associate Company, Commercial Stock Brokers (Private) Ltd. commenced operations. The Bank enjoyed 40% equity participation in this company.

## Eighty One Years Tradition

- 1992** - Seven new branches were opened at Pettah, Battaramulla, Mutwal, Wennappuwa, Koggala, Embilipitiya and Galle.
- The Bank sponsored a Fund Management Company, Commercial Fund Management (Pvt) Ltd. for the purpose of operating unit trusts. The first unit trust was launched in March 1992. The Bank enjoyed 50% equity participation in this company.
- 1993** - Introduction of International Comprehensive Banking System (ICBS) linking nine metropolitan branches.
- Three new branches were opened at Kandana, Maradana and Akuressa.
- An Automated Teller Machine was installed at Wellawatte Branch.
- 1994** - Three new branches were opened at Minuwangoda, Keyzer Street and Panadura and they were linked to the International Comprehensive Banking System.
- Automated Teller Machines were installed at City Office, Minuwangoda, Keyzer Street, Panadura, Maradana and Battaramulla branches.
- Religious ceremonies were held and a special bonus of one month's salary was paid to mark the 25th Anniversary.
- 1995** - Two new branches were opened at Aluthgama and Kaduwela and they were linked to the ICBS. The existing branches at Kurunegala, Mutwal and Pettah were also linked to the ICBS.
- Automated Teller Machines were installed at Aluthgama, Kaduwela, Kurunegala, Mutwal and Pettah branches.
- 1996** - Five new branches were opened at Old Moor Street, Katugastota, Nuwara Eliya, Chilaw and Gampaha and they were linked to the ICBS network. The existing branches at Galle City, Matara, Negombo, Matale, and Katunayake (FTZ) were also linked to the ICBS. Automated Teller Machines were installed in these branches except in Katunayake (FTZ).
- Increased the shareholding in Commercial Development Company Ltd. to 94.55% through a share swap.
- 1997** - Eight new branches were opened at Ratmalana, Kirulapone, Union Place, Colombo 7, Ratnapura, Kuliyaipitiya, Badulla and Anuradhapura. The existing branches at Kandy, Kandana, Maharagama, Hikkaduwa, Wennappuwa and Kegalle were also linked to the ICBS. Automated Teller Machines were installed in these branches and in Katunayake (FTZ) branch.
- Standard Chartered Bank sold its 40% stake in the Bank in the following manner:
- |                                |       |
|--------------------------------|-------|
| To DFCC Bank                   | 29.5% |
| Through Colombo Stock Exchange | 5.5%  |
| To an Employee Share Trust     | 5.0%  |
- Shares allotted to the Employee Share Trust in turn were sold to the employees under an Employee Share Option Scheme.
- 1998** - 365 day branch at Colombo 7 Branch was opened. Sophisticated on line banking system which permits clients to conduct a variety of banking transactions through their personal telephone, personal computer or laptop was installed. All branches except Jaffna were linked to the ICBS.
- 1999** - Banking and supermarketing were combined by opening the first "MiniCom" at the Staples Street Cargills Food City outlet. Rated as the Best Bank in Sri Lanka by Global Finance.
- 2000** - Launched Internet Banking. 5 new branches, 4 Customer Service Points and 2 MiniCom outlets were opened. Rated as the Best Bank in Sri Lanka by Global Finance for the second consecutive year.
- 2001** - Received SL AA+ rating from Fitch Ratings Lanka Ltd. Rated as the Best Bank in Sri Lanka by Global Finance for the third consecutive year. Selected as the Bank of the Year by The Banker Magazine. Opened the 100th branch at Kaduruwela and the Gold Trading Unit at the Foreign Branch.



## Branch Network

### Akuressa

No. 119, Deniyaya Road.  
Tel: 041-83144, 041-83146  
Fax: 041-83145

### Aluthgama

No. 335, Galle Road.  
Tel: 034-75391, 075-580072  
Fax: 034-75394

### Ambalangoda

No. 26, Galle Road.  
Tel: 075-456767-9  
Fax: 075-456770

### Ambalantota

No. 129, Tissa Road.  
Tel: 047-23818-9  
Fax: 047-23817

### Anuradhapura

No. 249, Main Street,  
Rex Building, Bank Site.  
Tel: 025-23597-9  
Fax: 025-23596

### Avissawella

No. 56, Yatiyantota Road.  
Tel: 036-31301, 036-31303-4  
Fax: 036-31302

### Baddegama (CSP)

No. 115/1, Galle Road.  
Tel: 09-92151-3  
Fax: 09-92154

### Badulla

No. 225, Modern Complex,  
Modern Street.  
Tel: 055-30581, 055-30583-4  
Fax: 055-30582

### Balangoda

No. 27, Haputale Road.  
Tel: 045-86719, 045-86697,  
045-86747  
Fax: 045-86700

### Bandaragama (CSP)

No. 38/1, Panadura Road.  
Tel: 038-90361, 038-90363-4  
Fax: 038-90362

### Bandarawela

No. 260/2, Dharmawijaya  
Mawatha.  
Tel: 057-32655-6  
Fax: 057-32654

### Battaramulla

No. 15, Kaduwela Road.  
Tel: 867916-7, 875390  
Fax: 867521

### Borella

No. 265, Ward Place,  
Colombo 8.  
Tel: 687051-3, 670984-5  
Fax: 687052

### Chilaw

No. 52, Colombo Road.  
Tel: 032-22966-7  
Fax: 032-22957

### City Office

No. 98, York Street,  
Colombo 1.  
Tel: 448296, 432113,  
424787-8  
Fax: 326442

### Colombo 7

No. 209, Dharmapala  
Mawatha.  
Tel: 698201, 698200  
Fax: 698199

### Dambulla

No. 1/23, Kurunegala Road.  
Tel: 066-84934-5  
Fax: 066-84950

### Dehiwela

No. 85, Galle Road.  
Tel: 722312, 722315  
Fax: 722311

### DFCC Bank - (CSP)

No. 73, W A D Ramanayake  
Mawatha, Colombo 2.  
Tel: 305577, 305560  
(Ext. 208)  
Fax: 381351

### Duplication Road

405, R.A De Mel Mawatha,  
Colombo 3.  
Tel: 075-376346-6, 505220  
Fax: 075-376444

### Ekala (CSP)

“Regents Court”  
218, Minuwangoda Road.  
Tel: 240051, 075-355572  
Fax: 240050

### Embilipitiya

No. 7, 7/1, Middeniya Road.  
Tel: 047-30258-9  
Fax: 047-30258

### Foreign Branch

“Commercial House”  
No. 21, Bristol Street,  
Colombo 1.  
Tel: 445010-13, 430420,  
328193-5

### Galewela

No. 49/57, Matale Road.  
Tel: 066-89351  
Fax: 066-89265

### Galle City

No. 130, Main Street, Galle.  
Tel: 09-34356  
Fax: 09-34467

### Galle Fort

No. 22, Church Street.  
Tel: 09-34377, 09-32223  
Fax: 09-42770

### Gampaha

No. 19, Queen Mary’s Road.  
Tel: 033-24136-7  
Fax: 033-24135

### Grandpass

No. 507, Prince of Wales  
Avenue, Colombo 14.  
Tel: 451601-2  
Fax: 451603

### Hikkaduwa

No. 217, Galle Road.  
Tel: 09-77397-8, 075-450170  
Fax: 09-77397

### Hingurakgoda

No. 44 & 45, Air Port Road.  
Tel: 027-46395  
Fax: 027-46022

### Homagama (CSP)

No. 100, High Level Road,  
Tel: 895128-9, 895126  
Fax: 895127

### Horana

No. 75, Ratnapura Road.  
Tel: 034-61900-1, 034-61899  
Fax: 034-61902

### Ja-Ela

No. 140, Negombo Road.  
Tel: 243612, 243615  
Fax: 243613

### Jaffna

No. 474, Hospital Road  
Tel: 021-2176  
Fax: 021-3148

### Kadawatha

No. 143/B, Kandy Road.  
Tel: 921454, 921456-7  
Fax: 921455

### Kaduruwela

No. 411, Main Street.  
Tel: 027-25730-2  
Fax: 027-25733

### Kaduwela

50 B/C, Avissawella Road.  
Tel: 571084, 571090  
Fax: 571091

### Kalutara

No. 302, Galle Road.  
Tel: 034-21600-2  
Fax: 034-21603

### Kandana

No. 54, Negombo Road.  
Tel: 232081-2  
Fax: 236013

### Kandy

No. 120, Kotugodella Veediya.  
Tel: 08-223217, 08-234392-3  
Fax: 08-222440

### Katugastota

No. 184, Madawela Road.  
Tel: 08-499836  
Fax: 08-498476

### Katunayake Air Port Office

Arrival Lounge of the  
Bandaranaike International  
Airport.  
Tel: 256449

### Katunayake FTZ Branch

Unit No. 15, GCEC Plaza  
Complex, FTZ.  
Tel: 253254, 253256, 253258  
Fax: 253253

### Kegalle

No. 186, Kandy Road.  
Tel: 035-30232, 035-22034  
Fax: 035-30231

### Keyzer Street

No. 32, Keyzer Street,  
Colombo 11.  
Tel: 336770, 336773-4  
Fax: 336772

### Kiribathgoda

137, Kandy Road.  
Tel: 909954, 909956-7  
Fax: 909955

### Kirulapone

No. 94-A, Pamankada Road.  
Tel: 074-511170, 599731  
Fax: 074-511171

### Kochchikade (CSP)

No. 42, Main Street.  
Tel: 031-76085, 031-70687  
Fax: 031-76088

### Kohuwala (CSP)

No. 12, Sunethradevi Road.  
Tel: 769600, 769601, 769603  
Fax: 769602

### Koggala

No. H/8, Export Promotion  
Zone,  
Galle Road.  
Tel: 09-83485  
Fax: 09-83388

## Branch Network

### **Kollupitiya**

No. 285, Galle Road,  
Colombo 3.  
Tel: 573546, 577281, 577620  
Fax: 575448

### **Kotahena**

No. 198, George R. De Silva  
Mawatha, Colombo 13.  
Tel: 323874, 341171, 323471  
Fax: 431613

### **Kuliyapitiya**

No. 74, Hettipola Road.  
Tel: 037-81642, 037-81644  
Fax: 037-81643

### **Kurunegala**

No. 4, Suratissa Mawatha.  
Tel: 037-24092, 037-24556-7  
Fax: 037-22749

### **Kurunegala - MiniCom Centre**

C/o Cargills Food City,  
No. 44, Negombo Road,  
Kurunegala.  
Tel: 037-20254  
Fax: 037-20255

### **Maharagama**

No. 108A, High Level Road.  
Tel: 850505, 844915  
Fax: 851232

### **Maharagama - MiniCom Centre**

C/o Cargills Food City,  
No. 75, Dehiwela Road,  
Maharagama.  
Tel/Fax: 075-556918-19

### **Majestic City - MiniCom Centre**

C/o Cargills Food City,  
No. 10, Station Road,  
Colombo 4.  
Tel/Fax: 507865

### **Malabe (CSP)**

No. 838, Kaduwela Road.  
Tel: 762815-7  
Fax: 762818

### **Maradana**

No. 524, Maradana Road,  
Colombo 10.  
Tel: 699195 Fax: 699133

### **Matale**

No. 70, King Street.  
Tel: 066-31870, 066-22485  
Fax: 066-22204

### **Matara**

No. 18, Station Road.  
Tel: 041-24443-4  
Fax: 041-24445

### **Matugama**

No. 38, Kalutara Road.  
Tel: 034-49470-2  
Fax: 034-49473

### **Mawanella**

No. 51, Kandy Road.  
Tel: 035-47884, 035-47886-7  
Fax: 035-47885

### **Minuwangoda**

No. 42, Samarakkody Mawatha.  
Tel: 296221, 296223  
Fax: 252309

### **Mirigama**

No. 93, Giriulla Road.  
Tel: 033-74312-3  
Fax: 033-74314

### **Moratuwa**

No. 116, Old Galle Road.  
Tel: 643084-6  
Fax: 643087

### **Mount Lavinia (CSP)**

No. 295, Galle Road.  
Tel: 737100, 737074, 737075  
Fax: 737067

### **Mutwal**

No. 677, Aluthmawatha Road,  
Colombo 15.  
Tel: 522553, 522559  
Fax: 522557

### **Narahenpita**

No. 201, Kirula Road,  
Colombo 5.  
Tel: 502425, 500305  
Fax: 502490

### **Narammala**

No. 77, Kuliyapitiya Road.  
Tel: 037-49917  
Fax: 037-49916

### **Nattandiya**

No. 62, Marawila Road.  
Tel: 032-55173, 032-55171  
Fax: 032-55172

### **Nawalapitiya**

No. 92 - 92 1/1,  
Gampola Road.  
Tel: 054-23960-2  
Fax: 054-23963

### **Negombo**

No. 24, 26, Fernando Road.  
Tel: 031-22217, 031-33955  
Fax: 031-33403

### **Nikaweratiya**

No. 48 E, Heelogama Road.  
Tel: 037-60704-6  
Fax: 037-60707

### **Nittambuwa**

No. 127/B, Kandy Road.  
Tel: 033-90549-50  
Fax: 033-90551

### **Nugegoda**

No. 100, Stanley Tillekaratne  
Mawatha.  
Tel: 810942-3, 827772  
Fax: 810944

### **Nugegoda - MiniCom Centre**

C/o Cargills Food City,  
No. 240, High Level Road,  
Colombo 6.  
Tel/Fax: 817039

### **Nuwara-Eliya**

No. 36, Park Road.  
Tel: 052-23761, 052-23763  
Fax: 052-23762

### **Old Moor Street**

No. 442/A, Old Moor Street,  
Colombo 12.  
Tel: 345554-5, 345579  
Fax: 345575

### **Panadura**

No. 383, Galle Road.  
Tel: 038-34169, 038-36808  
Fax: 038-34167

### **Panchikawatte**

No. 240, 242, Panchikawatte  
Road, Colombo 10.  
Tel: 542184-6  
Fax: 542187

### **Peradeniya (CSP)**

No. 935/1, Peradeniya Road.  
Tel: 08-386447-8  
Fax: 08-386446

### **Pettah**

No. 180/1/31,  
People's Park Shopping  
Complex, Colombo 11.  
Tel: 446290, 074-712643  
Fax: 449594

### **Pettah - Main Street**

No. 280, Main Street, Pettah,  
Colombo 11.  
Tel: 380491-2  
Fax: 380943

### **Piliyandala**

No. 7, Old Road.  
Tel: 604265, 604267-8  
Fax: 604266

### **Rajagiriya**

No. 1444/A, Kotte Road.  
Tel: 884024-5  
Fax: 884023

### **Ratmalana**

No. 381, Galle Road.  
Tel: 738125, 715513  
Fax: 715514

### **Ratnapura**

No. 408, 410, Main Street.  
Tel: 045-23659, 045-30354-5  
Fax: 045-30356

### **Seeduwa**

No. 791, Jayalath Plaza  
Building, Negombo Road.  
Tel: 256571-2  
Fax: 256573

### **Sri Lanka Ins. Cor. (CSP)**

No. 21, Vauxhall Street,  
Colombo 2.  
Tel/Fax: 075-338884

### **Staples Street - MiniCom Centre**

C/o Cargills Food City,  
No. 21, Staples Street,  
Colombo 2.  
Tel/Fax: 307388

### **Thalawathugoda (CSP)**

No. 7, Suramya Building.  
Tel: 877550-2  
Fax: 577553

### **Trincomalee**

No. 191, Central Road.  
Tel: 026-24420-2  
Fax: 026-24423

### **Union Place**

No. 1, Union Place,  
Colombo 2.  
Tel: 074-710536-7, 300380-1  
Fax: 300382

### **Vavuniya**

No. 14, 2nd Cross Street.  
Tel: 024-22956  
Fax: 024-22955

### **Wattala**

No. 503, Negombo Road.  
Tel: 938751-2  
Fax: 938750

### **Wellawatte**

No. 343, Galle Road,  
Colombo 6.  
Tel: 586097, 592627,  
555379-80, 583556  
Fax: 502490

### **Wenappuwa**

No. 262, 264, Colombo Road.  
Tel: 031-55552-3  
Fax: 031-55551

### **Yakkala (CSP)**

No. 182, Kandy Road.  
Tel: 033-31106, 033-31108-9  
Fax: 033-31107

## Correspondent Banks

COUNTRY	NAME & ADDRESS OF THE BANK
<b>AUSTRALIA</b>	National Australia Bank 11/120 Spencer Street, Melbourne Victoria 3000 - Australia.
<b>BELGIUM</b>	Fortis Bank NV/SA Montagne DU PARC3 B-1000, Brussels, Belgium.
<b>CANADA</b>	Canadian Imperial Bank of Commerce Int'l Dept: Head Office Commerce Court, Toronto M5L 1H1, Canada.
<b>DENMARK</b>	Uni Bank A/S Copenhagen, P.O. Box 850, DK-0900, Copenhagen C, Denmark.
<b>FRANCE</b>	Credit Lyonnais, C.O.E.75898, 7, Rue Charles Paradinas, 92583 Clichy Cedex, France.
<b>GERMANY</b>	Bayerische Hypo Und Vereins Bank A.G. D-80311 Muenchen, Germany.  Commerz Bank A.G. ZTB BC Mitte 6.4, Mainzer Landstrasse 277-293, 60261, Frankfurt AM Main, Germany.  Vereins Und West Bank A.G. Alter Wall 22, 20454 Hamburg 11, Germany.  West Deutsche Landes Bank Girozentrale-P.O. Box D40199 Dusseldorf, Germany.
<b>HONG KONG</b>	Standard Chartered Bank 9th Floor, 4/4A, Des Voeux Road, Central, Hong Kong.

COUNTRY	NAME & ADDRESS OF THE BANK
<b>ITALY</b>	Banca Commerciale Italiana Int'l Money Transfer Dept. Piazza Della Scala 6, 20121 Milano, Italy.
<b>MALAYSIA</b>	Standard Chartered Bank Malaysia Berhard No. 2, Jalan Ampang P.O. Box 11001, Kuala Lumpur 507332, Malaysia.
<b>NETHERLANDS</b>	Algemene Bank of Netherlands 32, Vijzelstraat, P.O. Box 669, Amsterdam, Netherlands.  ING Bank P.O. Box 1800 1000 BV, Amsterdam, Netherlands.
<b>NEW ZEALAND</b>	Bank of New Zealand P.O. Box 2392, 1, Willis Street, Wellington, New Zealand.
<b>NORWAY</b>	Den Norske Bank Stranden 21 0021, Oslo, Norway.
<b>SAUDI ARABIA</b>	The National Commercial Bank International Banking Division, Banking Relations, 20th Floor, P.O. Box 3555, Jeddah, 21481 Saudi Arabia.
<b>SINGAPORE</b>	Standard Chartered Bank 6, Battery Road, 7th Storey, Singapore 049909.
<b>SWEDEN</b>	Skandinaviska Enskilda Banken Utlandsreskontran Stockholm-S 106 40, Sweden.
<b>SWITZERLAND</b>	Union Bank of Switzerland - AG P.O. Box CH-8098, Zurich, Switzerland.

## Correspondent Banks

COUNTRY	NAME & ADDRESS OF THE BANK
<b>UNITED STATES OF AMERICA</b>	American Express Bank Limited 300, Boulevard East, Weehawken, NJ 7086, U.S.A.
	Bankers Trust Company P.O. Box 318, Church Street Station, New York NY 10008, U.S.A.
	Bank of America NT & SA International Deposit Services, 1850 Gateway BL VD 6th Floor, Concord CA 94520, U.S.A.
	Chase Manhattan Bank International Division 4, New York Plaza, New York NY 10015, U.S.A.
	HSBC Bank U.S.A. 500, Stanton Christiana Road, Newark Delaware 19713 NY-U.S.A.
	Standard Chartered Bank 1, Evertrust Plaza, Suite 1101, 11th Floor, Jersy City, New Jersey 07302, U.S.A.
	Citi Bank N.A. 111, Wall Street, 19th Floor, New York 10043 U.S.A.
<b>UNITED KINGDOM</b>	Standard Chartered Bank City Office, Grace Church Street, Branch No. 37, Grace Church Street, London EC3V OBX UK.

COUNTRY	NAME & ADDRESS OF THE BANK
<b>ACU DOLLAR "NOSTRO" Accounts</b>	
<b>BANGLADESH</b>	Rupali Bank Limited Head Office Int'l Div. 34 Dilkusha Commercial Area Dhaka, Bangladesh.
<b>IRAN</b>	Bank Melli Iran Int'l Dept Corres. Banking, P.O. Box 11365-171 Ferdowzi Avenue Teheran, Iran.
<b>INDIA</b>	American Express Bank Ltd. 187, Mount Road Chennai 600 006, India.
	Canara Bank Foreign Dept., Spencer Towers, 770-A, Anna Salai, P.O. Box 3715, Madras 600 002, India.
	Standard Chartered Bank 23-25, Mahatma Gandhi Road, P.O. Box 558, Mumbai 400 001, India.
<b>PAKISTAN</b>	Bank of Ceylon 252-A, Sarwar Shaheed Road, Saddar-Karachi Pakistan.
	National Bank of Pakistan Foreign Exchange Accounts Wing, Foreign Exchange Division, Head Office, Karachi.
	Habib Bank Limited Foreign Exchange Branch, Karachi 21.

# Glossary of Financial & Banking Terms

## 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.

## 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.

## Capital Adequacy Ratios

The relationship between capital and risk weighted assets as defined in the framework developed by the Bank for International Settlements and as modified by the Central Bank of Sri Lanka to suit local requirements.

## Capital Employed

Sum total of liabilities and shareholders' funds.

## 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.

## 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.

## Dealing Securities

Marketable securities that are acquired and held with the intention of reselling them in the short-term.

## Dividend Cover

Earnings per ordinary share divided by dividend per ordinary share.

## 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.

## Earnings per Ordinary Share

Profit after taxation and after dividend on Preference Shares 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 divided by the profit before taxation.

## Finance Lease

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

## 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.

## 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 and Investments.

## Gross Dividends

The portion of profits distributed to the shareholders including the tax withheld on non-resident shareholders.

## Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owning a debt if that person fails to perform.

## 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.

## Interest in Suspense

Interest suspended on non-performing loans and advances.

## Glossary of Financial & Banking Terms

### **Interest Margin**

The difference between the average interest rate earned and the average interest rate paid.

### **Investment Properties**

Land and buildings that are not occupied substantially for use by or in the operations of the Bank.

### **Investment Securities**

Securities acquired and held for yield or capital growth purposes and are usually held to maturity.

### **Liquid Assets**

Cash and cash equivalents.

### **Loan Losses and Provisions**

Amounts set aside against possible losses on loans, advances and other credit facilities as a result of their becoming partly or wholly uncollectable.

### **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.

### **Net Assets Value per Ordinary Share**

Shareholders' funds excluding Preference Shares divided by the number of ordinary shares in issue.

### **Net Dividends**

Dividends net of withholding tax on non-resident shareholders.

### **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.

### **Price Earnings Ratio**

Market price of a share divided by earnings per share.

### **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.

### **Return on Average Shareholders' Funds**

Profit after tax divided by the average shareholders' funds.

### **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.

### **Return on Average Assets**

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.

### **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.

### **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.

### **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 debt.

### **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 of Meeting

Notice is hereby given that the **Thirty-Third Annual General Meeting** of Commercial Bank of Ceylon Ltd. will be held at the 9th Floor of the Union Place Branch of the Bank, No.1, Union Place, Colombo 2, on Wednesday, March 27, 2002 at 2.30 p.m. for the following purposes:

1. To receive, consider and adopt the Report of the Directors and the Financial Statements for the year ended December 31, 2001 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.
4. To re-appoint Messrs. KPMG Ford, Rhodes, Thornton & Company as Auditors and authorise the Board of Directors to determine their remuneration.
5. To authorise the Board of Directors to determine donations for 2002.

By Order of the Board

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

February 25, 2002  
Colombo

### **Notes:**

1. *A member entitled to attend/vote at the Meeting is entitled to appoint a proxy to attend/vote in his/her stead and a Proxy need not be a member of the Company.*
2. *A Form of Proxy is found at the end of 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.*
3. *It is proposed to post the Dividend Warrants on March 27, 2002.*



## Form of Proxy

I .....

of .....

being a member of the above-mentioned Company hereby appoint:

Mr. Mahendra Jayanthipal Chandima Amarasuriya	whom failing
Mr. James Selvanathan Mather	whom failing
Mr. Amitha Lal Gooneratne	whom failing
Dr. Henry Shelton Wanasinghe	whom failing
Mr. Bentotage Robert Lakshman Fernando	whom failing
Mr. Michael Lloyd Mack	whom failing
Mr. Anthony Nihal Fonseka	whom failing
Mr. Pelenage Amarasinghe	whom failing
Mr. Sumith Abeysinghe	whom failing

..... of .....

as my proxy to represent me and \* .....  
to vote for me on my behalf at the Thirty-Third Annual General Meeting of the Company to be held on the 27th day of  
March 2002 and any adjournment thereof and at every poll which may be taken in consequence thereof.

In witness my hand this ..... day of ..... Two Thousand Two.

.....  
Signature

\* If you wish your proxy to speak at the meeting you should insert the words "to speak and" in the place indicated with an asterisk and initial such insertion.

- Notes:
- (i) Instructions as to completion of this Form of Proxy are given on reverse.
  - (ii) Shareholders of non-voting shares are entitled to speak only.
  - (iii) The stamp duty payable on this Form of Proxy has been paid by the Company in terms of Section 13 of the Stamp Duty Act No. 43 of 1982.

## Form of Proxy

### **Instructions as to Completion of Form of Proxy**

(i) Article 67 of the Articles of Association of the Company provides that:

“ The instrument appointing a proxy shall be in writing, and

- (a) in the case of an individual shall be signed by the Appointor 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 and address of the proxy and of the shareholder appointing the proxy 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, “Commercial House”, No. 21, Bristol Street, Colombo 1, not less than 48 hours before the time appointed for the holding of the meeting.

**Name of Company**

Commercial Bank of Ceylon Ltd.

**Legal Status**

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.

**Registered Office**

“Commercial House”,  
No. 21, Bristol Street, P.O. Box 856,  
Colombo 1, Sri Lanka.

Telephone : 445010-15 (6 lines) 328193-5 (3 lines)

430420, 336700

Telegraphic Address : COMBANK

Telex : 21520 COMEX CE; 21274 COMBANK CE;

21898 COMFEX CE; 22384 COMFX CE;

23375 COMTLX CE.

Facsimile : 941-449889

SWIFT Code : CCEYLK LX

E-mail : email@combank.net

Website : www.combank.net

**Company Registration Number**

PBS 600

**Tax Payer Identification Number (TIN)**

124006007

**Auditors**

KPMG Ford, Rhodes, Thornton & Company,  
Chartered Accountants,  
32A, Sir Mohamed Macan Markar Mawatha, P.O. Box 186,  
Colombo 3, Sri Lanka.

**Lawyers**

Julius & Creasy,  
No. 41, Janadhipathi Mawatha,  
Colombo 1, Sri Lanka.

**Company Secretary**

Mrs. R.R. Dunuwille

