



COMMERCIAL BANK

ANNUAL REPORT 2002



# Financial Goals & Achievements

Financial Indicator		2002	2001	2000	1999	1998
Return on Average Assets (%) (after tax)	Over 2	1.82	1.86	2.05	1.72	1.90
Return on Average Shareholders' Funds (%)	Over 20	17.12	17.95	20.09	16.21	16.20
Growth in Gross Income (%)	Over 20	1.96	34.56	28.49	19.25	5.24
Growth in Net Profit after Tax (%)	Over 20	19.21	7.91	42.14	11.33	8.84
Growth in Assets Employed (%)	Over 20	24.02	19.22	18.44	21.13	25.04
Dividend Rate (%)	Over 40	50.00	45.00	45.00	40.00	40.00
Capital Adequacy Ratios:						
Tier I (%)	Over 10	14.94	15.72	14.97	14.90	15.53
Tier I & II (%)	Over 15	15.07	16.20	16.62	17.14	18.45

## Contents

Operating Highlights and Performance	2	Cash Flow Statement	60
Chairman's Message	5	Statement of Changes in Equity	62
Board of Directors	8	Significant Accounting Policies	63
Managing Director's Report	11	Notes to the Accounts	72
Corporate Management	14	US Dollar Accounts:	
Senior Management	15	Income Statement	100
Management Discussion		Balance Sheet	101
and Analysis	17	Subsidiary/Associate Companies	102
Social Impact Report	24	Graphical Review of a Decade	103
Risk Management	43	Decade at a Glance	104
<b>Financial Reports</b>		Share & Debenture Information	106
Directors' Report	50	Eighty Two Years Tradition	110
Directors' Responsibility for		Branch Network	112
Financial Reporting	55	Correspondent Banks	114
Audit Committee Report	56	Glossary	116
Auditors' Report	57	Subject Index	118
Income Statement	58	Notice of Meeting	119
Balance Sheet	59	Form of Proxy	<b>Enclosed</b>
		Corporate Information	<i>Inner Back Cover</i>

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

Our **Mission** to be

THE Largest



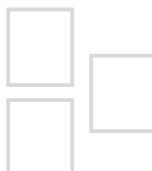
Strongest



Most Profitable & Innovative  
Financial Services Group

109 Branches; 143 ATMs

Pre-tax Profit Rs. 1,525 Mn.  
Post-tax Profit Rs. 1,204 Mn.



"Best Bank in Sri Lanka 1999, 2000, 2001 and 2002" *Global Finance*

"Bank of the Year in Sri Lanka 2001 and 2002" *The Banker*

SL AA+ *Fitch Ratings Lanka Ltd.*

Overall National Award for HRM

No. 1 Corporate - *Business Today*

Best presented Accounts 2001 (Financial Sector) *SAFA*



## Operating Highlights & Performance - 2002

- The Bank recorded a **pre-tax profit of Rs. 1,525.014 million for 2002**. This was an increase of Rs. 200.047 million over the previous year's pre-tax profit of Rs. 1,324.967 million and represents a 15.10% growth over the 2001 figure.
- The Bank's **post-tax profit for 2002 was Rs. 1,204.014 million**. This represented a growth of 19.21% or Rs. 194.047 million over the previous year's figure of Rs. 1,009.967 million.
- **Deposits grew by 17.88%** to reach Rs. 54,584.518 million.
- **Advances grew by 27.88%** to reach Rs. 55,548.535 million.
- **The growth rates of both deposits and advances are expected to be higher than the industry average.**
- The Bank continued to grant **new loan facilities to the Maldivian customers.**
- **The Return on Total Average Assets (ROA) was 2.30% (before tax) and 1.82% (after tax).**
- The Bank's **Cost/Income Ratio was 55.46%** in 2002 against 55.27% in 2001.
- **The Non-Performing Loan Ratio (NPL) improved to 8.42% from 9.95% in 2001.**
- The Bank's **capital buffer-equity capital in relation to total assets - was 9.34%**, expected to be the highest in the local banking industry.
- The Bank had a **free capital of Rs. 3,783.990 million** at the end of 2002.
- **Capital Adequacy Ratios stood at 14.94% and 15.07% respectively for Tier I and Tier I & II** as at December 31, 2002.
- **All of the 109 branches are linked on-line by a state-of-the-art information technology system.**
- The Bank has decided to recommend a **final dividend of 32%** in addition to the interim dividend of 18% paid in December 2002.

## Operating Highlights & Performance - 2002

	2002 Rs. Mn.	2001 Rs. Mn.	Change %
<b>Results for the year</b>			
Gross Income	<b>8,364.190</b>	8,203.122	1.96
Net Profit before Income Tax	<b>1,525.014</b>	1,324.967	15.10
Income Tax on Profits	<b>321.000</b>	315.000	1.90
Net Profit after Taxation	<b>1,204.014</b>	1,009.967	19.21
Revenue to the Government	<b>501.647</b>	838.072	(40.14)
Gross Dividends	<b>326.803</b>	220.989	47.88
Unappropriated Profit carried forward	<b>0.778</b>	1.566	(50.32)

### At the year end

Shareholders' Funds (Capital and Reserves)	<b>7,754.657</b>	6,744.881	14.97
Deposits from Customers	<b>54,584.518</b>	46,305.769	17.88
Gross Advances to Customers	<b>55,548.535</b>	43,437.134	27.88
Capital Employed	<b>73,351.715</b>	59,145.979	24.02

### Information per Ordinary Share

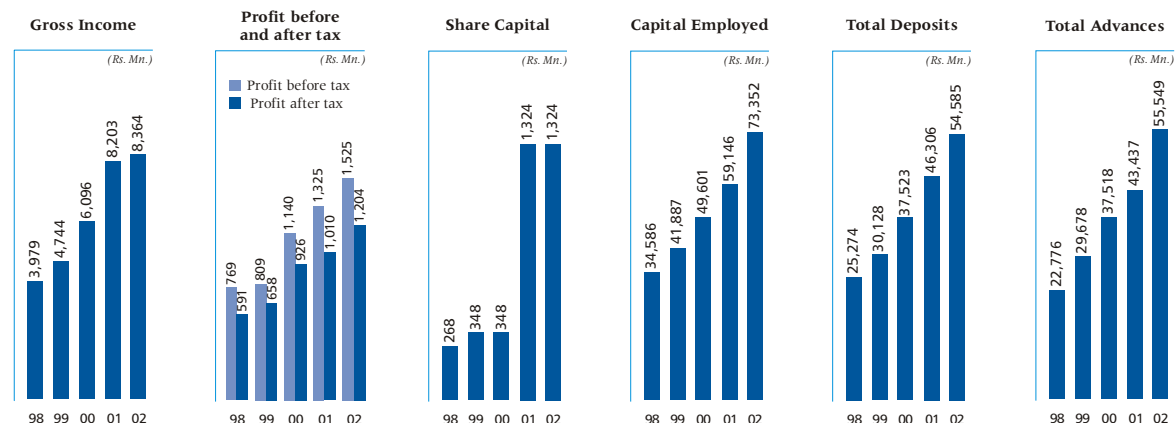
Earnings (Rs.)	<b>25.99</b>	23.38	11.16
Dividends (Rs.)	<b>5.00</b>	4.50	11.11
Net Assets Value (Rs.)	<b>163.87</b>	139.71	17.29
Market Value at the year end - voting (Rs.)	<b>200.00</b>	127.00	57.48
Market Value at the year end - non-voting (Rs.)	<b>145.00</b>	90.00	61.11

### Ratios

Return on Average Shareholders' Funds (%)	<b>17.12</b>	17.95	(4.62)
Return on Average Assets (%)	<b>1.82</b>	1.86	(2.15)
Price Earnings (times) - Ordinary voting shares	<b>7.70</b>	5.43	41.80
Price Earnings (times) - Ordinary non-voting shares	<b>5.58</b>	3.85	44.94
Year on year growth in Earnings (%)	<b>19.21</b>	7.91	42.86
Year on year growth in Dividends (%)	<b>11.11</b>	-	-
Dividend Yield (%) - Ordinary voting shares	<b>2.50</b>	3.54	(29.38)
Dividend Yield (%) - Ordinary non-voting shares	<b>3.45</b>	5.00	(31.00)
Dividend Cover (times)	<b>5.20</b>	5.20	-
Liquid Assets (%)	<b>27.88</b>	27.72	0.58

### Capital Adequacy Ratios

Tier I (%)	<b>14.94</b>	15.72	(4.96)
Tier I & II (%)	<b>15.07</b>	16.20	(6.98)





“Your Bank is today, hailed not only as the Best Bank  
in Sri Lanka, but also as the No. 1  
corporate in the Country.”

## Chairman's Message

### **The No. 01 Corporate in Sri Lanka**

2002 results provided a handsome bouquet to the numerous awards and accolades conferred on Commercial Bank. Group Post Tax Profit soared by over 25% to top the Rs. 1.3 billion mark. Growth of Deposits and Advances too once again outperformed the Industry to record around 18% and 28% respectively. We lead the Industry with the best Cost/Income ratio of 55.46% and a non-performing loans ratio of 8.42%.

Your Bank is today, hailed not only as the Best Bank in Sri Lanka, but also as the No. 1 corporate in the Country. Commercial Bank was voted the "Best Bank in Sri Lanka" for the fourth consecutive year by 'Global Finance' and "Bank of the Year in Sri Lanka for 2002" for the second consecutive year by 'The Banker'. These awards are a testimony to the international acceptance received by Commercial Bank as being a member of an exclusive league of world-class banks.

In 2002 Fitch Ratings re-confirmed the SL AA+ national rating for implied long-term unsecured senior debt of Commercial Bank. This rating has highlighted the unique position enjoyed by Commercial Bank for the past three years, as the Bank that carries the highest credit rating given to any bank operating in Sri Lanka.

South Asian Federation of Accountants (SAFA) too recognised the Bank's excellence in reporting, by awarding Commercial Bank Annual Report 2001 the first place in the financial sector, in the competition for the Best Presented Accounts Award.

### **The best people in the Industry**

The key factor behind our success has been the Bank's highly motivated and dynamic team. Commercial Bank's Human Resource policies are carefully designed to bring out the best in our team. The Bank won the Overall National Award for Human Resource Management (HRM) at the Country's first ever National HRM awards competition (2002) organized jointly by the Association of Human Resource Professionals together with the Institute of Personnel Management and the Postgraduate Institute of Management.

### **Returns to shareowners**

An interim dividend of 18% was paid last December. Considering the excellent performance of the Bank, the Board recommends the payment of a further 32% to enhance the total dividend to 50% compared to 45% last year. Whilst having maintained a consistent dividend record over the years, the Bank has also been prudent in retaining sufficient profits for expansion and growth. Thus net assets per share has grown by over 17% to record Rs. 163.87. Your share continues to be much sought after in the Colombo bourse.

### **Expanding our reach and our range**

During 2002, Commercial Bank, added nine outlets to its growing network.

In keeping with the Government's efforts at reviving the North and the East, Commercial Bank enabled the people of Jaffna to utilise modern banking facilities when the Bank opened Jaffna's 1st and the Bank's 118th ATM in April 2002.

We introduced a new savings product, namely DotCom Spin Junior Saver, for those between 10-15 years of age, stepped

## Chairman's Message

up our leasing operations and enhanced the accessibility of our ATMs to cardholders who belong to PLUS, VISA and VISA Electron networks.

Recognizing the strategic role that Small and Medium Enterprises can play in the economy of Sri Lanka, Commercial Bank functions as a Participating Credit Institution (PCI) in the refinance programme where the Government of Sri Lanka has obtained a credit line from the Asian Development Bank (ADB) under the Small and Medium Enterprises Sector Development Programme (SMESDP). The funds obtained by Commercial Bank under this programme are disbursed through the Bank's medium term industrial lending product 'DIRIBALA', as 'Diribala Sahanya Development Loans'.

Taking advantage of the recent budget proposals and to harness the opportunities in the growing Information Technology sector, the Bank incorporated a new company by the name and style of ONEzero Limited. This company will engage in the business of providing IT related services to Commercial Bank as well as other corporates.

Although we are very well spread in Sri Lanka, the fact is that our asset portfolio is still heavily exposed to the Sri Lankan economy. Whilst the need to reduce this dependence is great, the initial steps we took in exploring the growth opportunities in the region have shown us that there are no easy and quick ways if we are to move into the region in a prudent and sustainable manner. We have to explore a plethora of opportunities before we find the right one. Work in this respect is on-going.

### **We laud Central Bank's initiatives**

In my review last year, we welcomed several strategies initiated by the Central Bank aimed at revitalising the economy. These

measures bore fruit and resulted in a more favourable movement of interest and better management of exchange rates during the year.

Central Bank Repo and the Reverse Repo rates (which are benchmark interest rates), were reduced further during the year. We believe that Central Bank is also moving in the direction of bringing down the statutory reserve ratio further and has got the Monetary Law Act amended to enable bringing down the statutory reserve ratio below the previous minimum permissible level of 10%. Such a move will have a positive effect on bringing down interest rates further. The low interest rate regime will give a great fillip towards the growth of the economy. The challenge for banks will then be to manage the interest spread... but the growth prospects for banks brought about through a more robust and larger economy will far out weigh this challenge.

### **An Economy in balance**

The low interest rate regime and the apparent financial discipline instilled in the Public Sector are no doubt conducive to business confidence, investment and growth. However, success of the peace process and political stability are the main factors that can tip the scales.

Amidst this fine balance in the domestic economy, much uncertainty prevails in the world outside too. An escalation of tension in the Middle East, or outright war, could pose major problems for the economy of Sri Lanka. Additionally, delay in the recovery of the international economy or a reversion to a recession, could also have serious negative consequences on the economy of Sri Lanka.

A major challenge for Government and the corporate sector alike is to win the confidence of the masses despite the hostilities posed by



## Chairman's Message

these uncertain times. In this context it is important for the Government as well as the private sector to find ways and means of tackling the spiraling cost of living through better distribution, minimisation of waste and enhanced production and productivity while providing a safety net for the poorest sections of our populace.

### Stewardship

We are conscious of our stewardship towards all stakeholders. Traditionally companies have reported only to their shareholders. This year we have gone beyond this tradition to report in some detail on how the activities of the Bank have had an impact on the well being of our employees, the wider public and the physical environment. So this year while we report on our 'financial' bottom line, we have identified a number of other 'bottom lines' or social indicators on which we have provided information. This is referred to as 'triple bottom line' or 'sustainability reporting'.

### Prospects for 2003

Notwithstanding the wide extremes that the domestic as well as international economic environments could usher and the corresponding impact it would have on our fortunes in 2003, the introduction of a new Value Added Tax (VAT) in the last budget proposals will have an adverse impact on our profitability in 2003. This newly introduced VAT on licensed Commercial Banks is computed at the rate of 10% on the total gross emoluments payable to all employees and the net profit before tax. We estimate our cost of this additional VAT to be in the region of Rs. 250 million for 2003. Thus, even if the external environment remains as it was in 2002, it will be a major challenge to post a growth in profits.

The Government abolished Turnover Tax and National Security Levy in 2001 and mid 2002

respectively. Unlike Turnover Tax and National Security Levy, two indirect taxes mostly borne by the customers, the newly introduced VAT payment has to be borne by the Bank and hence affects our profitability adversely.

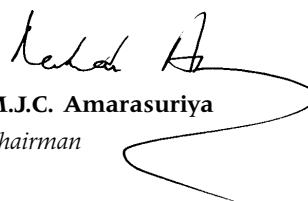
### Future Direction

The Bank is pursuing a multi pronged strategy. In our core banking business we are looking at ways of increasing the contribution from fee based activities. We are also looking at moving into new related lines of business. As explained before, we are earnest in our efforts to reduce our over dependence on the Sri Lankan economy. We are also exploring the many possibilities of the synergies that can come about by working more closely with some of our major shareholders.

### Conclusion

I thank our dedicated and committed team across the Bank led by an exceptional Managing Director and his Corporate Management for completing another outstanding year that has brought us many laurels. We thank our clients for the confidence that they have placed in the Bank and our shareowners for every support that they have extended to us at all times. I thank my colleagues on the Board for their invaluable contribution at Board deliberations.

I look forward to the continued support of all our stakeholders with much expectation.



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

February 21, 2003  
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., and Pelwatte Sugar Industries Ltd., Director, DFCC Bank, Commercial Leasing Company Ltd., Chairman, International Chamber of Commerce. 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, Partner of Ernst & Young from 1966 to 2001 and now a consultant in the Firm. 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. Director, Sri Lanka Airlines Ltd. Member, Financial Sector Reforms Committee, Council Member, The Employers' Federation of Ceylon.



**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 Council of Fellows 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., CIC Fertilizers (Pvt.) Ltd., CIC Seeds (Pvt.) Ltd., CIC Agri-biotech (Pvt.) Ltd. and Non-Executive Chairman of Chemanex Ltd., CIC Paints (Pvt.) Ltd., CISCO Speciality Packaging (Pvt.) Ltd., Rangers Group (Pvt.) Ltd., Nimble Sports (Pvt.) Ltd., 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 of Ceylon Ltd., Trustee of The Employers' Federation of Ceylon Ltd. Possesses extensive experience of finance and commerce.

### **M.L. Mack**

Appointed to the Board of Commercial Bank on October 31, 1997. Currently, the Chairman of the DFCC Bank, Director of 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 DFCC Stockbrokers (Pvt.) Ltd., Lanka Industrial Estates Ltd., Lanka Ventures Ltd. and National Asset Management Ltd. Director of Associated Battery Manufacturers (Ceylon) Ltd., Credit Information Bureau of Sri Lanka, Colombo Stock Exchange and Commercial Bank Primary Dealer Ltd. Member, Governing Board, National Institute of Business Management. Member, Deregulation Committee and Financial Sector Reforms Committee.



### **P. Amarasinghe**

Appointed to the Board of Commercial Bank on March 8, 2001. Currently Chairman of Pronto Lanka (Pvt.) Ltd., Chairman of Transnational Lanka Records Solutions (Pvt.) Ltd., Chairman of Transnational Logistics Solutions (Pvt.) Ltd., Vice Chairman of Sarvodaya Economic Enterprises Development Services (GTE) Ltd., Director of Sri Lanka Insurance Corporation Ltd., Director of Equity Investments Lanka Ltd., Director of Management Services Rakshana (Pvt.) Ltd. and a Member of the Board of Management of Postgraduate Institute of Management, University of Sri Jayawardenapura. Previously, Deputy Governor of the Central Bank (February 1995 to July 2000), and Chairman of the Institute of Bankers of Sri Lanka, and Chairman of the 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, with B.A. Hons. (Econ) Cey., and M.A. (Econ) Mc Master, Canada.



### **S. Abeyasinghe**

Appointed to the Board of Commercial Bank on June 18, 2001. Director General, Department of National Budget, Ministry of Finance and also a Director of Sri Lanka Tea Board and Sri Jayawardenepura General Hospital as a Treasury Nominee.



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

Attorney-at-Law, Chartered Secretary (UK)



“ Commercial Bank exceeded expectations  
yet again. 2002 was another year of  
happy returns and still another feather in our cap. ”

## Managing Director's Report

### **Many Happy Returns Again**

Commercial Bank exceeded expectations yet again. 2002 was another year of happy returns and still another feather in our cap. Gross income grew by 1.96% to reach Rs. 8,364.190 Mn. and pre tax profit grew by 15.10% to Rs. 1,525.014 Mn. After tax profit was Rs. 1,204.014 Mn. up by 19.21% over the 2001 figure. Group performance was even better with pre-tax profit of Rs. 1,703.870 Mn. recording a growth of 19.86% and after tax profit of Rs. 1,312.547 Mn. recording a growth of 25.40%.

Net interest income and fee and commission income grew by 22.71% and 29.62% respectively. Deposits grew by 17.88% to Rs. 54,584.518 Mn. and gross advances grew by 27.88% to Rs. 55,548.535 Mn.

All these figures were once again above the average industry performance showing that Commercial Bank is still running ahead of the pack.

Good results only help to invigorate us. Every aspect of our business is reviewed. New challenges are identified, new targets established and the team begins to push even harder at the wheel. It is a Bank that is highly adaptable to change.

The International Finance Corporation (IFC) has expressed interest in investing in the ordinary shares of the Bank. This shows the level of confidence placed by them in the future of the Bank. It is only in a few occasions that the IFC has invested in the capital of existing companies in Sri Lanka.

### **Customer Friendly**

Our customers come from all walks of life, from all ages and from every type of entrepreneurial activity. We count among our customers, professionals, big business people, farmers and public servants. Among them are grandparents and infants, men and women, the big time industrialist and the small time shop owner.

At the end of 2002 we had over 1 million customers, no mean achievement for any bank, in a country with a population only of around 19 million. Every month some 12,000 new customers begin to bank with us.

Customers come to us for different things. Some come to invest money, others to borrow money. Some come to invest in Government securities, others to seek custody for their jewelry and valuables. Still others look for leases, overdrafts, project financing, export and import financing, credit cards and an array of advisory services. Others just need to conveniently access their money for their daily needs.

Depositors from provident funds to Government corporations to housewives feel comfortable in a private bank like ours to deposit their money.

Our customers are also not limited to within our shores. We also have off-shore customers. From hoteliers and traders in the Maldives to Sri Lankans residing overseas who maintain NRFC accounts with us.

Whatever the transaction and the customers' needs, we have tried to build long term relationships. It is through these relationships that we have come to understand our customers and build value for them. We believe that we give our customers a world class banking service through a computer-linked network of 109 branches and 143 ATMs, the largest ATM network in Sri Lanka. The Bank has also reached out to its ever-increasing clientele through many other customer friendly delivery channels such as Internet Banking, Telephone Banking, ComSMS etc.

40% of our customers have been with us for over 5 years. Of them 18% have been with us for over 10 years. Each of these relationships, whether 15 years old, or 15 weeks old, is equally important.

## Managing Director's Report

### **Profits are not assured - they have to be earned**

The greatest imperative cast on us is to manage our business well so that we can give our customers peace of mind.

Our core business, as with any commercial bank, is accepting deposits and lending money. Money lent must earn an interest in excess of the interest we have to pay for the deposits we accept. This is our main source of revenue. In banking parlance we refer to this as our fund based activity and although the returns are healthy, it is a high risk activity. Thus profits are a product of prudence, judgment and accuracy in reading markets than a matter for chance. For instance, we have to match the maturities of lending and maturities of funding. A less than optimal match can cost dearly in profits. We have an Assets and Liabilities Committee that constantly monitors our lending portfolio and advises the Bank on the appropriate balance it should strike. Reading the market is very important in taking the right positions. Perception of exchange rate movement and interest rate movement and taking timely decisions would result in earning profits.

Our management is also challenged on a daily basis to make decisions on which facilities to take and which to turn down. The business we do not take is as important as the business we take. In the last three years we turned down a number of facilities, which were taken by others, who then suffered a loss as a result.

Apart from fund based activities the Bank has been expanding its fee based activities. Bank guarantees, merchant banking, restructuring activities, and legal work, are some of our fee based activities. The returns are less and so is the risk. Over the last few years we have progressively been expanding these activities with a view to striking an appropriate balance between our major sources of revenue.

Our third major source of revenue is 'foreign exchange profit'. This is the income that is generated from all our foreign currency activities. Despite the contribution from this source coming down in 2002 due to the stability of the exchange rates, it still accounted for 10.47% of our total income.

We ultimately carry a variety of risks; credit risk, interest rate risks, foreign exchange risk... the list goes on... and it boils down to how we manage these risks. A detailed report on this aspect appears on pages 43 to 47.

Several key strategic decisions over the past few years have also contributed towards enhancing our profitability. A few years ago we placed a bulk order for ATM's when no other bank would have placed a bulk order to the tune of 100 machines. Through this we got huge bulk discounts and capital allowances. We now earn a substantial amount through levying a charge from other banks who want to use our ATM network.

We have also managed to keep our cost structure in control. Among other things, costs have been kept down by outsourcing several utility services and non-core banking activities. The likes of telephone operators, drivers and office assistants have been outsourced. Even banking inspectors have been outsourced to five big audit firms. Today we have the best Cost/Income ratio standing at 55.46% in the entire banking industry in Sri Lanka.

We created a new breed in the banking industry by giving recognition to the banking profession by making our new recruits have to go through a period of internship. This has helped boost productivity across the Bank. Non executive cadres have been trimmed and executive staff are now target driven and more focussed.

We have also identified and developed a number of new profit centers like our Human Resource Division which provides training to many other companies. Our recent link with

## Managing Director's Report

the Asian Institute of Technology (AIT) in Bangkok will enhance our training capability.

For Commercial Bank it is not profits at any costs. Rather we have focussed on enhancing the long term sustainability of the Bank, building value for our shareholders, our employees and the wider community. We believe that our activities must be driven by ethical business practices and a sense of responsibility to all our stakeholders.

### **Our Responsibility to all our Stakeholders**

In this report we have addressed in much greater detail our responsibility to the wider community. We see the entire community as having a stake in the stability and future of the Bank. Our business interests are linked crucially to the well being of the community in which we function. The well being of the community is also linked vitally to the stability of institutions such as ours. As a result of this we have decided to address in some depth in this year's report how our activities have supported the larger public. This acknowledgement of our responsibility to the wider stakeholding public is part of a global trend in corporate reporting and Commercial Bank is proud to be one of the first Sri Lankan companies to endorse this new corporate responsibility.

We are proud that we are one of the largest taxpayers in the Country and therefore an important source of revenue for the Government. During the year we have paid Rs. 501.647 Mn. to the Government by way of Income Tax, National Security Levy and Debits Tax. Our staff salaries are at the top end of the banking industry scale and we now have in place an innovative training scheme for our employees. We believe that our staff must be provided with training and appropriately remunerated and our staff and wage policies reflect this.

We have been cautious in recovering outstanding loans. We make every possible attempt to encourage our customers to settle

their dues before proceeding with legal action. This attitude is reflected in the number of legal actions instituted for the recovery of loans. Although the Board has adopted 211 resolutions for the auction of clients' properties over the past 10 years, only 22 resolutions were enforced through legal action. We have done this while maintaining the best 'non performing ratio' among local banks.

### **Sustainability and Success**

Our continuing high performance has been guided by a commitment to reducing costs, maintaining high credit quality, prudent risk management and an astute analysis of market trends. Our high performance has also been guided by ethical and sustainable profit generation and a responsibility to the wider public.

Our human resource base is our most precious asset and the performance of the Bank is a reflection of the energy, commitment and vision of our human resource team. I take this opportunity to record my appreciation of their efforts in maintaining the Bank's premier position.

On behalf of the Bank I would like to thank the Governor and other officials of the Central Bank. I would also like to thank the Chairman and the other members of the Board for their guidance and advice.

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 21, 2003

# Corporate Management

## Corporate Management

1. A.L. Gooneratne  
*(Managing Director)*
2. G.L.H. Premaratne  
*(Deputy General Manager - Corporate Banking)*
3. R. Samaranyake  
*(Deputy General Manager - Finance & Planning)*
4. W.M.R.S. Dias  
*(Deputy General Manager - Personal Banking)*
5. M.N.J. Jayaratne  
*(Deputy General Manager - Human Resource Management)*
6. M.D.A. Peiris  
*(Deputy General Manager - Information Technology)*
7. B.H.M.G. Dharmasiri  
*(Asst. General Manager - Corporate Banking)*
8. M.A.Pemasiri  
*(Asst. General Manager - Services)*
9. H.W.J.P. Peiris  
*(Asst. General Manager - International)*
10. S.D. Bandaranayake  
*(Asst. General Manager - Operations)*
11. Delip Fernando  
*(Asst. General Manager - Inspection)*
12. P.V. Ratnapala  
*(Asst. General Manager - Personal Banking I)*
13. D.S. Weeratunga  
*(Asst. General Manager - Treasury)*
14. V. Sirinivasan  
*(Asst. General Manager - Personal Banking II)*



## Senior Management

15. K.D.Nimal Luxshman  
*(Senior Regional Manager - Colombo Inner)*
16. Raja Senanayake  
*(Head of Finance & Planning)*
17. Jegan Durairatnam  
*(Head of Imports)*
18. Prasad Samarasinghe  
*(Head of Information Technology)*
19. S. Raghavan  
*(Head of Exports)*
20. Vimal Fernando  
*(Senior Regional Manager - Colombo South)*
21. Mrs. Marion Abeywardena  
*(Head of Corporate Banking)*
22. Claude Perera  
*(Chief Manager - Human Resource Management)*
23. Mrs. R.K. Jayawardene  
*(Chief Manager - Legal)*
24. Mrs. Carmelita De Silva  
*(Chief Manager - Corporate Banking I)*
25. Palitha Narangoda  
*(Chief Manager - Treasury)*
26. Chandana Gunasekera  
*(Regional Manager - North Colombo)*
27. D.N.F. Perera  
*(Chief Manager - Recoveries)*
28. Mrs. H.V.S. Jayamaha  
*(Chief Manager - Corporate Banking III)*
29. Palitha Perera  
*(Chief Manager - Operations)*
30. Richard Rodrigo  
*(Chief Manager - Marketing)*
31. Gamini Wijesinghe  
*(Chief Manager - Lease Promotion)*
32. Mrs. Sandra Walgama  
*(Regional Manager - North Western)*
33. C.M. Abeysekera  
*(Chief Manager - Corporate Banking)*





# Senior Management



# Corporate Banking



## PRODUCTS

- 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

## CORE COMPETENCIES

- Expertise on trade finance and corporate credit
- 82 years tradition of dealing with corporates
- State-of-the-art technology
- Flexible products

## FUTURE STRATEGIES

- 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

# Management Discussion and Analysis

## Corporate Banking

The Corporate Banking Division comprises of the Foreign Branch and the Off-shore Banking Centre of the Bank. This Division caters mainly to the banking needs of the large to medium size corporate customers with its expertise on Trade Finance, Project Financing, Leasing, Factoring, Working Capital Financing etc. In order to provide convenience to the customers, the Foreign Branch located at the Head Office extended its service hours from 3.00 p.m. to 4.00 p.m.

With a view to extending the learning culture beyond the Bank, the Corporate Banking and Treasury Divisions of the Bank successfully conducted a joint awareness programme on Treasury and Corporate Services for the corporate customers of the Bank. Over 250 corporate customers participated in this programme.

Corporate Banking continued to make a significant contribution to the Bank's profitability and accounted for a 62% of the Bank's gross loans and advances portfolio and 23% of the deposit base.

The following table summarises its contribution:

	2002		2001	
	Rs. Mn.	%	Rs. Mn.	%
Profit before Tax	653.025	42.82	557.000	42.04
Loans and Advances (Gross)	34,264.268	61.68	26,049.859	59.97
Deposits	12,429.518	22.77	11,888.948	25.67

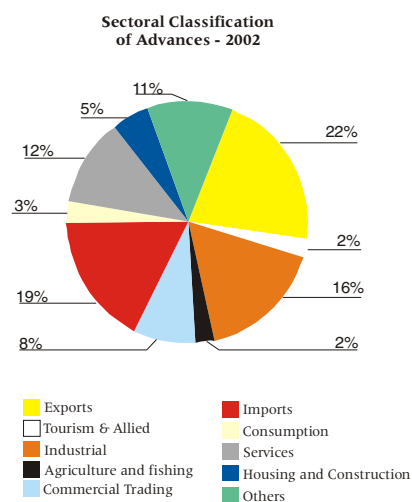
The Corporate Banking Division reported an increase of 31.53% in its Loans and Advances portfolio during the year 2002 mainly due to increased lending to Government institutions following the relaxation of restrictions imposed by the Government in 2001 and increased lending to the existing and new Maldivian customers. The overall optimism in the country which led to increased economic

activity also resulted in an increased demand for credit by the business community. The increase in lending to Maldivian customers reduced the Bank's over-dependence on Sri Lankan economy.

With a view to providing maximum convenience to the customers, the Corporate Banking Division commissioned several new ATMs at selected customer locations for the benefit of the staff at these locations and the general public.

Despite the increase in the Loans and Advances portfolio, the non-performing Loans Ratio of the Bank was brought down to 8.42% as at December 31, 2002 from 9.95% a year earlier. This was sound reflection on credit appraisal procedures and strengthened post sanction monitoring mechanisms of the Bank.

Bullion trading business that the Bank commenced in 2001 consolidated its operations during 2002 and made significant contributions towards the revenue of the Bank. The business volumes saw a significant increase with the introduction of several new gold-based products to the customers during the year. Factoring business volumes too increased substantially during the year.



# Personal Banking



## PRODUCTS

- 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

## CORE COMPETENCIES

- Computer linked branch network
- Wide range of products
- 'One stop' facilities
- Speedy and friendly service

## FUTURE STRATEGIES

- 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

# Management Discussion and Analysis

## Personal Banking

The Personal Banking Division is responsible for the successful operation of the extensive island-wide network of branches, Customer Service Points (CSPs), MiniCom Centers (Super-Market Bank branches), and ATMs. The Personal Banking Division's focus is the banking needs of personal customers and small & medium businesses.

The traditional brick and mortar branches continue to play an important role in Sri Lankan banking. During 2002, the Bank continued to expand the number of Branches, CSPs, MiniCom Centers and ATMs making Commercial Bank a truly National Bank.

Nine new delivery points were opened during the year. In addition, 34 ATMs were installed throughout the island.

The delivery points opened during the year comprised of five new branches - Ampara, Gampola, Elpitiya, Kamburupitiya and Batticaloa; two CSPs at Nawala, and Palavi; and two MiniComs at Gampaha and Ratnapura.

Additionally, the CSPs at Homagama, Peradeniya and Kochchikade were upgraded to the status of fully-fledged branches. This network, branded ComNet, exhibits great potential and Bank looks at this as one of the big growth areas of the future.

By the end of the year the total network of delivery channels consisted of 89 fully fledged Branches, 13 CSPs, 7 MiniComs and 143 ATMs. The Bank will continue to expand the number of delivery points and ATMs in the network further. The substantial increase in the number of transactions and the volume of cash

disbursed through ATMs bears testimony to the ever-increasing popularity of our ATM network.

The seven Regional Offices made a strong contribution to the performance of the Personal Banking Division during the year by expediting the process of decision making relating to credit and other operations of the branches.

The Personal Banking Division accounted for 77% of the Bank's deposit base and 38% of the gross loans and advances portfolio as at December 31, 2002.

The issue of credit cards under franchise from Master Card International too comes under this division. The Bank commenced the acquiring of Visa transactions in April 2002. Now both, Visa and MasterCards can be used at our ATMs. An Affinity Card for Nalanda College was also issued during the year.

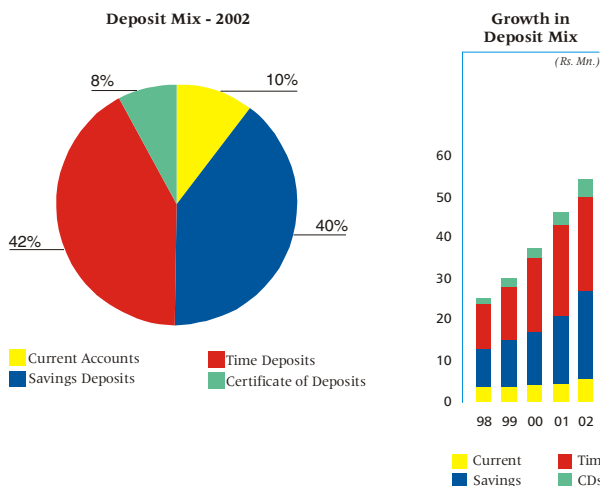
In order to enhance the level of personalised service, the Priority Banking Centre was set up during the year at the Union Place branch building. This Centre offers a preferential and an expeditious service to our high net-worth customers at an exclusive location with convenient parking facilities. The most valued personal banking customers could drive right into the Bank and get priority for all their banking needs at the Priority Lounge. The facilities include an array of exclusive benefits and privileges, befitting the special status and standing of these customers.

New products and services introduced by the Personal Banking Division during the year included the DotCom Spin Junior Saver Account - a high interest savings account coupled with an ATM Card targeting children above 10 years of age.

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

	2002		2001	
	Rs. Mn.	%	Rs. Mn.	%
Profit before Tax	791.511	51.90	740.000	55.85
Loans and Advances (Gross)	21,284.270	38.32	17,387.275	40.03
Deposits	42,155.000	77.23	34,416.821	74.33

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



# Treasury



## PRODUCTS

- Foreign Exchange dealings
- Forward Exchange bookings
- Commercial paper
- Foreign currency swaps
- Interest rate swaps
- Advice on foreign currency market movements

## CORE COMPETENCIES

- Expertise on foreign currency market movements and Asset Management
- Expertise on foreign currency related product development

## FUTURE STRATEGIES

- Developing innovative treasury products
- Streamlining risk management measures
- Developing fee based operations through debt market instruments

# Management Discussion and Analysis

## Treasury

The Treasury operates in the Domestic and International Money, Foreign Exchange and Government Securities Markets to serve the dealing and hedging needs of our customers and to take advantage of arbitrage opportunities, while controlling market and liquidity risk at appropriate levels.

2002 was a very good year for financial markets in Sri Lanka. Both interest and exchange rates behaved in a more rational manner in keeping with the Central Bank's objective of a relaxed monetary policy. During the year under review, Treasury Bills and Treasury Bonds yields eased by about 400 basis points. A similar trend was seen in Money Market interest rates as well.

The Central Bank demonstrated its relaxed monetary policy by adjusting the repo rates on three occasions during the year. (Repo rate was reduced from 12% in January to 9.75% in December). Overall economic activities showed an improved performance with more Import and Export Trade Finance volumes. Although the Sri Lankan rupee depreciated by only 3.7% against the US Dollar during 2002, the rupee depreciated against other major international currencies by between 12.9% and 18.8% due to cross currency movements against the weaker US Dollar.

The Treasury reported a profit before tax of Rs. 80.479 Mn. compared to a profit of Rs.28.000 Mn. reported last year, while maintaining a substantially good transfer price to branches for their borrowings from and lendings to Treasury.

The contribution of the Treasury can be summarised as follows:

	2002		2001	
	Rs. Mn.	%	Rs. Mn.	%
Profit before Tax	80.479	5.28	28.000	2.11
Assets Portfolio	15,740.377	21.46	9,310.832	15.75

Foreign exchange dealers participated actively in spot and forward markets in all major currencies throughout the year.

The dealers provided clients with strategic advice on movements of the money market and currency markets helping them to reduce the adverse effects of

currency movements and enhance their capacity to reap richer dividends from foreign exchange activities.

The Treasury also provided to valued customers through electronic means, information pertaining to currency movements so as to add value to the services provided.

Commercial Bank Primary Dealer Ltd., the 'primary dealer subsidiary' of the Bank, continued 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. In its efforts at 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.229.834 Mn. The Company now ranks as the top primary dealer in terms of profitability among all primary dealers.

For the year 2003, the Treasury is totally committed to responding to the increasingly diversified and sophisticated demands of our clients. One major advance has been to offer even more value by adding electronic services to our clients on a real time basis through our online network of branches. The Treasury will be making arrangements to provide our customers with a similar kind of service via electronic systems in the near future.

With the aim of becoming the leader in market-based products by supplying customers with services of the highest quality in the industry and generating a steady flow of high-level earnings from trading activities by dynamically managing our market positions, the Treasury will continuously increase its expertise in those areas, invest in state-of-the-art information management systems, and enhance its ability to monitor and analyse markets.

Having the necessary infrastructure and ability to deploy it is important. Consequently, the Treasury will continue to upgrade its systems and refine expertise in risk management, compliance, and back-office operations.

# Management Discussion and Analysis

## Information Technology

This year marked a consolidation of the IT systems at the Commercial Bank with the main AS/400 computer undergoing a major upgrade at a cost of around Rs. 100 Mn. This ensures that the AS/400 is capable of handling the increasing workload efficiently for the next few years. The next major task would be an upgrade of the main banking software, the ICBS system, which is scheduled to be carried out during 2003. Our customers would directly enjoy the benefits of these upgrades by way of better response times at counters, at ATMs and with automated services like Internet Banking and Telephone Banking. The new software would provide many additional features, which would help in improving the services offered to the customers.

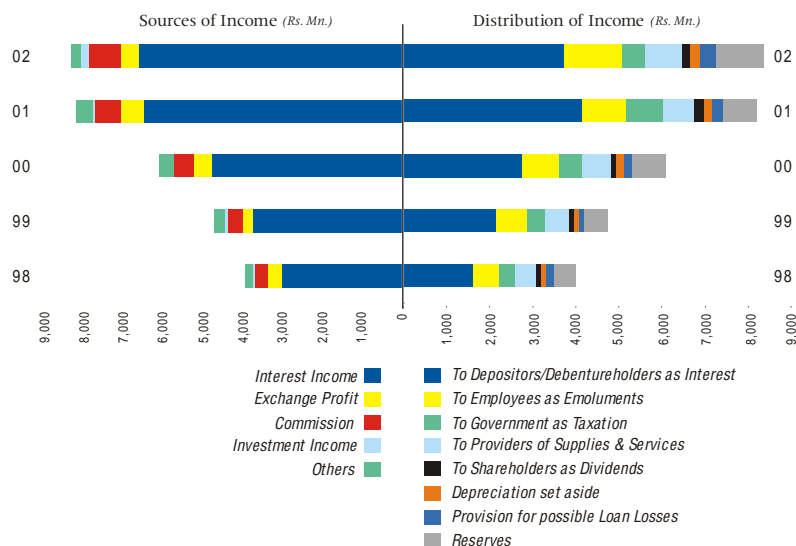
The Bank's Internet Banking solution, Combank Online service was extended to corporate customers during the year. The Combank Online was enhanced with the introduction of additional features like Statement Inquiry and Utility Bill payments.

The Bank is in the process of upgrading the communication lines that link its branches to the Head Office from low speed analogue (9.6 kbps) to high-speed digital (64 kbps). Currently, 35 branches are on high-speed links while 50 more are scheduled to be upgraded during 2003. The increased speed would improve the overall network performance at the branches. The high-speed links would also enable the branches to be a part of the Bank's Intranet and to have direct voice links (using VOIP) with the Head Office. This would bring these branches virtually closer to the Head Office offering a more coherent uni-banking service.

The Bank continues to operate the largest single network in the country with all of its 109 branches and 143 ATMs connected online to the main computer at the Head Office.

This state of the art IT system has helped the Bank in achieving substantial operational efficiency in its activities. This was one of the major factors for the satisfactory Cost / Income Ratio of 55.46% recorded during 2002.

## Sources and Distribution of Income





## Management Discussion and Analysis

### Sources and Distribution of Income

For the year ended December 31,

	2002 Rs. Mn.	2001 Rs. Mn.	2000 Rs. Mn.	1999 Rs. Mn.	1998 Rs. Mn.
<b>Source of Income</b>					
Interest Income	6,613	6,510	4,796	3,762	3,032
Exchange Profit	464	563	421	274	362
Commission Income	824	636	505	359	317
Investment Income	179	55	41	57	55
Others	284	439	333	292	213
	<b>8,364</b>	<b>8,203</b>	<b>6,096</b>	<b>4,744</b>	<b>3,979</b>

### Distribution of Income

To Depositors/Debtentureholders as Interest	3,747	4,174	2,776	2,158	1,605
To Employees as Emoluments	1,312	1,022	819	728	615
To Government as Taxation	579	853	583	406	376
- Income Tax	321	315	214	151	178
- Turnover Tax	-	52	50	39	39
- National Security Levy	257	486	319	216	159
- Debits Tax	1	-	-	-	-
To Providers of Supplies & Services	920	726	640	557	485
To Shareholders as Dividends	327	221	157	139	139
Depreciation set aside	200	181	162	121	124
Provision for possible Loan Losses	402	237	180	116	183
Reserves	877	789	779	519	452
	<b>8,364</b>	<b>8,203</b>	<b>6,096</b>	<b>4,744</b>	<b>3,979</b>

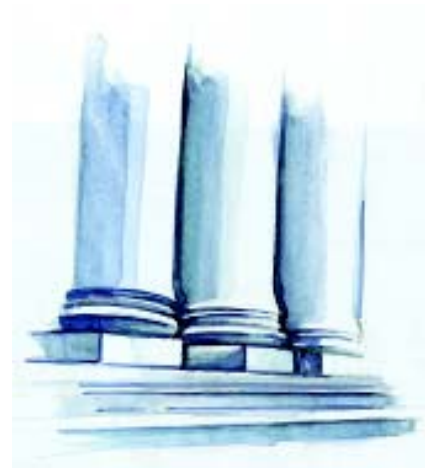
### Future Direction

The strategic direction for the Bank has been clearly identified and laid down in the Corporate Plan and the Budget, which has received the approval of the Board after deliberating on it in-depth. The Corporate Plan and the Budget of the Bank, prepared each year on a rolling basis, spells out the goals and objectives for each major strategic business unit of the Bank such as Corporate Banking, Personal Banking, Treasury etc. It also contains detailed action plans for the achievement of these targets along with specific time frames in keeping with the Vision and Mission of the Bank.

The Corporate Plan and the Budget has contributed to building up the target driven culture across the Bank leading to superior performance in all areas; a proud achievement for the Bank.

Priorities identified in the Corporate Plan to be implemented in the medium term include looking out for new business lines, increasing the contribution from fee based operations, reducing the over dependence on the Sri Lankan economy by venturing overseas, identifying the ways to maximize the synergies and the shareholder value by working in close association with the major shareholders, making the maximum use of the distribution network spanning over 109 Delivery Points and 143 ATMs, growth through business acquisitions etc.

# Social Impact Report



Triple bottom line reporting provides all our stakeholders with an integrated assessment of the company in a financial, social and environmental context.

# Conversing with Our Stakeholders

## Business Interests are linked to Public Interests

For the first time this year, the Commercial Bank has included a comprehensive Social Impact Report. The Report considers in some detail how the activities of the Bank have had an impact on the well being of our employees, the wider public and the physical environment. Traditionally companies have reported only to their shareholders. Shareholders, as investors in a company, have a right to be informed about what the company is doing with their investment.

Commercial Bank is of the view that apart from the shareholders, who are the primary stakeholders, there are other important stakeholders who also have a right to be informed. These stakeholders are principally the employees of the Company and the wider community. Among the wider community are community leaders, human rights groups, business associations, investors, advocacy groups and the citizen. So this year while we report on our 'financial' bottom line, we have also identified a number of other 'bottom lines' or social indicators on which we have provided information. This is frequently referred to as "triple bottom line" or "sustainability reporting".

... apart from the shareholders, who are the primary stakeholders, there are other important stakeholders who also have a right to be informed.

A company's profitability and well being is linked very closely to the community in which it functions. The well being of your Bank is connected intimately with the well being of its customers and the wider public. Similarly the well being of the larger community is also connected to the well being of the corporate community, and in this case specifically to the banking community.

If we are to create a society in which the dignity of individual is respected, creativity and imagination rewarded, and the rights of all people protected, companies must then realise that corporate interests cannot be separated from their corporate responsibilities. Reporting on environmental and social indicators should be as routine as financial reporting.

Reporting on social impact indicators is part of a larger global trend and the Bank as a player in the globalised economy can no longer afford to ignore this trend. We are proud to be one of the first Sri Lankan companies to acknowledge the diverse stakeholder interests in our Company and to respond to public views on how companies should be shaping our common future.

Triple bottom line reporting provides all our stakeholders with an integrated assessment of the company in a financial, social and environmental context. Without this sort of information flow stakeholders are unable to assess what their companies are doing and how their activities impact on the real world.

We hope that this report will help enrich the flow of information between the company and important stakeholder groups. We hope it will enrich the dialogue that is now beginning to take place between these groups and the corporate community.

## Caring for our People - Creating Friendly Workplaces

At the first ever National H.R.M. Award convention the Commercial Bank was selected as the overall winner of the coveted National H.R.M. Award. The citation at the Award Ceremony shows the thinking of the panels of judges.

*"The Company has successfully mastered and applied principles and values of H.R.M. in the key dimension of business and organisation and stays very competitive in the discipline."*



The Bank has always believed that it is the quality of people that makes the real difference in any organisation. A company is only as efficient as its employees. As a result, the Bank has made a concerted effort to create and maintain a winning combination: a well contended, highly motivated, exceptionally productive work force, harmonising corporate business objectives with the needs and aspirations of our staff. During the past decade several strategies have been implemented to develop the human capital in the interest of the Bank as well as the employees concerned.

The business community in Sri Lanka will earn the respect of all stakeholders by promoting human rights, respecting labour laws and environmental standards and engaging in effective and transparent information disclosure.

Key among the growing band of stakeholders is our employees. As a group, employees themselves are

undergoing drastic changes. They now include full time staff, consultants, advisors, contractors, and outsourced partners.

Employee dignity demands a workplace that is comfortable, encouraging, flexible and rewarding. It should provide an environment in which employees can satisfactorily balance their obligations as employee, their duties as family member, and their larger social responsibilities as a citizen.

Our staff salaries are at the top end of the banking industry scale and the Bank is of the view that an appropriate remuneration policy is key to worker productivity. We have adopted a policy that pays sustainable wages to our employees so as to enable them to meet their needs and the needs of their families.

Fundamental to a friendly and dynamic workplace is the absence of discrimination. Reward should be linked to merit and ability. Gender

nor age nor ethnicity nor any other characteristic should be an obstacle to employee satisfaction and mobility. Equal pay for work of equal value is a cornerstone of our employment policy.

Friendly workplaces also demand that core labour standards be observed. Freedom of association, the right to bargain collectively, occupational safety, sensitivities to pregnant women and mothers and non involvement in human rights abuses are some basic labour standards that the Bank has endeavoured to observe at all times.

Beyond the observance of these core standards the Bank has endeavoured to take employee care to new levels. Fundamental to this is the idea of training and support. The Bank has provided employees with the opportunity for continuous training and skills development. We have encouraged the development of new competencies and the refining of existing skills, including team



Training in progress

Building fraternity through sports

learning and motivation. The thrust of our employee support programmes has revolved around preparing employees to be 'change ready and well tuned to the need of the time'.

Our new Banking Trainee Scheme has become a cutting edge training scheme for future bankers. Through this training scheme, managed by the Staff Development Centre (SDC), our Bank moulds future bankers required for the banking industry. Arrangements are made to offer permanent employment to the best Banking Trainees after successful completion of their training.

In 2002 we signed a Memorandum of Understanding with the Asian Institute of Technology to upgrade our training programs. This strategic partnership will enable the Bank to bring high quality premium programmes within easy reach of Sri Lankan corporates. The first programme facilitated by A.I.T experts was conducted in November 2002.

In addition, we are looking at enhancing our strategic partnerships in this area by forging links with other prestigious overseas training institutes in the United States, U.K. and India. Our objective is to establish a truly world class training facility in this country.

The number of outsourced employees has been steadily growing in the Bank. At the end of 2002 we had 152 outsourced staff, the equivalent to 6.3% of our permanent staff. It is expected that this number would further grow in the future. Outsourcing has become a business imperative.

We recently established an outsourcing unit to look after the welfare of the personnel of this category. The unit consistently monitors the terms and conditions of outsourced staff and implements strategies to make them part of the Combank family.

The employee relations unit which has been established to manage employee and industrial relations, welfare services and employee communication continues to provide these services in an effective manner.

Another important aspect was implementing a wide range of activities to develop the 'One Bank One Family' concept. This covers the inter branch / inter-department Quiz Competition, Children's Annual Christmas party, Career Guidance for children of employees, highlighting employees' children's talents in the Bank's publications and wide range of sports events which include inter branch Cricket, Rugby, Netball and Badminton.

The Bank has implemented an effective Grievance Handling Procedure over the past 3 years. Both this and the recently established counselling service have contributed to the improvement of the employer-employee relationship. Whilst the

# Social Impact Report

Grievance Handling procedure provides an opportunity for employees to resolve their grievances, the counselling process has assisted employees to cope up with work related stress and to balance their job related responsibilities with other obligations.

As an initial step a group of employee counsellors have been trained as 'befrienders'. Coping with employment demands and balancing this with other social responsibilities has become a crucial challenge for many workers. The Bank is of the view that responding to the psycho-social aspects of employment are vital if productivity is to be increased and employee satisfaction enhanced. Counsellors will not 'instruct' employees what to do, but rather provide conditions for the employee to arrive at solutions that are acceptable to him or her. All these contribute to our 'One Bank One Family' concept.

The Bank is slowly changing its policy of recruitment and promotion. The Bank is supplementing its written tests and interviews with 'psychometric testing' to ascertain attitudes, motivation and personality traits of employees.

## 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.

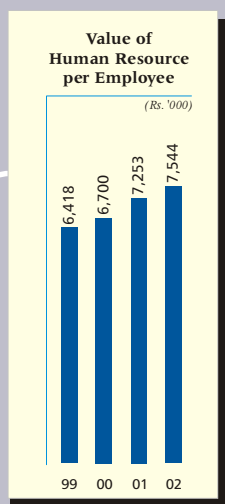
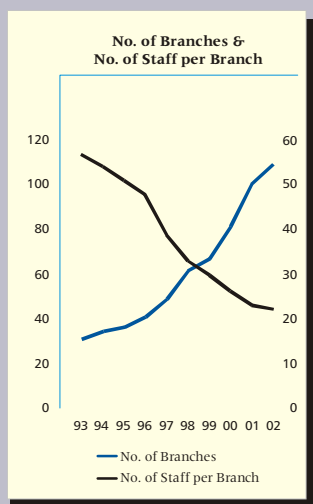
The Lev & Schwartz model has been used to compute the value of the Bank's human resource as at December 31, 2002.

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%.

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

	2000	2001	2002
Employees per branch	24	23	22
Income per employee (Rs. '000)	2,949	3,631	3,486
Profit before tax per employee - (Rs.'000)	556	587	636
Assets per employee (Rs. '000)	24,001	26,160	30,576

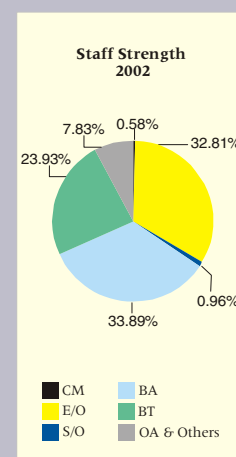


Year	No. of Employees	Total Value of Human Resource Rs. '000	Value of Human Resource per Employee Rs. '000
2002	2,399	18,098,299	7,544
2001	2,259	16,383,868	7,253
2000	2,067	13,849,053	6,700
1999	1,996	12,811,298	6,418

# Social Impact Report

## Staff Strength

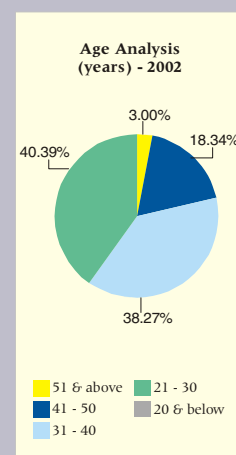
As at December 31,	2002	2001	2000	1999	1998
Corporate Management	14	14	15	12	12
Executive Officers	787	715	564	389	250
Staff Officers and Allied	23	30	89	235	347
Banking Assistants and Allied	813	905	1,017	1,155	1,174
Banking Trainees	574	402	183	-	-
Office Assistants and Others	188	193	199	205	202
<b>Total</b>	<b>2,399</b>	2,259	2,067	1,996	1,985



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

Age Group (Years)	Corporate Mgt.	Executive Officers	Staff Officers & Allied	Banking Asst. & Allied	Banking Trainees	Office Asst. & Others	2002 Total	2001 Total
Above 60	-	1	-	-	-	-	1	1
51 - 60	12	39	-	3	-	17	71	56
41 - 50	2	252	14	92	-	80	440	438
31 - 40	-	420	8	414	7	69	918	831
21 - 30	-	75	1	304	567	22	969	931
20 & below	-	-	-	-	-	-	-	2
	14	787	23	813	574	188	<b>2,399</b>	2,259

Average age of the employees as at December 31, 2002 was 33.9 years (2001 - 33.8 years)

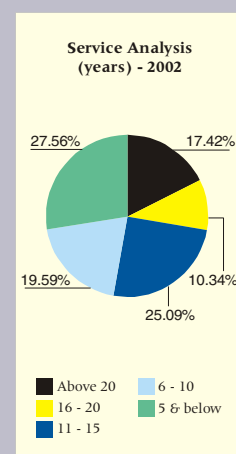


## Service Analysis of the Staff as at December 31,

Service (Years)	Corporate Mgt.	Executive Officers	Staff Officers & Allied	Banking Asst. & Allied	Banking Trainees	Office Asst. & Others	2002 Total	2001 Total
Above 20	9	242	13	71	-	83	418	369
16 - 20	1	149	4	69	-	25	248	183
11 - 15	2	257	5	291	-	47	602	406
6 - 10	1	101	1	346	-	21	470	591
5 & below	1	38	-	36	574	12	661	710
	14	787	23	813	574	188	<b>2,399</b>	2,259

Average service of the employees as at December 31, 2002 was 11.6 years (2001 - 10.7 years)

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



# Sustainability as Solid as our History



The Bank's policy has been to observe the highest levels of ethics and fairness in its relations with both customers and competitors. For the Bank it has not been a case of building shareholder value at any cost, but rather participating in a process of creating value through fair and ethical means. Sustainability is a vital cog in our machine.

Our new products have all conformed to the highest standards of fairness. 365 Day Banking and Supermarket Banking pioneered by the Bank has brought in new segments of customers and has enabled us to offer more customer friendly banking facilities.

Through the DotCom and DotCom Spin Saver accounts the Commercial Bank is giving teenagers the opportunity of operating an ATM facility, with all the advantages it brings. The introduction of several off-site ATMs and additional ATMs to branches where usage is heavy has made 24 hour banking available to bigger group of customers than before.

## 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. Our liquidity remained at optimum levels during the year. The Liquid Assets Ratio stood at 27.88% in December 2002.

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.

The prudential Statutory Liquid Assets requirement which had previously been imposed under the Banking Act only on the Domestic Banking Units of Licensed Commercial Banks was extended to the Off-shore Banking Units from January 1, 2003 as anticipated. We welcome this determination of the Monetary Board. Though not statutorily required,

Commercial Bank has in fact been computing and monitoring this requirement on both units as well as on a consolidated basis for sometime. As a result, the Bank is in a position to fall in line with the new requirement comfortably.

## Dividends

The dividend policy of the Bank has always been to pay a decent dividend to its shareholders while ploughing back sufficient profits for funding the expansion of operations and services. The profits so ploughed back undoubtedly help the Bank in performing even better and in increasing the Net Assets Value of the shares. As a result of this prudent dividend policy, the Bank has been able to build up its shareholder fund base to satisfactory levels. In fact, the Commercial Bank has the highest amount of free capital among the peer banks in the country today.

Considering the excellent performance achieved by the Bank in the year under review, the Board of Directors recommends an enhanced total



dividend of 50% for the year (of which 18% was paid in December 2002 as an interim dividend) compared to the 45% paid last 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. The Commercial Bank 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 associated risks.

Appropriate internal control measures and contingency plans are in place to address operational risks. The Board of Directors too reviews the progress of the Risk Management measures half yearly through a paper submitted to them.

Detailed risk management measures in place are given in the article on Risk Management on page 43 of this Report.

### Resource Efficiency

Deposits and Shareholders' Funds represented the two biggest resources of funds for the Bank, accounting for 74.41% and 9.34% respectively of the total liabilities and shareholders' funds

as at December 31, 2002. Hence, mobilising deposits from stable and low cost sources and the prudent investment of the funds available to earn the optimum return is imperative for improving the profitability of the Bank.

Through careful planning and application of prudent policies in relation to the payment of dividends and expenditure on capital items and investments the Bank ensured that the Shareholders' Funds, the Free Capital and the Single Borrower Limit continued to grow. Total Shareholders' Funds, Free Capital and the Single Borrower Limit were Rs. 6,848.102 Mn, Rs. 3,783.990 Mn. and Rs. 2,054.431 Mn. respectively as at December 31, 2002.

### Capital Adequacy

Capital Adequacy as a measure of prudence seeks to limit the extent to which banks can expand their business in terms of *risk weighted assets*.

Given the positive relationship between the risks and rewards and the fact that the banks are profit-oriented organisations, they like to expand their operations by acquiring property, plant and equipment, opening branches, mobilising more deposits, providing more loan facilities and

investing in various other assets, in order to maximise the profits and thereby enhance shareholder value.

Regulatory capital requirements are therefore necessary to prevent banks from expanding beyond their ability to manage (over trading), to improve the quality of banks' assets, to control the ability of the banks to leverage their growth, and to lead to higher earnings on assets. The Bank is always mindful of these purposes for which Capital Adequacy Ratios have been introduced and maintain the ratios at comfortable levels.

Up to December 2002, Capital Adequacy Ratios were in force only on the business operations of the Domestic Banking Units. This led to an overstatement of the Capital Adequacy Ratios of the banks since the assets base of their Off-shore banking business operations were completely excluded. However, as speculated for sometime, the Capital Adequacy Requirement has now been extended to the Off-shore Banking Units as well from 2003. As we noted above, though not statutorily required, Commercial Bank has in fact been computing and monitoring this requirement on both units as well as on a consolidated basis for sometime. As a result, the Bank is in a position to fall in line with this new requirement comfortably.

# Social Impact Report

## Computation of Risk-Weighted Assets

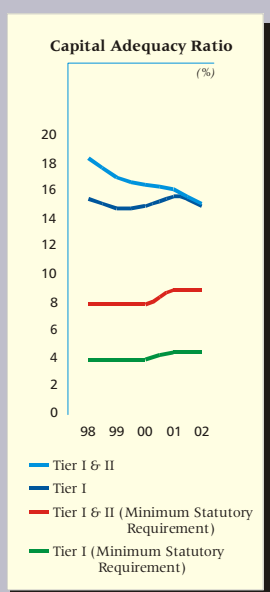
As at December 31,

### On-Balance Sheet Items

ASSETS	Balance		Risk-Weight Factor (%)	Risk-Weighted Balance	
	2002 Rs.'000	2001 Rs.'000		2002 Rs.'000	2001 Rs.'000
Cash, Statutory Deposit with Central Bank of Sri Lanka, Treasury Bills, Government and other Securities	<b>19,867,278</b>	5,469,131	-	-	-
Loans secured by Cash and guaranteed by Central Bank of Sri Lanka	<b>6,014,848</b>	5,433,905	-	-	-
Loans guaranteed by SLECIC	<b>8,307</b>	28,923	50	<b>4,154</b>	14,462
Loans secured by Primary Mortgages over Residential Property	<b>2,733,843</b>	2,241,120	50	<b>1,366,922</b>	1,120,560
Other Loans and Advances	<b>32,053,028</b>	25,169,765	100	<b>32,053,028</b>	25,169,765
Credit Equivalent of Off-Balance Sheet Items (as shown below)	<b>4,465,929</b>	3,401,675	100	<b>4,465,929</b>	3,401,675
Due from Banks Abroad	<b>690,155</b>	1,570,340	20	<b>138,031</b>	314,068
Due from Local Banks including Development Financial Institutions	-	1,750,000	20	-	350,000
Due from Off-shore Banking Centre	<b>2,413,167</b>	6,227,691	10	<b>241,317</b>	622,769
Cash Items in the process of collection	<b>35,204</b>	61,046	20	<b>7,041</b>	12,209
Investments excluding Investments in Financial Associates	<b>825,941</b>	436,277	100	<b>825,941</b>	436,277
Property, Plant and Equipment	<b>1,753,125</b>	1,616,151	100	<b>1,753,125</b>	1,616,151
Other Assets	<b>4,706,565</b>	3,237,918	100	<b>4,706,565</b>	3,237,918
<b>TOTAL</b>	<b>75,567,390</b>	56,643,942		<b>45,562,053</b>	36,295,854

### Credit Equivalent of Off-Balance Sheet Items

INSTRUMENTS	Balance		Credit Conversion Factor (%)	Risk-Weighted Balance	
	2002 Rs.'000	2001 Rs.'000		2002 Rs.'000	2001 Rs.'000
General Guarantees of Indebtedness (Credit Guarantees and Advance Payment Guarantees)	<b>2,581,025</b>	2,108,461	100	<b>2,581,025</b>	2,108,461
Performance Bonds, Bid Bonds and Warranties	<b>911,212</b>	790,675	50	<b>455,606</b>	395,337
Shipping Guarantees	<b>1,342,381</b>	1,343,509	20	<b>268,476</b>	268,702
Documentary Letters of Credit	<b>4,380,611</b>	1,791,516	20	<b>876,122</b>	358,303
Usance Bills	<b>1,290,226</b>	1,263,182	20	<b>258,045</b>	252,636
Bills for Collection	<b>3,050,595</b>	2,614,545	-	-	-
Foreign Exchange and Interest Rate related Contracts:					
Customers	<b>11,300</b>	21,433	50	<b>5,650</b>	10,717
Banks	<b>105,025</b>	37,594	20	<b>21,005</b>	7,519
<b>TOTAL</b>	<b>13,672,375</b>	9,970,915		<b>4,465,929</b>	3,401,675



## Social Impact Report

### Computation of Capital

	2002 Rs.'000	2001 Rs.'000
<b>TIER I : CORE CAPITAL</b>		
Paid-up Ordinary Shares	417,901	417,901
Share Premium	560,902	562,066
Statutory Reserve Fund	1,009,000	1,009,000
Published Retained Profit	310,722	86,058
General and other Reserves	4,494,296	3,616,296
Minority Interest	12,830	12,607
Less: Goodwill	-	-
Total Tier I Capital	<b>6,805,651</b>	5,703,928
<b>TIER II : SUPPLEMENTARY CAPITAL</b>		
Revaluation Reserve (as approved by the Central Bank of Sri Lanka)	157,286	157,286
General Provisions	71,125	69,891
Approved Subordinated Term Debt	100,000	200,000
Total Tier II Capital	<b>328,411</b>	427,177
Total Capital	<b>7,134,062</b>	6,131,105
<b>Deductions</b>		
Investments in Banks and Financial Associates	268,101	252,090
Capital Base	<b>6,865,961</b>	5,879,015

### Computation of Ratios

	2002 Rs.'000	2001 Rs.'000
Total Tier I: Core capital	6,805,651	5,703,928
Capital Base	6,865,961	5,879,015
Total Risk Weighted Assets	45,562,053	36,295,854

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

	%	%
$\frac{\text{Core Capital}}{\text{Risk-Weighted Assets}} \times 100$	<b>14.94</b>	15.72

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

	%	%
$\frac{\text{Capital Base}}{\text{Risk-Weighted Assets}} \times 100$	<b>15.07</b>	16.20

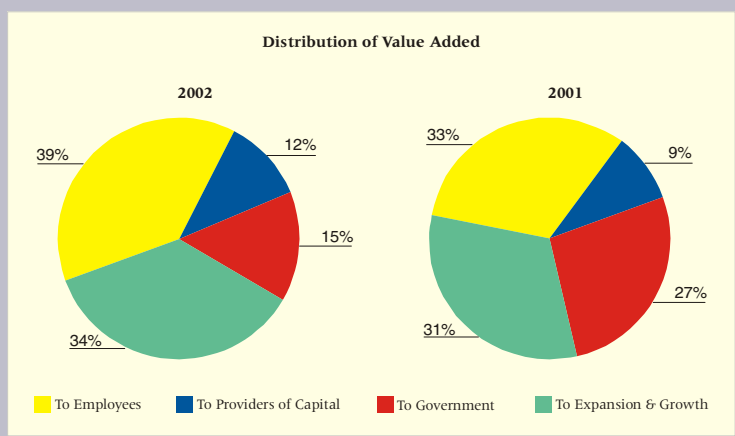
#### Risk-Weighted Assets

- 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.

# Social Impact Report

## Value Addition

	2002		2001	
	Rs.'000	%	Rs.'000	%
<b>Value Added</b>				
Income from Banking Services	8,135,538		8,125,180	
Cost of Services	4,599,704		4,827,120	
Value Added by Banking Services	3,535,834		3,298,060	
Non-Banking Income	228,652		77,942	
Loan Losses and Provisions	(401,972)		(236,677)	
	<b>3,362,514</b>		<b>3,139,325</b>	
<b>Distribution of Value Added</b>				
<b>To Employees</b>				
Salaries and other benefits	1,311,564	39.00	1,022,252	32.56
<b>To Providers of Capital</b>				
Dividends to Shareholders	326,803		220,989	
Interest to Debentureholders	67,627		73,315	
	<b>394,430</b>	<b>11.73</b>	<b>294,304</b>	<b>9.37</b>
<b>To Government</b>				
Income Tax	243,000		300,000	
Turnover Tax	–		52,434	
National Security Levy	257,190		485,638	
Debits Tax	1,457		–	
	<b>501,647</b>	<b>14.92</b>	<b>838,072</b>	<b>26.70</b>
<b>To Expansion and Growth</b>				
Retained profit	877,212		788,978	
Depreciation	199,661		180,719	
Deferred Taxation	78,000		15,000	
	<b>1,154,873</b>	<b>34.35</b>	<b>984,697</b>	<b>31.37</b>
	<b>3,362,514</b>	<b>100.00</b>	<b>3,139,325</b>	<b>100.00</b>



# Social Impact Report

## Economic Value Added

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

	2002 Rs. '000	2001 Rs. '000	2000 Rs. '000	1999 Rs. '000	1998 Rs. '000
<b>Invested Equity</b>					
Shareholders' Funds	7,754,657	6,744,881	5,047,529	4,268,287	3,867,504
Add: Cumulative Loan Loss Provision	1,084,155	765,681	596,234	548,993	642,157
	<b>8,838,812</b>	7,510,562	5,643,763	4,817,280	4,509,661
<b>Earnings</b>					
Profit after Taxation	1,204,014	1,009,967	935,955	658,479	591,464
Add: Loan Losses and Provisions	401,972	236,677	180,178	116,456	183,099
Less: Loan Losses Written Off	(19,550)	(7,913)	(3,805)	(36,750)	(20,172)
	<b>1,586,436</b>	1,238,731	1,112,328	738,185	754,391
Cost of Equity based on the 12 months weighted average Treasury Bill rate plus 2% for the Risk Premium					
	<b>12.00%</b>	20.40%	16.25%	14.00%	14.00%
Cost of average equity	<b>980,962</b>	1,341,741	849,960	652,886	595,935
<b>Economic Value Added</b>	<b>605,474</b>	(103,010)	262,368	85,299	158,456

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

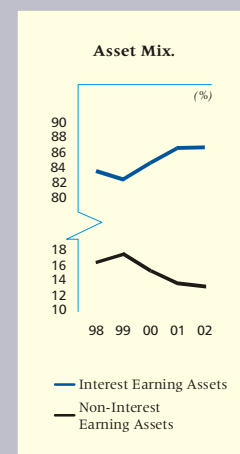
In EVA terms, we have created Rs. 605.474 million during the year 2002 and over Rs. 1.000 billion over the past 5 years.

## Maturity Analysis

The Assets and Liabilities Committee of the Bank closely monitors the maturities of assets and liabilities of the Bank.

A summary of the maturity pattern of the respective assets and liabilities 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 2002	Total 2001
Interest Earning Assets	33,673,694	13,435,589	9,250,444	3,956,947	3,393,137	<b>63,709,811</b>	51,145,532
Non-Interest Earning Assets	5,727,295	913,705	162,206	129,764	2,708,934	<b>9,641,904</b>	8,000,447
<b>Total Assets</b>	<b>39,400,989</b>	<b>14,349,294</b>	<b>9,412,650</b>	<b>4,086,711</b>	<b>6,102,071</b>	<b>73,351,715</b>	59,145,979
Interest Bearing Liabilities	32,956,678	13,075,166	2,157,365	1,998,986	2,049,309	<b>52,237,504</b>	43,065,588
Non-Interest Bearing Liabilities	13,102,423	14,131	-	1,149,555	6,848,102	<b>21,114,211</b>	16,080,391
<b>Total Liabilities</b>	<b>46,059,101</b>	<b>13,089,297</b>	<b>2,157,365</b>	<b>3,148,541</b>	<b>8,897,411</b>	<b>73,351,715</b>	59,145,979



## Good Governance - The way forward



Like in many other parts of the World, with the privatisation and liberalisation of the markets the role of the corporate sector - as the engine of growth - is gaining more and more significance in Sri Lanka too. As a result, corporate activities have a tremendous impact on the quality of life of its people. Today, Corporates determine the quality of air we breath, quality of water we drink, quality of food we eat and so on. Hence, Corporates are accountable to the society at large.

The Asian financial crisis and more recently, the failures of corporate giants in the west, renewed focus on the importance of good corporate governance practices, bringing the topic to a broader audience world over. People learned lessons and woke up to the realities of corporate behaviour. Gradually, they are becoming more and more concerned with the direction and control of the corporates.

What has emerged as a result of this awakening is that the underlying principles of fairness, transparency, accountability and responsibility reflect minimum standards for acceptable corporate behaviour and provide legitimacy to the corporation, reduce vulnerability to financial crisis and broaden and deepen access to capital. The expectations are therefore clear. The practical challenge for corporates is to work out how to fulfill these expectations in the wake of wide variety of legal, economic, ownership, social systems and uncertainties.

At Commercial Bank, Corporate governance in essence is the enhancement of shareholder value whilst being ethical and accountable to the society and environment - the Triple Bottom Lines. As your representatives, the Board of Directors ensures that the

activities of the Bank are always conducted with the highest ethical standards and in the best interests of all its stakeholders.

### **Enhancing Shareholder Value**

Good corporate governance permeates all activities at the Commercial Bank. Enhancing shareholder value is one of the key objectives of good corporate governance. The current market capitalisation of Commercial Bank's shares, the Bank's track record on dividends and scrip issues bear ample testimony to our concerted efforts at enhancing shareholder value.

### **Board of Directors - at the helm**

The Board of Directors is in full control of the Bank's affairs and is also fully accountable to the shareholders. The positions of Chairman and CEO are kept separate as the former is a Non-Executive Director.

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 do not have vested interests and 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) backed by the superior networked computer system 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 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 without leaving 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 continues to ensure 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 ensuring that the employees maintain their dignity and integrity, building customer confidence in the Bank. "Business Today" selected Commercial Bank as the No. 1 Corporate in the Country in 2001. Commercial Bank was also adjudged the overall winner of the National HRM Award 2002 at the

# Social Impact Report

first ever National HRM Award Competition, which was jointly organised by the Institute of Personnel Management, Post Graduate Institute of Management and the Association of Human Resources Professionals.

The Board has formulated proper checks and 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 audit 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 exchange and other regulations are violated.

## 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 periodically 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,

professional and statutory 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

Directors of the Company are responsible for keeping proper books of account and preparing financial statements that give a true and fair view.

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 and informed decisions. 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.



## Social Impact Report

Communication with shareholders is enhanced through regular press releases by the Bank and quarterly reports.

### 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 who is an independent Non-Executive Director and represented by three Non-Executive Directors. The Managing Director attends the meetings by invitation. The Audit Committee among other things, reviews internal control systems, adherence to risk management measures, compliance with

mandatory banking and other statutory requirements and major ALCO decisions. The full report of this Committee is given on page 56 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.

#### 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 contended 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 the Managing Director and four other Non-Executive Directors.

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.

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

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

\* Chairman of the Committee

## Caring for our Communities



The idea that companies have social responsibilities is not without controversy. To many, corporate accountability is ensured by addressing only shareholder interests. To others, the external operating environment has an impact on the way businesses do business. The market system flourishes best in an environment of favourable social and legal conditions. It flourishes best where the rule of law operates and in conditions which provide for the respect for the rights and security of all persons. A prosperous and content community is a valuable market.

If corporate responsibilities are looked at in this way, then the link between corporate well being and general public and community well being begins to get clearly established. Profits and social responsibilities need not clash: they can each fuel the other.

Communities are content when there is high level of trust between the public and the corporate community. If the public believe that they are getting value for money then trust is likely to develop and flourish. Trust is the key in a relationship between a financial institution such as ours and the public. The decision to make a deposit or to engage in other transactions with a financial institution is essentially one that is based on trust.

The more the businesses plough back to the community to boost social capital, the stronger the society will become. Stronger societies are fertile markets and a source of nourishment for the corporate sector.

Over the year the Bank originated a number of community based initiatives. Responding to the positive customer feedback we

had to our DotCom Teen Saver Account, the Bank launched a new product the DotCom Spin Junior Saver Account. This new product caters to those under 15 years and again has drawn a positive response from our customers. The product will operate with parental guidance.

With a view to sharpening the skills of employees from other companies the Bank organised a training workshop on the Legal Aspects Relating to Banking Operations and Securities. Ethical banking practices and the issues relating to legal compliance were discussed at this workshop. Banking employees also had the opportunity to interact with Dr Y R K Reddy, an Indian academic on Human Resource Management. Dr Reddy discussed how to make best use of human assets in a knowledge based economy and some of the rudiments of competition.

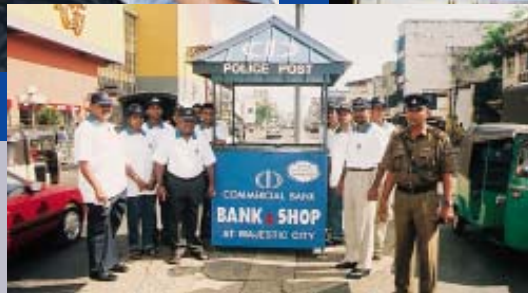
Our employees donate blood



The Bank assists the Jaffna Hospital



Promoting mental health



Promoting road safety

The Advanced Level students at C.W.W Kannangara Madya Maha Vidyalaya, Matugama were the recipients of a Career Fair organised by our Matugama Branch. The students were exposed to the different career choices available and advice was provided by senior corporate executives.

The staff at the Insurance Corporation were the beneficiaries of a training programme on MS Office. Two programmes have been completed and more are planned.

Security personnel were also given a training in customer care and courtesy. Security personnel are an often ignored segment of the workforce and this programme was part of the Bank's attempt at enhancing customer care at all levels.

A workshop on 'Healthy Food Habits for a Healthy Life' was held in February last year. Through

programmes of this nature the Bank hopes to generate 'total' training programmes for its employees, not just on those aspects related strictly to the Bank's employment.

National Council for Mental Health - Sahanaya embarked on a program on the rehabilitation of the long term mentally ill and setting up of a rehabilitation centre for professionals at Bolgoda. Modern lifestyles have increased the levels of stress and mental disorders that the public is now exposed to. A coordinated strategy to respond to increasing levels of mental disorders is a must and this Resource Centre will be one such response.

- Bank donated Rs. 200,000/- to the National Council for the Mental Health for the "Sahanaya" psychological centre.

- The Bank donated Rs. 100,000/- to the Jaffna Government Hospital for the purchase of specialised medical equipment on the day the Bank opened the refurbished Jaffna Branch in April 2002.

- Rs. 500,000/- was donated for the construction of a "Ranveta" at the Jaya Sri Maha Bodhi, Anuradhapura.

- The Bank donated Rs. 100,000/- to the Sri Dalada Maligawa, Kandy.

*Commercial Bank recently presented 8 year old Nilusha Roshani with an Isuru Entitlement Certificate to the value of Rs. 397,803/-. Nilusha lost her father as a result of a heart attack and this amount is what her father expected her to receive when she turned 18. Nilusha's father had made deposits for only two months and the Bank honoured its commitment of providing the beneficiary the full amount as part of a life insurance policy built into the product.*

## A different conflict - the battle for nature



An important aspect of our stakeholder responsibility is the responsibility we have to sustain our physical environment. We live and operate in a time in which, unless we make a conscious effort we are likely to see a rapid depletion of some of our more precious natural resources. Many of these resources cannot be replaced and corporate responsibility includes sustaining these resources for future generations.

'Keeping our environment green' also has important repercussions for our bottom line and our long term sustainability as a corporate entity. A thriving physical environment has a bearing on the quality of life of any society. And if the Bank's policies were to nourish and support the environment and consequently the quality of life of society in general, then the Bank is likely to enhance the trust and goodwill it has within that society.

To us it is not a question of profits at any costs, but profits that are sustainable and help build value for all our stakeholders.

Our lending policies often stress the need for supporting and nourishing the environment. The Bank has its own 'environmental impact assessment' when it assesses the viability of projects. Projects are assessed not purely on its capacity to generate profits to repay capital and interest but also its social and environmental impact. Building value means building value for all our stakeholders.

## Risk Management

By the 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 also should 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 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 minimise such risks.

In order to realise 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 Management**

Credit risk is one of the major risks faced by banks. This can be defined as the potential loss arising from the failure of a counter party to perform according to the contractual arrangements with the Bank, which includes non-repayment of capital and/or interest in full within the agreed time frame, at the agreed rate of interest

## Risk Management

and in the agreed currency. Hence, this risk could arise not only in respect of Balance Sheet transactions such as loans and investment securities, but also in respect of Off-Balance Sheet transactions such as guarantees, acceptances etc.

Failure to perform according to the contractual arrangements with the Bank by a counter party may arise as a result of inability of the counter party resulting from a decline in his repayment capacity or unwillingness of the counter party (willful default) or both. In addition, credit risk may arise due to non-availability of foreign currency for the counter party due to whatever reason, when the repayment is denominated in foreign currency.

Credit risk of a bank may be aggravated by various other associated risks such as country risk, sectoral risk, related party risk and collateral risk. Hence, the Bank's risk management systems have been designed to address all these associated risks as well.

If credit risk is not properly managed, banks have to face severe consequences such as drop in asset quality, rise in non-performing assets, loss of revenue on the non-performing assets, loan loss provisioning, erosion of public confidence, and downgrading of credit rating etc.

Though accepting collateral is widely practiced by banks as a credit risk management measure, this is only a "credit risk mitigation measure" and not a "credit risk prevention measure". In other words, acceptance of collateral in whatever form or asset will not guarantee that the loan will not become delinquent, or even minimise the probability of the loan becoming

delinquent. Collateral can only mitigate or reduce the credit risk once the loan becomes actually delinquent.

Our Bank's credit policy has therefore been designed without overly depending on collateral. Instead the Bank places more emphasis on credit risk prevention measures such as proper evaluation of credit worthiness of the borrowers, maintaining proper credit policies and loan disbursement procedures etc., in managing the credit risk. In addition, the Bank has developed an internal rating system, in which credit risk of all customers is periodically assessed, facilitating the lending officers to take timely action.

The Credit Committee, under delegated authority from the Board of Directors, approves credit policies, guidelines and procedures to control and monitor such risks. It has day-to-day responsibility for identifying and managing portfolio and risk concentration issues, including country exposure and industry sector exposure. The risk parameters for accepting credit risk are clearly defined and complemented by policies and processes to ensure that the Bank maintains a well-diversified and high quality credit portfolio. The decisions of the Credit Committee and its quarterly risk management reports are reviewed by the Executive Committee of the Board.

### **Balance Sheet Risk Management**

Balance sheet risk is defined as the potential change in earnings arising from the effect of movements in interest rates and foreign exchange rates on the structural banking books of the Bank that is not of a trading nature.

## Risk Management

The Balance Sheet risk in the banking book arises from customers' preferences and characteristics in the booking of assets and liabilities, which result in a mismatch in the interest repricing and maturity dates of these assets and liabilities. The Group assesses the impact of changes in interest rates and yield curves over time on the banking book by projecting the corresponding changes in Net Interest Income (NII) of the Bank. The primary objective of Balance Sheet risk management, therefore, is to monitor and avert significant volatility in NII. For instance, when there are significant changes in interest rates, the Bank will adjust its lending and deposit rates to the extent necessary to stabilise its NII.

The Assets and Liabilities Committee (ALCO), approves the policies and limits for Balance Sheet risk. This risk is monitored and managed within a framework of approved policies and limits, and is reported regularly to ALCO. The decisions of ALCO and its quarterly risk management reports are reviewed by the Executive Committee of the Board.

The table on page 35 summarises the maturities of the Bank's assets and liabilities as at December 31, 2002. Interest rate risk will arise when more assets/liabilities than liabilities/assets are repriced in a given time band. A positive interest rate sensitivity gap exists where more interest sensitive assets than interest sensitive liabilities are repriced during a given time period. Conversely, a negative interest rate sensitivity gap exists where more interest sensitive liabilities than interest sensitive assets are repriced during a given time period. As at December 31, 2002, the Bank had an overall positive

interest rate sensitivity, excluding non-interest sensitive items. This being a static position, the actual effect on NII will depend on a number of factors, including variations in interest rates within the repricing periods, and the extent to which repayments are made earlier or later than the contracted dates.

### Market Risk Management

Market risk is defined as the potential loss in market value of a given portfolio that can be expected to be incurred arising from changes in market prices, namely, foreign exchange rates, interest rates, equity prices, etc.

The Bank is exposed to market risk in its trading portfolio because the values of its trading positions are sensitive to changes in market prices and rates. Similarly, it is also exposed to market risk in its investment portfolio.

Market risk is managed using a framework of market risk management policies and risk control procedures, as well as risk and loss limits. Risk and loss limits in place for Forex and Fixed Income Securities Trading portfolios are reviewed by the Management and approved by ALCO. ALCO also reviews and approves new limits or changes to existing limits as and when these are proposed. The powers of ALCO are delegated by the Managing Director. The monitoring of market risk trading limits and the reporting of any limit excess are carried out independently by the Treasury Processing Unit.

There is no single risk statistic that can reflect all aspects of market risk. The most common approaches are Value-at-Risk

# Risk Management

(VaR) and stress testing. These risk measures, taken together, provide a more comprehensive view of market risk exposure than any one of them individually. VaR is a measure of the currency amount of potential loss from adverse market movements under a normal market environment. Statistical models of risk measurement, such as VaR, provide an objective and independent assessment of how much risk is being taken. They also allow consistent and comparable measurement of risk across financial products and portfolios.

The Bank is in the process of introducing in the near future, a more comprehensive method, such as 'Value-at-Risk' to measure market risk exposure of its trading portfolios.

## Liquidity Risk Management

Liquidity risk is defined as the potential loss arising from the Bank's inability to meet its contractual obligations when due. Liquidity risk arises in the general funding of the Bank's activities and in the management of its assets. Bank maintains sufficient liquidity to fund its day-to-day operations, meet customer deposit withdrawals either on demand or at contractual maturity, meet customers' demand for new loans, participate in new investments when opportunities arise and repay borrowing as they mature. Hence, liquidity is managed to meet known as well as unanticipated cash funding needs.

Liquidity risk is managed in accordance with a framework of liquidity policies, controls and limits approved by ALCO. These policies, controls and limits ensure that Bank maintains well-diversified

sources of funding, as well as sufficient liquidity to meet all its contractual obligations when due. The distribution of sources and maturities of deposits is managed actively, in order to ensure cost effective and continued access to funds and to avoid a concentration of funding needs from any one source. Important factors in assuring liquidity is founded on the Bank's good reputation, the strength of its earnings, and its strong financial position and credit rating.

The management of liquidity risk is carried out throughout the year by a combination of cash flow management, maintenance of marketable securities and other short-term investments that can be readily converted to cash, diversification of the funding base, and proactive management of the Bank's 'core deposits'. 'Core deposits' are a major source of liquidity for the Bank. These 'core deposits' are generally stable non-bank deposits, like current accounts, savings accounts and fixed deposits. Bank monitors the stability of its 'core deposits' by analysing their volatility over time. In addition to the 'business as usual' scenario, this analysis also includes various stress scenarios. Bank has also identified certain early warning indicators and established the trigger points for possible contingency situations. These early warning indicators are monitored closely so that immediate action can be taken when necessary.

Note 31 to the Financial Statements shows the maturity mismatch analysis of the Bank's nearer and longer-term time bands relating to the cash inflows and outflows based on contractual classifications arising from business activities. The projected net cash outflow in the 'Up to 3 Months' time



# Risk Management

band comprises mainly customers' current accounts and savings accounts that are repayable on demand. However, when these customer deposits are adjusted for behavioural characteristics, the projected net cash outflow in this time band is very much reduced as they are adjusted out to the longer-term time bands due to the stable nature of these customer deposits.

## **Operational Risk Management**

Operational risk is defined as the potential loss arising from a breakdown in the Bank's internal control or infrastructure facilities or corporate governance that results in error, fraud, failure/delay to perform, or compromise of the Bank's interests by employees. Operational risk also includes the potential loss arising from a major failure of computer systems and from both natural and man-made disasters. Potential loss may be in the form of financial loss or other damages, for example, loss of reputation and public confidence that will impact the Bank's credibility and ability to transact, maintain liquidity and obtain new business.

Operational risk is managed through a framework of policies, techniques and procedures as approved by the Management Committee. The decisions of the Management Committee and its quarterly risk management reports are reviewed by the Executive Committee of the Board.

Risk transfer mechanisms, such as insurance, also form part of this framework. Identified operational risks with relatively high risk assessments and new risks that are beyond the control of the Bank will be scrutinised for insurability.

## **Legal Risk**

Legal risk is part of operational risk. Legal risk arises from inadequate documentation, inability to meet new regulations, legal or regulatory incapacity or insufficient authority of customers and uncertainty in the enforcement of contracts. This is managed through consultation with the Bank's legal counsel and external counsel to ensure that legal advice is appropriately taken where necessary.

The Bank's Compliance Officer and Internal Audit play a key role in monitoring adherence by business and support units to the operational risk management policies. All compliance functions report directly to the Managing Director, who has the necessary independence to monitor and carry out compliance reviews of the business operations. Compliance Officer also spearheads the Bank's efforts on anti-money laundering activities.

Risks relating to changes in the regulatory requirements are proactively managed as was done, for example, for the introduction of prudential statutory requirements of Liquid Assets and Capital Adequacy on the Off-shore Banking Centre.



*Commercial Bank's Annual Report - 2001 was adjudged the Best Presented Corporate Accounts in the Financial Sector in the South Asian Region by the South Asian Federation of Accountants (SAFA).*

# Financial Reports

## CONTENTS

Directors' Report	50
Directors' Responsibility for Financial Reporting	55
Audit Committee Report	56
Auditors' Report	57
Income Statement	58
Balance Sheet	59
Cash Flow Statement	60
Statement of Changes in Equity	62
Significant Accounting Policies	63
Notes to the Accounts	72

## FINANCIAL CALENDAR

Thirty-Fourth Annual General Meeting to be held on	March 28, 2003
Final Dividend for 2001 paid on	March 27, 2002
Interim Dividend for 2002 paid on	December 23, 2002
Final Dividend for 2002 proposed to be paid on	March 28, 2003
Annual Report and Accounts for 2002 signed on	February 21, 2003

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

For the three months ended March 31, 2002 (unaudited)	April 25, 2002
For the six months ended June 30, 2002 (unaudited)	July 26, 2002
For the nine months ended September 30, 2002 (unaudited)	October 25, 2002
Annual Report and Accounts for 2002 (audited)	February 21, 2003

# Directors' Report

## General

The Directors have pleasure in presenting to the members their Report together with the audited Financial Statements 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, 2002.

These were approved by the Directors on February 21, 2003.

## Principal activities

### Bank

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

## 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.

There were no significant changes in the nature of principal activities of the Bank and the Group during the financial year under review.

## Review of Business

The Chairman's Message on page 5 and the Managing Director's Report on page 11 describe in detail the Company's affairs and important events of the year. These reports form an integral part of the Directors' Report.

## Future Developments / Branch Expansion

The branch expansion policy continued during the year and the Bank opened 5 Branches, 2 Customer Service Points and 2 MiniComs. Bank intends to expand its branch network further.

Bank set up a 100% owned subsidiary to engage in Information Technology related activities.

## 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.

## Corporate Governance

Systems and procedures are in place to ensure that corporate governance is properly practiced. Specific measures taken in this regard are elaborated on page 36 of this Report.

## 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 Social Impact Report on page 26.

## 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 56 of this Report.

# Directors' Report

## Vision, Mission and Corporate Conduct

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

## Risk Management

Specific steps taken by the Bank in managing both banking and non-banking risks are detailed on page 43 of this Report.

## Turnover/Gross Income

The Turnover/Gross Income of the Group for 2002 was Rs. 9,165.049 Mn. (Rs. 9,093.247 Mn. in 2001).

## Profit

The profit before tax of the Group and the Bank were up by 19.86% and 15.10% respectively (22.11% and 15.17% in 2001) and the profit after tax were up by 25.40% and 19.21% respectively (11.76% and 7.91% in 2001).

Details relating to the Bank are given below:

	2002 Rs.	2001 Rs.
Profit for the year after payment of all expenses of management and providing for depreciation, possible loan losses and contingencies	<b>1,525,014,377</b>	1,324,967,320
Provision for taxation	<b>321,000,000</b>	315,000,000
Net profit after taxation	<b>1,204,014,377</b>	1,009,967,320
Unappropriated profit brought forward from previous year	<b>1,566,419</b>	10,587,498
Profit available for appropriation	<b>1,205,580,796</b>	1,020,554,818
<b>Appropriations</b>		
Dividend payable on 13% Cumulative Redeemable Preference Shares	<b>117,852,150</b>	32,932,772
18% (14% in 2001) Interim Dividend paid	<b>75,222,248</b>	58,506,199
32% (31% in 2001) Final Dividend proposed	<b>133,728,442</b>	129,549,428
Transfer to General Reserve	<b>878,000,000</b>	798,000,000
Unappropriated profit to be carried forward	<b>777,956</b>	1,566,419

## Dividends

The Directors recommend the payment of 32% final dividend for the year 2002 (31% in 2001). An interim dividend of 18% was paid in December 2002 (14% in 2001).

Interim dividend was paid out of exempt dividends received and hence was exempt from the with-holding tax. Final dividend includes Rs. 32.202 Mn. to be paid out of exempt dividends received and hence be exempt from the with-holding tax.

## 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 was 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.

## Corporate Donations

During the year the Bank made donations amounting to Rs. 1,113,423/- (Rs. 499,700/- in 2001) in terms of the resolution passed at the last Annual General Meeting. The donations made to Government approved charities from the above amounted to Rs. 930,000/- (Rs. 466,195/- in 2001).

## Property, Plant and Equipment

Capital expenditure on Property, Plant and Equipment and Capital Work-in-Progress amounted to Rs. 338.644 Mn. (Rs. 296.148 Mn. in 2001), details of which are given in Note 22 to the Financial Statements. Capital expenditure approved and contracted for after the year-end is included in Note 33 to the Financial Statements.

# Directors' Report

## Market Value of Freehold Properties

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. Properties acquired after December 31, 1993 are reflected at book-values as their appreciation in value is insignificant. In the opinion of the Directors this value is not in excess of the current market value.

## Reserves

The total reserves of the Group stood at Rs. 6,594.543 million as at December 31, 2002 (Rs. 5,478.158 Mn. as at December 31, 2001) details of which are given in Notes 29 and 30 to the Financial Statements.

## Share Capital

The total issued and paid up capital as at December 31, 2002 was Rs. 417.901 Mn. consisting of 39,000,000 ordinary voting shares of Rs.10/- each and 2,790,138 ordinary non-voting shares of Rs.10/- each.

In addition, the Company has Rs. 906.555 Mn. worth 13% Cumulative Redeemable Preference Shares of Rs. 10/- each in issue. These funds have been used to expand the leasing and other long-term credit facilities.

## Share Information

Information relating to earnings, dividends, net assets and market value per share is given in Operating Highlights & Performance on page 3 of this Report. Information on share trading is given on page 109 of this Report.

## Shareholdings

There were 4,336 registered shareholders holding ordinary voting shares and 1,054 registered shareholders holding ordinary non-voting shares of the Bank as at December 31, 2002. The distribution of shareholding is given on page 106 of this Report.

## 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 qualifications and experience of the Directors are given on pages 8 and 9.

The following were the Directors of the Bank during the year.

Mr. M.J.C. Amarasuriya (*Chairman*)  
Mr. J.S. Mather (*Deputy Chairman*)  
Mr. A.L. Gooneratne (*Managing Director*)  
Dr. H.S. Wanasinghe  
Mr. B.R.L. Fernando  
Mr. M.L. Mack  
Mr. A.N. Fonseka  
Mr. P. Amarasinghe  
Mr. S. Abeyasinghe

### Appointments and Resignations

Mr. M.J.C. Amarasuriya retires by rotation in accordance with Articles 85 and 86 of the Articles of Association of the Company.

Mr. M.L. Mack who had attained the age of 70 years on October 24, 2002 retires in terms of Section 181 of the Companies Act No. 17 of 1982. Mr. Mack also retires by rotation in accordance with Articles 85 and 86 of the Articles of Association of the Company.

Reference has already been made in the Notice of Meeting to the special resolution received by the Company from a shareholder with regard to the re-election of Mr. M.L. Mack.

Messrs. M.J.C Amarasuriya and M.L. Mack both being eligible for re-election are recommended for re-election.

# Directors' Report

## Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of Financial Statements of the Bank to reflect a true and fair view of the state of its affairs. The Directors are of the view that 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.

## Directors' Interests in Ordinary Shares

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

	<b>As at 31.12.02</b>	As at 01.01.02
Mr. M.J.C. Amarasuriya	<b>100,580</b>	21,580
	<b>36,580</b>	4,480
	<b>(non-voting)</b>	(non-voting)
Mr. J.S. Mather	-	-
Mr. A.L. Gooneratne	<b>23,151</b>	23,151
	<b>5,198</b>	5,198
	<b>(non-voting)</b>	(non-voting)
Dr. H.S. Wanasinghe	-	-
Mr. B.R.L. Fernando	<b>1,412</b>	1,412
	<b>(non-voting)</b>	(non-voting)
Mr. M.L. Mack	-	-
Mr. A.N. Fonseka	<b>178</b>	178
	<b>(non-voting)</b>	(non-voting)
Mr. P. Amarasinghe	-	-
Mr. S. Abeysinghe	-	-

Directors' shareholdings have not changed subsequent from the date of the Balance Sheet up to January 21, 2003 being one month prior to the date of Notice of the Annual General Meeting.

## Directors' Interests in Cumulative Redeemable Preference Shares

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

## Directors' Interests in Debentures

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

## Employee Share Ownership / Option Plans

The details of an Employee Share Option Plan are given in Note 28 to the Financial Statements. Bank has also made arrangements to obtain the approval of the shareholders to introduce an Employee Share Ownership Plan as detailed in Note 37 to the Financial Statements.

## Directors' Interests in Contracts

Directors' interests in contracts or proposed contracts with the Company, both direct and indirect are disclosed in Note 35 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.

## Environmental Protection

The Bank / Group has not engaged in any activity, which is harmful to the environment. Specific measures taken to protect the environment are given in the Social Impact Report on page 24 of this Report.

## Statutory Payments

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

# Directors' Report

## Events After the Balance Sheet Date

There have not been any material events that occurred subsequent to the date of the Balance Sheet that require adjustments to the Financial Statements other than those disclosed, if any, in Note 37 to the Financial Statements.

## 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.

## Appointment of 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 authorising the Directors to fix their remuneration will be proposed at the Annual General Meeting.

## Notice of Meeting

Notice of Meeting relating to Thirty Fourth Annual General Meeting is given on page 119.

By Order of the Board,



**Mrs. R.R. Dunuwille**

*Company Secretary*

February 21, 2003

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 56 of this Report. The Financial Statements for the year 2002 prepared and presented in this 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 58 to 99 inclusive, they have adopted appropriate accounting policies on a consistent basis and supported by reasonable and prudent judgements and estimates.

The Directors also have taken such steps as are reasonably open to them to safeguard the assets of the 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 57 of this Report.

By Order of the Board,

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

February 21, 2003  
Colombo

## Audit Committee Report

The Audit Committee comprises four non-Executive Members of the Board and the Managing Director, who attends the meetings by invitation. The Bank's Assistant 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 systems and 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, accepted ethical guidelines and the Bank's policies.

During the year under review, the Committee met five times and reviewed over 150 Audit and Inspection Reports on Branches and Head Office Departments with special emphasis on credit administration, quality of operations and overall performance 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 further improvements in overall performance were found to be necessary. The Committee met with the external auditors before the commencement and at the conclusion of the annual audit and also reviewed their Management Letter and the Management's response thereto.

The Committee 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.

The Audit Committee reviewed the effectiveness of the internal financial controls and the procedures established for identifying, assessing and managing risks, particularly in the background of the complexity of operations, advanced information technology, diversity of products and services offered and the rapid expansion of the branch network. Corporate Management was invited to make Presentations on Risk Management measures adopted in their areas of responsibility. At least, bi-annually, the Committee reviews in detail the Bank's adherence to the Risk Management measures approved by the Board and quarterly, the Bank's compliance with mandatory banking and other statutory requirements. The Committee also reviewed closely 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. 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 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 branch inspections.

The Audit Committee has recommended to the Board of Directors that M/s. KPMG Ford, Rhodes, Thornton & Company be reappointed as Auditors for the financial year ending December 31, 2003 subject to the approval of the Shareholders at the next Annual General Meeting.

**J S Mather**  
*Chairman - Audit Committee*

February 21, 2003

# 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)  
Telefax: (94-1) 445872,  
446058, 541249  
E-mail: frt@kpmg.lk

### REPORT OF THE AUDITORS

#### 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, 2002, the consolidated balance sheet of the Company and its subsidiaries as at that date and the related statements of income, changes in equity and cash flows for the year then ended, together with the accounting policies and notes exhibited on pages 58 to 99 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, 2002, and to the best of our

information and according to the explanations given to us, the said balance sheet, and related statements of income, changes in equity and cash flows 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 Bank's state of affairs as at December 31, 2002, and of its profit and cash flow for the year then ended.

In our opinion, the consolidated balance sheet and related statements of income, changes in equity and cash flows and the accounting policies and notes thereto have been properly prepared and presented in accordance with the Companies Act No.17 of 1982, the Banking Act No.30 of 1988 and the Sri Lanka Accounting Standards, and give a true and fair view of the state of affairs as at December 31, 2002, and of its profit and cash flow 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, 2002, except as stated in Note 35 to these financial statements.

Chartered Accountants

Colombo

February 21, 2003



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. Sirikanathan, F.C.A.  
C.P. Jayatilake, F.C.A.

## Income Statement

		Bank			Group		
		2002	2001	Change	2002	2001	Change
For the year ended December 31,	Note	Rs.'000	Rs.'000	%	Rs.'000	Rs.'000	%
<b>Net income</b>	1	<b>8,107,000</b>	7,665,050	5.77	<b>8,900,221</b>	8,545,918	4.15
Interest income	2	<b>6,612,897</b>	6,509,850	1.58	<b>7,543,309</b>	7,446,345	1.30
Less: Interest expenses	3	<b>3,746,804</b>	4,174,096	(10.24)	<b>4,434,859</b>	5,008,659	(11.46)
Net interest income		<b>2,866,093</b>	2,335,754	22.71	<b>3,108,450</b>	2,437,686	27.52
Foreign exchange profit		<b>464,307</b>	563,390	(17.59)	<b>464,307</b>	563,390	(17.59)
Fee and commission income		<b>824,066</b>	635,747	29.62	<b>824,066</b>	635,747	29.62
Other income	4	<b>273,319</b>	96,468	183.33	<b>144,126</b>	50,098	187.69
		<b>4,427,785</b>	3,631,359	21.93	<b>4,540,949</b>	3,686,921	23.16
Less: Turnover Tax		-	11,594	-	-	12,397	-
National Security Levy		<b>67,589</b>	128,811	(47.53)	<b>75,587</b>	137,265	(44.93)
		<b>4,360,196</b>	3,490,954	24.90	<b>4,465,362</b>	3,537,259	26.24
Less: Operating expenses	5						
Personnel costs		<b>1,115,752</b>	957,399	16.54	<b>1,121,382</b>	961,436	16.64
Premises, equipment and establishment expenses		<b>739,949</b>	615,920	20.14	<b>684,043</b>	565,690	20.92
Provision for staff retirement benefits	6	<b>195,812</b>	64,853	201.93	<b>195,812</b>	64,853	201.93
Other overhead expenses		<b>366,697</b>	291,138	25.95	<b>375,485</b>	273,457	37.31
		<b>2,418,210</b>	1,929,310	25.34	<b>2,376,722</b>	1,865,436	27.41
Profit before loan losses and provisions and provision for fall in value of investments/investment properties		<b>1,941,986</b>	1,561,644	24.36	<b>2,088,640</b>	1,671,823	24.93
Less: Loan losses and provisions	7	<b>401,972</b>	236,677	69.84	<b>401,972</b>	236,677	69.84
Fall in value of investments/investment properties		<b>15,000</b>	-	-	<b>11,275</b>	3,725	202.68
Profit from operations		<b>1,525,014</b>	1,324,967	15.10	<b>1,675,393</b>	1,431,421	17.04
Add/(Less): Share of profit/(loss) before tax of Associate Companies	8	-	-	-	<b>28,477</b>	(9,877)	388.32
<b>Profit before taxation</b>		<b>1,525,014</b>	1,324,967	15.10	<b>1,703,870</b>	1,421,544	19.86
Less: Provision for taxation	9	<b>321,000</b>	315,000	1.90	<b>391,323</b>	374,882	4.39
<b>Profit after taxation</b>		<b>1,204,014</b>	1,009,967	19.21	<b>1,312,547</b>	1,046,662	25.40
Less: Minority interest		-	-	-	<b>1,924</b>	1,401	37.33
Profit attributable to shareholders		<b>1,204,014</b>	1,009,967	19.21	<b>1,310,623</b>	1,045,261	25.39
Earnings per Ordinary Share	10	<b>Rs. 25.99</b>	Rs. 23.38	11.16	<b>Rs. 28.54</b>	Rs. 24.22	17.84
Dividend per Ordinary Share		<b>Rs. 5.00</b>	Rs. 4.50	11.11	<b>Rs. 5.00</b>	Rs. 4.50	11.11

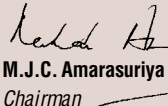
The Accounting Policies and the Notes from pages 63 to 99 form an integral part of these Financial Statements.


# Balance Sheet

As at December 31,		Bank			Group		
		Note	2002 Rs.'000	2001 Rs.'000	Change %	2002 Rs.'000	2001 Rs.'000
<b>ASSETS</b>							
Cash and short-term funds	13	<b>1,835,141</b>	4,271,561	(57.04)	<b>1,837,038</b>	4,285,885	(57.14)
Balance with Central Bank of Sri Lanka	14	<b>3,244,112</b>	3,090,702	4.96	<b>3,244,112</b>	3,090,702	4.96
Government of Sri Lanka Treasury							
Bills and Bonds		<b>8,653,800</b>	5,307,500	63.05	<b>13,939,110</b>	12,936,275	7.75
Commercial paper		<b>1,079,500</b>	1,170,000	(7.74)	<b>1,079,500</b>	1,170,000	(7.74)
Securities purchased under re-sale agreements		<b>832,296</b>	1,063,803	(21.76)	<b>1,448,505</b>	929,477	55.84
Dealing securities	15	<b>200,000</b>	–	–	<b>200,000</b>	–	–
Investment securities	16	<b>704,898</b>	462,385	52.45	<b>704,998</b>	462,485	52.44
Treasury Bonds maturing after one year		<b>782,000</b>	–	–	<b>2,987,000</b>	–	–
Bills of Exchange	17.1	<b>2,552,264</b>	2,367,793	7.79	<b>2,552,264</b>	2,367,793	7.79
Loans and advances	17.2	<b>47,239,346</b>	36,581,694	29.13	<b>47,239,346</b>	36,581,694	29.13
Lease receivable within one year	17.3	<b>710,653</b>	674,296	5.39	<b>698,310</b>	666,371	4.79
Lease receivable from one to five years	17.4	<b>1,210,187</b>	844,948	43.23	<b>1,196,626</b>	830,704	44.05
		<b>69,044,197</b>	55,834,682	23.66	<b>77,126,809</b>	63,321,386	21.80
Investment properties	18	<b>110,713</b>	147,550	(24.97)	<b>110,713</b>	147,550	(24.97)
Investments in Associate Companies	19	<b>78,331</b>	78,331	–	<b>140,668</b>	125,783	11.83
Investments in Subsidiary Companies	20	<b>424,393</b>	424,393	–	<b>–</b>	–	–
Interest and fees receivable		<b>295,368</b>	334,583	(11.72)	<b>295,368</b>	334,583	(11.72)
Other assets	21	<b>1,852,936</b>	916,932	102.08	<b>1,957,936</b>	1,164,832	68.09
Property, Plant and Equipment	22	<b>1,545,777</b>	1,409,508	9.67	<b>1,753,125</b>	1,616,152	8.48
		<b>73,351,715</b>	59,145,979	24.02	<b>81,384,619</b>	66,710,286	22.00
<b>FINANCED BY:</b>							
<b>LIABILITIES</b>							
Deposits from customers	23	<b>54,584,518</b>	46,305,769	17.88	<b>54,480,305</b>	46,186,622	17.96
Dividends payable		<b>117,852</b>	162,483	(27.47)	<b>121,183</b>	162,963	(25.64)
Borrowings	24	<b>4,200,236</b>	1,862,675	125.49	<b>4,200,236</b>	1,862,675	125.49
Securities sold under re-purchase agreements		<b>1,938,246</b>	227,694	751.25	<b>9,921,979</b>	7,688,167	29.06
Other liabilities	25	<b>3,974,456</b>	3,098,150	28.28	<b>3,912,210</b>	3,237,499	20.84
Tax payable		<b>38,750</b>	79,327	(51.15)	<b>63,980</b>	83,425	(23.31)
Deferred taxation	26	<b>243,000</b>	165,000	47.27	<b>252,897</b>	173,714	45.58
Debentures	27	<b>500,000</b>	500,000	–	<b>500,000</b>	500,000	–
		<b>65,597,058</b>	52,401,098	25.18	<b>73,452,790</b>	59,895,065	22.64
<b>MINORITY INTEREST</b>		<b>–</b>	–	–	<b>12,830</b>	12,607	1.77
<b>SHAREHOLDERS' FUNDS</b>							
Share capital	28	<b>1,324,456</b>	1,324,456	–	<b>1,324,456</b>	1,324,456	–
Statutory Reserve Fund	29	<b>1,009,000</b>	1,009,000	–	<b>1,009,000</b>	1,009,000	–
Reserves	30	<b>5,421,201</b>	4,411,425	22.89	<b>5,585,543</b>	4,469,158	24.98
Shareholders' funds		<b>7,754,657</b>	6,744,881	14.97	<b>7,918,999</b>	6,802,614	16.41
Total liabilities, minority interest and shareholders' funds		<b>73,351,715</b>	59,145,979	24.02	<b>81,384,619</b>	66,710,286	22.00
Commitments and contingencies	32	<b>24,082,053</b>	19,749,140	21.94	<b>24,082,053</b>	19,749,140	21.94

The Accounting Policies and the Notes from pages 63 to 99 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 21, 2003  
 Colombo

## Cash Flow Statement

<i>For the year ended December 31,</i>	<b>Bank</b>		<b>Group</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
	<b>Rs.'000</b>	Rs.'000	<b>Rs.'000</b>	Rs.'000
<b>Cash Flows from Operating Activities</b>				
Interest and commission receipts	<b>7,406,877</b>	7,145,597	<b>8,337,289</b>	8,082,092
Interest payments	<b>(3,746,803)</b>	(4,174,096)	<b>(4,434,859)</b>	(5,008,659)
Recoveries on loans previously provided/written-off	<b>37,167</b>	4,300	<b>37,167</b>	4,300
Foreign exchange profit and other receipts	<b>492,316</b>	585,968	<b>494,253</b>	567,022
Cash payments to employees and suppliers	<b>(2,286,138)</b>	(1,919,997)	<b>(2,237,562)</b>	(1,848,968)
Operating profit before changes in operating assets	<b>1,903,419</b>	1,641,772	<b>2,196,288</b>	1,795,787
(Increase)/Decrease in operating assets:				
Balance with Central Bank of Sri Lanka	<b>(153,410)</b>	(507,458)	<b>(153,410)</b>	(507,458)
Funds advanced to customers	<b>(11,645,995)</b>	(5,541,535)	<b>(11,642,260)</b>	(5,545,000)
Increase/(Decrease) in operating liabilities:				
Deposits from customers	<b>7,087,843</b>	8,199,167	<b>7,102,777</b>	8,233,632
Negotiable certificates of deposit	<b>1,190,906</b>	583,603	<b>1,190,906</b>	583,603
Net cash from operating activities before income tax	<b>(1,617,237)</b>	4,375,549	<b>(1,305,699)</b>	4,560,564
Income tax paid	<b>(253,491)</b>	(262,233)	<b>(299,488)</b>	(286,682)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(1,870,728)</b>	4,113,316	<b>(1,605,187)</b>	4,273,882
<b>Cash Flows from Investing Activities</b>				
Dividends received	<b>163,814</b>	50,387	<b>32,685</b>	20,619
Interest received	<b>15,653</b>	5,001	<b>15,653</b>	5,001
Placements with banks	-	-	-	-
Government of Sri Lanka Treasury Bills and Bonds	<b>(4,128,300)</b>	(4,240,891)	<b>(3,207,835)</b>	(8,706,642)
Securities purchased under re-sale agreements	<b>231,507</b>	(1,063,803)	<b>(519,028)</b>	(427,544)
Securities sold under re-purchase agreements	<b>1,710,552</b>	(1,202,440)	<b>2,233,812</b>	2,791,414
Commercial paper	<b>90,500</b>	(839,600)	<b>90,500</b>	(839,600)
Treasury Bonds	-	381,969	<b>(782,000)</b>	381,969
Additions to investments	<b>(445,013)</b>	(277,818)	<b>(445,013)</b>	(277,817)
Income from Associate Companies	-	-	<b>11,580</b>	5,942
Proceeds from matured investments	<b>2,500</b>	35,800	<b>2,500</b>	35,800
Purchase of Property, Plant and Equipment	<b>(338,644)</b>	(296,148)	<b>(354,435)</b>	(301,573)
Proceeds from sale of investment properties	<b>49,900</b>	-	<b>49,900</b>	-
Proceeds from sale of Property, Plant and Equipment	<b>3,630</b>	11,493	<b>3,630</b>	11,493
<b>Net cash inflow/(outflow) from investing activities</b>	<b>(2,643,901)</b>	(7,436,050)	<b>(2,868,051)</b>	(7,300,938)

## Cash Flow Statement

	Bank		Group	
	2002 Rs.'000	2001 Rs.'000	2002 Rs.'000	2001 Rs.'000
<i>For the year ended December 31,</i>				
<b>Cash Flows from Financing Activities</b>				
Minority interest	-	-	(1,701)	(1,374)
Proceeds from issue of Preference Shares	-	906,555	-	906,555
Share issue expenses incurred	(1,164)	-	(1,164)	-
Net increase in other borrowings	2,317,078	1,397,974	2,262,110	1,117,514
Dividends paid	(237,705)	(166,464)	(234,854)	(165,984)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>2,078,209</b>	<b>2,138,065</b>	<b>2,024,391</b>	<b>1,856,711</b>
<b>Net increase in cash and cash equivalents</b>	<b>(2,436,420)</b>	<b>(1,184,669)</b>	<b>(2,448,847)</b>	<b>(1,170,345)</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>4,271,561</b>	<b>5,456,230</b>	<b>4,285,885</b>	<b>5,456,230</b>
<b>Cash and cash equivalents at end of the period (Refer to Note 13)</b>	<b>1,835,141</b>	<b>4,271,561</b>	<b>1,837,038</b>	<b>4,285,885</b>
<b>Reconciliation of Operating Profit</b>				
Profit before tax	1,525,014	1,324,967	1,703,870	1,421,544
Add/(Less):				
Investment income	(179,467)	(55,388)	(48,338)	(25,620)
Share of profit/(loss) of Associate Companies	-	-	(28,477)	9,877
Notional tax credit on interest on Treasury Bills and Bonds	(30,086)	-	(30,086)	-
Profit/(Loss) on sale of Property, Plant and Equipment	(915)	24	(915)	24
Profit/(Loss) on sale of investment properties	(20,260)	-	(20,260)	-
Recoveries not involving movements of funds	(7,500)	(14,226)	(7,500)	(14,226)
Depreciation	199,661	180,719	214,747	194,787
Loan losses and provisions	401,972	236,677	401,972	236,677
Provision for fall in value of investments/investment properties	15,000	-	11,275	3,725
Reversal of legal interest provided earlier	-	(31,001)	-	(31,001)
<b>Operating profit before changes in operating assets</b>	<b>1,903,419</b>	<b>1,641,772</b>	<b>2,196,288</b>	<b>1,795,787</b>

## NOTES TO THE ACCOUNTS

Note	Page
1. Net Income	72
2. Interest Income	72
3. Interest Expense	72
4. Other Income	72
5. Operating Expenses	73
6. Provision for Staff Retirement Benefits	73
7. Loan Losses and Provisions	73
8. Share of Profit / (Loss) before Tax of Associate Companies	73
9. Provision for Taxation	74
10. Earnings per Ordinary Share	75
11. Dividends	75
12. Unappropriated Profit/(Loss) carried forward	76
13. Cash and Short Term Funds	76
14. Balance with Central Bank of Sri Lanka	76
15. Dealing Securities	76
16. Investment Securities	77
17. Loans and Advances	78
18. Investment Properties	81
19. Investments in Associate Companies	82
20. Investments in Subsidiary Companies	83
21. Other Assets	83
22. Property, Plant and Equipment	84
23. Deposits from Customers	85
24. Borrowings	85
25. Other Liabilities	85
26. Deferred Taxation	86
27. Debentures	86
28. Share Capital	87
29. Statutory Reserve Fund	88
30. Reserves	88
31. Maturity Analysis	89
32. Commitments and Contingencies	92
33. Capital Commitments	93
34. Financial Reporting by Segment	94
35. Directors' Interests in Contracts with the Company	95
36. Related Party Transactions	96
37. Events After the Balance Sheet Date	99

## Statement of Changes in Equity

	Note	Share Capital			Reserve Fund	Share Premium	Revaluation Reserve	General Reserve	Income Statement	Total
		Ordinary Voting Shares	Ordinary Non-Voting Shares	13% Cum. Red. Preference Shares						
		Rs. '000	Rs. '000	Rs. '000						
		Rs. '000	Rs. '000	Rs. '000						
<b>BANK</b>										
Balance as at 31.12.2000		325,000	23,251	–	1,009,000	641,780	157,286	2,880,624	10,588	5,047,529
Appreciation in the value of investments		–	–	–	–	–	–	11,883	–	11,883
Issue of bonus shares		65,000	4,650	–	–	(69,650)	–	–	–	–
Share issue expenses written-off		–	–	–	–	(10,064)	–	–	–	(10,064)
Issue of Preference Shares		–	–	906,555	–	–	–	–	–	906,555
Profit after tax for the year 2001		–	–	–	–	–	–	–	1,009,967	1,009,967
Transfers during the year 2001		–	–	–	–	–	–	798,000	(798,000)	–
Dividends	11	–	–	–	–	–	–	–	(220,989)	(220,989)
Balance as at 31.12.2001		390,000	27,901	906,555	1,009,000	562,066	157,286	3,690,507	1,566	6,744,881
Share issue expenses written-off		–	–	–	–	(1,164)	–	–	–	(1,164)
Profit after tax for the year 2002		–	–	–	–	–	–	–	1,204,014	1,204,014
Transfers during the year 2002		–	–	–	–	–	–	878,000	(878,000)	–
Dividends	11	–	–	–	–	–	–	–	(193,074)	(193,074)
Balance as at 31.12.2002		390,000	27,901	906,555	1,009,000	560,902	157,286	4,568,507	134,506	7,754,657
<b>GROUP</b>										
Balance as at 31.12.2000		325,000	23,251	–	1,009,000	641,780	157,286	2,880,624	6,881	5,043,822
Share premium held by the Bank		–	–	–	–	–	–	–	26,146	26,146
Appreciation in the value of investments		–	–	–	–	–	–	11,883	–	11,883
Issue of bonus shares		65,000	4,650	–	–	(69,650)	–	–	–	–
Share issue expenses written-off		–	–	–	–	(10,064)	–	–	–	(10,064)
Issue of Preference Shares		–	–	906,555	–	–	–	–	–	906,555
Profit after tax for the year 2001		–	–	–	–	–	–	–	1,045,261	1,045,261
Transfers during the year 2001		–	–	–	–	–	–	798,000	(798,000)	–
Dividends	11	–	–	–	–	–	–	–	(220,989)	(220,989)
Balance as at 31.12.2001		390,000	27,901	906,555	1,009,000	562,066	157,286	3,690,507	59,299	6,802,614
Share issue expenses written-off		–	–	–	–	(1,164)	–	–	–	(1,164)
Profit after tax for the year 2002		–	–	–	–	–	–	–	1,310,623	1,310,623
Transfers during the year 2002		–	–	–	–	–	–	878,000	(878,000)	–
Dividends	11	–	–	–	–	–	–	–	(193,074)	(193,074)
Balance as at 31.12.2002		390,000	27,901	906,555	1,009,000	560,902	157,286	4,568,507	298,848	7,918,999

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



# Significant Accounting Policies

## 1. General

Commercial Bank is a public quoted company incorporated on June 25, 1969 and domiciled in Sri Lanka. The Consolidated Financial Statements of the Bank for the year ended December 31, 2002 comprise the Bank (parent company) and its Subsidiaries (together referred to as the "Group") and the Group's interest in its Associate Companies.

The Financial Statements were authorised for issue on February 21, 2003.

### 1.1 Principal Activities

#### **Bank**

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

#### **Subsidiaries**

The principal activities of the Bank's Subsidiaries, namely, 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 the Bank's Associates, namely, Commercial Leasing Company Ltd., Equity Investments Lanka Ltd. and Commercial Fund Management (Pvt.) Ltd. are leasing and factoring, venture capital and fund management respectively.

### 1.2 Basis of Preparation

The Financial Statements of the Bank are prepared under the historical cost convention. No adjustment has been made for inflationary factors affecting the Financial Statements except that certain investment properties and land and buildings are stated at valuation as explained in Notes 18 and 22 to the Financial Statements respectively. Assets and liabilities are grouped by nature and listed in an order that reflects their relative liquidity. These Financial Statements are prepared in Sri Lanka Rupees unless otherwise stated. Where appropriate the accounting policies are disclosed in the succeeding notes.

### 1.3 Statement of Compliance

The Financial Statements of the Bank are prepared in accordance with the Sri Lanka Accounting Standards and therefore present fairly the financial position, financial performance and cash flows of the Company.

### 1.4 Basis of Consolidation

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

## Significant Accounting Policies

### *1.4.1 Subsidiaries*

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. The Consolidated Financial Statements are prepared to a common financial year ending December 31. All Subsidiaries in the Group have a common financial year ending December 31.

A listing of the Group's Subsidiaries is set out in Note. 20 to the Financial Statements.

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

### *1.4.2 Associates*

Associates are those enterprises in which the Group has significant influence, but no control, over the financial and operating policies. Consolidated Financial Statements include the Group's share of the total recognised gains and losses of the Associates on the Equity Method, from the date that significant influence commences until the date that significant influence ceases.

A listing of the Associate Companies are set out in Note No.19 to the Financial Statements.

### *1.4.3 Goodwill/Negative Goodwill*

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable 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.

Negative Goodwill arising on an acquisition represents the excess of fair value of the net identifiable assets acquired over the cost of acquisition.

No Goodwill/Negative 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.

### *1.4.4 Transactions Eliminated on Consolidation*

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.

## 1.5 Foreign Currency Translation

*1.5.1* Transactions in foreign currencies are translated to Sri Lanka Rupees at the middle rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are translated to Sri Lanka Rupees at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translations are recognised in the Income Statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Sri Lanka Rupees at foreign exchange rates ruling at the dates the values were determined.

## Significant Accounting Policies

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

### 1.6 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.

### 1.7 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 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.

### 1.8 Comparative Figures

Amounts shown for the previous year in respect of Other Income, Securities purchased under Re-sale Agreements, Other Assets, Other Liabilities, Securities sold under Re-purchase Agreements, Recoveries on loans previously provided/written-off and Net Increase in Other Borrowings have been reclassified to facilitate comparison.

### 1.9 Events After the Balance Sheet Date

All the material events after the Balance Sheet date have been considered and appropriate adjustments/disclosures have been made in 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%

## Significant Accounting Policies

### 2.2 Finance Leases

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title are accounted for as finance leases.

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.

#### 2.2.1 Provision for Lease Receivable

Specific provision has been made in relation to identified bad and doubtful leases.

In addition, a general provision for losses on Lease Receivable is 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 Government of Sri Lanka Treasury Bills and Bonds

#### 2.4.1 Investment in Treasury Bills

Investment in Treasury Bills is reflected at the value of the bills purchased by adding interest receivable. Interest receivable is taken to the Income Statement based on a pattern reflecting a constant periodic rate of return.

#### 2.4.2 Investment in Treasury Bonds

Investment in Treasury Bonds is reflected at the value of the bonds purchased by adding the discount received thereon. Discount received is taken to the Income Statement based on a pattern reflecting a constant periodic rate of return.

### 2.5 Investments

#### 2.5.1 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.

#### 2.5.2 Fall in Value of Dealing Securities

Unrealised losses on revaluation of dealing securities at the lower of cost and market value are taken to the Income Statement.

#### 2.5.3 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. Changes in market values of those securities are not taken into account, unless there is considered to be a diminution in value which is other than temporary.

## Significant Accounting Policies

### 2.5.4 Investment Properties

Land and buildings that are not occupied substantially for use by or in the operations of the Bank or other companies in the Group 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 every three years.

### 2.5.5 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.

### 2.5.6 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.

## 2.6 Property, Plant and Equipment

2.6.1 Property, Plant and Equipment are recorded at cost of purchase or construction or valuation together with any incidental expenses thereon. These assets are stated at cost/valuation less accumulated depreciation which is provided for on the basis specified in 2.6.2 below.

2.6.2 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/constructed/disposed of during the year. Depreciation is not provided for freehold land.

2.6.3 Depreciation is provided in the Financial Statements of the Bank's Subsidiary, 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	over the period of lease (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.

2.6.4 The revaluation surplus included in equity will be transferred to retained earnings if the underlying assets are sold.

# Significant Accounting Policies

## 3. Liabilities and Provisions

### 3.1 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of other liabilities. Bank's share of any contingencies and capital commitments of a Subsidiary or an Associate for which the Bank is also liable severally or otherwise is included with appropriate disclosures.

### 3.2 Defined Benefit Plans

#### 3.2.1 Pensions and Retirement Benefits

##### 3.2.1.1 Description of the Plan and Employee Groups Covered

The Bank has an approved Pension Fund, which was established in 1992. As per the Deed of Trust, only those employees who were less than 45 or 50 years of age depending on the retirement age applicable to the respective employees (55 years or 60 years) as at January 1, 1992 are covered by the Pension Fund in order to leave a minimum contribution for a period of 10 years before they are eligible for pension.

##### 3.2.1.2 Funding Arrangements

The Bank contributes to the Pension Fund and the Widows & Orphans' Pension Scheme monthly based on a percentage of gross emoluments excluding certain allowances and bonus. The percentages of contribution are as recommended by the Actuary. The Pension Fund is non-contributory while employees contribute 75% of the recommended contribution rate to the Widows & Orphans' Pension Scheme.

##### 3.2.1.3 Actuarial Valuation and Actuarial Valuation Method

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

An Actuarial Valuation of the Pension Fund and the Widows & Orphans' Pension Scheme was carried out as at December 31, 2002 by M/s. Actuarial & Management Consultants (Pvt.) Ltd. The valuation has been carried out based on the Projected Unit Credit method, the benchmark method recommended by the Sri Lanka Accounting Standard No. 16 - Retirement Benefits Costs.

##### 3.2.1.4 Principal Actuarial Assumptions

The principal financial assumptions used in the valuation are as follows:

Long-term Rate of interest	10.00%	p.a.
Salary increases	8% - 10%	p.a.

The demographic assumptions underlying the valuation are retirement age (55 or 60 years), early withdrawals from service, retirement on medical grounds, death before and after retirement, etc.

## Significant Accounting Policies

### 3.2.1.5 Unfunded Pension Liability

The results revealed that the actuarial present value of the promised retirement benefits is Rs. 1,618.128 million and that the fair value of the fund assets is Rs. 1,140.000 million resulting in a past service deficit totalling to Rs. 478.128 million (Rs. 420.887 million in 2001) in the Pension Fund and the Widows & Orphans' Pension Scheme due to the changes in actuarial assumptions (i.e. interest rate, etc.) that took place since the previous actuarial valuation as at December 31, 2001. In addition to the monthly contributions, the Bank provided a further Rs. 100.000 million to the Pension Fund and the Widows & Orphans' Pension Scheme, resulting in the past service deficit being reduced to Rs. 378.128 million as at December 31, 2002.

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 2003, 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.

### 3.2.1.6 Management of the Fund's Assets

The assets of the Pension Fund and the Widows & Orphans' Pension Scheme are held separately from those of the Bank and independently administered by the Trustees as per the provisions of the Trust Deed.

### 3.2.2 Gratuity

Provision is not made in these Financial Statements for gratuity 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 retirement 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 pension plans are recognised as an expense in the Income Statement as incurred.

### 3.3.1 Employees' Provident Fund

The Bank and employees contribute to the approved private Provident Fund at 12% and 8% respectively. The total amount recognised as an expense for the current year is Rs. 71.850 million (Rs. 63.779 million in 2001).

### 3.3.2 Employees' Trust Fund

The Bank contributes to the Employees' Trust Fund at 3%. The total amount recognised as an expense for the current year is Rs. 17.819 million (Rs. 15.882 million in 2001).

## 3.4 Securities sold under Re-purchase Agreements

These are borrowings collateralised by sale of Treasury Bills and Treasury Bonds held by the Bank to the counterparty from whom the Bank borrowed, subject to a commitment to repurchase them at a pre-determined price. Such securities remain on the Balance Sheet of the Bank and the liability is recorded in respect of the consideration received.

## Significant Accounting Policies

### 3.5 Provisions for Liabilities

A provision is recognised in the Balance Sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligations.

## 4. Income Statement

### 4.1 Revenue Recognition

#### 4.1.1 Interest Income

In terms of the provisions of the Sri Lanka Accounting Standard No. 23 - Revenue Recognition and Disclosures in the Financial Statements of Banks, the interest receivable is recognised on accrual basis. Interest ceases to be taken into revenue when the recovery of interest or principal is in arrears for over three months. Interest on advances classified as non-performing is accounted for on a cash basis. Interest falling due on non-performing advances is credited to Interest in Suspense Account. In addition, interest accrued up to three months on such non-performing advances is also eliminated from the interest income and transferred to interest in suspense.

#### 4.1.2 Lease Income

In terms of the provisions of the Sri Lanka Accounting Standard No. 19 (Revised) - Leases, the recognition of finance income on leasing is done based on a pattern reflecting a constant periodic rate of return on capital outstanding.

The excess of aggregate lease rentals receivable over the cost of the leased assets constitutes the total unearned finance income at the commencement of a lease. The unearned finance income included in the lease rentals receivable is taken into revenue over the term of the lease commencing from the month in which the lease is executed in proportion to the capital outstanding.

Finance income in respect of lease rentals due ceases to be taken to revenue when they are in arrears for three months. Thereafter such income is recognised on a cash basis. Interest accrued up to three months on such non-performing leases is also eliminated from the interest income and transferred to interest in suspense.

#### 4.1.3 Income on Discounting of Bills of Exchange

Income on discounting of Bills of Exchange is recognised proportionately over the period of the instrument.

#### 4.1.4 Fees and Commission Income

Fees and commission income arises on financial services provided by the Group including Trade Finance, Travel, Investment Banking, e-banking, Credit Cards, Legal, etc. Fees and commission income other than fees receivable on Credit Cards is recognised on a cash basis.

#### 4.1.5 Dividend Income on Shares and Units

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

#### 4.1.6 Interest Income on Investments in Debentures

Interest income on investments in Debentures is recognised on accrual basis.

#### 4.1.7 Rental Income

Rental income is recognised on accrual basis.



## Significant Accounting Policies

### *4.1.8 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.

### *4.1.9 Gains or Losses on Disposal of Property, Plant and Equipment and Investment Properties*

Net gains and losses resulting from the disposal of Property, Plant and Equipment and Investment Properties have been accounted for on a cash basis in the Income Statement.

### **4.2 Interest and other Expenses**

In terms of the provisions of the Sri Lanka Accounting Standard No. 23 - Revenue Recognition and Disclosures in the Financial Statements of Banks, the interest and other expenses payable are recognised on accrual basis in the Income Statement.

### **4.3 Borrowing Costs**

Costs incurred in respect of funds specifically obtained for the acquisition of the Property, Plant and Equipment have been recognised as an expense in the Income Statement, in the period in which they are incurred in terms of Sri Lanka Accounting Standard No. 20 - Borrowing Costs.

### **4.4 Terminal Benefits**

The actual amounts paid as pension and retirement gratuities to those employees, who are not covered by the Pension Fund as per 3.2.1 above, are charged to the Income Statement. The actual amounts paid as pension to those employees who are covered by the Pension Fund are borne by the Retirement Pension Fund.

### **4.5 Off-Balance Sheet Transactions**

The Bank enters into off-balance sheet transactions such as forward exchange contracts and currency swaps. At the year end 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 - Cash Flow Statements. Cash and cash equivalents comprise mainly of cash balances, loans at call and short-term placements/balances with foreign banks.

## **6. Segmental Reporting**

A segment is a distinguishable component of the Group that is engaged in providing services (Business Segment) or in providing services within a particular economic environment (Geographical Segment) which is subject to risks and rewards that are different from those of other segments.

In accordance with the Sri Lanka Accounting Standard No. 28 - Reporting Financial Information by Segment, segmental information is presented in respect of the Group Accounts. The segments comprise of banking, leasing, dealing and property / investment.

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

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements. Please refer page 55 for the Statement of Directors' Responsibility.

## Notes to the Accounts

### 1. Net Income

	Bank		Group	
	2002 Rs.'000	2001 Rs.'000	2002 Rs.'000	2001 Rs.'000
Gross income	<b>8,364,190</b>	8,203,122	<b>9,165,409</b>	9,093,247
Less: Turnover based taxes:				
Turnover tax recovered from customers	–	40,840	–	40,840
Turnover tax paid by the Bank/Group	–	11,594	–	12,397
National Security Levy recovered from customers	<b>189,601</b>	356,827	<b>189,601</b>	356,827
National Security Levy paid by the Bank/Group	<b>67,589</b>	128,811	<b>75,587</b>	137,265
Net income	<b>8,107,000</b>	7,665,050	<b>8,900,221</b>	8,545,918

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

### 2. Interest Income

Customer advances	<b>5,601,989</b>	5,600,079	<b>5,601,989</b>	5,595,927
Treasury bills, Treasury bonds, Placements with other Banks and other Money market instruments	<b>1,010,908</b>	909,771	<b>1,941,320</b>	1,850,418
	<b>6,612,897</b>	6,509,850	<b>7,543,309</b>	7,446,345

Net interest income of the Bank from Treasury Bills and Bonds for the period April 1 to December 31, 2002 has been grossed up by Rs. 30.086 million for the notional tax credit, consequent to the interest income on Treasury Bills and Bonds being subjected to withholding tax as detailed in Note 9.

### 3. Interest Expenses

Customer deposits	<b>3,451,588</b>	3,837,061	<b>3,447,630</b>	3,837,061
Debentures	<b>67,627</b>	73,315	<b>67,627</b>	73,315
Short-term borrowings and refinance	<b>214,019</b>	253,278	<b>906,032</b>	1,092,044
Other interest expenses	<b>13,570</b>	10,442	<b>13,570</b>	6,239
	<b>3,746,804</b>	4,174,096	<b>4,434,859</b>	5,008,659

### 4. Other Income

Income from investment securities (quoted)	<b>21,924</b>	14,870	<b>21,924</b>	14,870
Income from investment securities (unquoted)	<b>10,654</b>	3,165	<b>10,654</b>	3,165
Income from investments in Associates (quoted)	<b>10,553</b>	5,942	<b>10,553</b>	5,942
Income from investments in Associates (unquoted)	<b>1,028</b>	–	<b>1,028</b>	–
Income from investments in Subsidiaries (quoted)	<b>26,549</b>	23,826	–	–
Income from investments in Subsidiaries (unquoted)	<b>93,000</b>	–	–	–
Income from Unit Trust Company	<b>15,759</b>	7,585	<b>15,759</b>	7,585
Bad debts recovered (including recovery of debts written-off)	<b>44,667</b>	18,526	<b>44,667</b>	18,526
Profit/(Loss) on sale of Property, Plant and Equipment and Investment Properties	<b>21,175</b>	(24)	<b>21,175</b>	(24)
Rental and other income	<b>28,010</b>	22,578	<b>29,947</b>	5,976
	<b>273,319</b>	96,468	<b>155,707</b>	56,040
Less: Dividends received from Associate Companies transferred to investment account	–	–	<b>11,581</b>	5,942
	<b>273,319</b>	96,468	<b>144,126</b>	50,098

## Notes to the Accounts

### 5. Operating Expenses

	Bank		Group	
	2002 Rs.'000	2001 Rs.'000	2002 Rs.'000	2001 Rs.'000
Operating expenses include the following:				
Executive Director's emoluments	10,962	8,799	10,962	8,799
Directors' fees	2,580	2,102	2,706	2,228
Auditors' remuneration	1,736	1,666	1,761	1,711
Non-Audit fees	474	137	474	182
Terminal benefits	21,015	19,758	21,660	19,961
Pensions paid to past Directors	1,622	1,386	1,622	1,386
Depreciation/amortisation	199,661	180,719	214,747	194,787
Professional and legal expenses	17,905	13,872	18,059	14,053
Donations	1,113	500	1,155	527
Employer's contribution to Employees' Provident Fund	71,850	63,779	72,354	63,873
Employer's contribution to Employees' Trust Fund	17,819	15,882	17,947	16,258

### 6. Provision for Staff Retirement Benefits

A sum of Rs. 195.812 million (Rs. 64.853 million in 2001) has been charged against profits being the total contributions for the year to the approved Pension Fund and Widows & Orphans' Pension Scheme.

### 7. Loan Losses and Provisions

	Bank		Group	
	2002 Rs.'000	2001 Rs.'000	2002 Rs.'000	2001 Rs.'000
Provision for bad & doubtful debts :				
Specific provision on loans and advances	332,627	190,536	332,627	190,536
General provision on credit card receivables	649	-	649	-
Specific provision on credit card receivables	15,202	27,928	15,202	27,928
General provision on lease receivable	20,000	10,300	20,000	10,300
Specific provision on lease receivable	13,944	-	13,944	-
Total provision made during the year	382,422	228,764	382,422	228,764
Direct write-offs	19,550	7,913	19,550	7,913
	<b>401,972</b>	<b>236,677</b>	<b>401,972</b>	<b>236,677</b>

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

Commercial Leasing Co. Ltd.	-	-	18,790	(9,399)
Equity Investments Lanka Ltd.	-	-	867	212
Commercial Fund Management (Pvt) Ltd.	-	-	1,286	(690)
Net adjustment arising on equity accounting	-	-	7,534	-
	-	-	<b>28,477</b>	<b>(9,877)</b>

## Notes to the Accounts

	<b>Bank</b>		<b>Group</b>	
	<b>2002</b> Rs.'000	2001 Rs.'000	<b>2002</b> Rs.'000	2001 Rs.'000
<b>9. Provision for Taxation</b>				
<b>9.1 Charge to taxation is as follows:</b>				
<b>Bank:</b>				
Income tax on profits for the year	<b>243,000</b>	300,000	<b>243,000</b>	300,000
Transfer to deferred taxation	<b>78,000</b>	15,000	<b>78,000</b>	21,224
	<b>321,000</b>	315,000	<b>321,000</b>	321,224
<b>Subsidiary Companies:</b>				
Income tax on profits of				
Commercial Development Co. Ltd.	-	-	<b>19,329</b>	18,043
Income tax on profits of				
Commercial Bank Primary Dealer Ltd.	-	-	<b>48,983</b>	31,245
<b>Associate Companies:</b>				
Income tax on profits of Commercial Leasing Co. Ltd.	-	-	<b>2,228</b>	3,454
Income tax on profits of Equity Investments Lanka Ltd.	-	-	<b>(217)</b>	916
Income tax on profits of				
Commercial Fund Management (Pvt) Ltd.	-	-	-	-
	<b>321,000</b>	315,000	<b>391,323</b>	374,882

Income tax has been provided on the taxable income at the following rates:

	<b>2002</b>	2001
Domestic operations of the Bank	<b>30.00%</b>	30.00%
On-shore banking operations of the Off-shore Banking Centre of the Bank	<b>10.00%</b>	10.00%
Commercial Development Co. Ltd.	<b>30.00%</b>	30.00%
Commercial Bank Primary Dealer Ltd.	<b>35.00%</b>	35.00%

In addition, the surcharge on income tax at 20% was provided in arriving at the provision for tax for the year 2001.

### **Notional credit for WHT on Government Securities on Secondary Market Transactions**

The press notice issued by the Secretary to the Treasury on October 28, 2002, which is pending legislation, stated that any person who derived income from the secondary market transactions in Government securities (issued after or outstanding at April 1, 2002) would be entitled to a notional credit in relation to the tax payable by such person.

Accordingly, the net interest income earned by the Bank from secondary market transactions in Government securities since April 1, 2002, has been grossed up in the Financial Statements and the resulting notional credit amounts to Rs. 30.086 million.

### **9.2 Reconciliation of Accounting Profit and Taxable Income:**

	<b>Bank</b>	
	<b>2002</b> Rs.'000	2001 Rs.'000
Net profit as per the Income Statement	<b>1,525,014</b>	1,324,967
Add: Disallowable expenses	<b>326,499</b>	349,658
	<b>1,851,513</b>	1,674,625
Less: Allowable expenses	<b>355,560</b>	601,251
Assessable income	<b>1,495,953</b>	1,073,374
Less: Exempt Dividends and Interest income	<b>479,783</b>	78,226
	<b>1,016,170</b>	995,148
Less: Qualifying payments	<b>930</b>	466
Taxable income	<b>1,015,240</b>	994,682

## Notes to the Accounts

	<b>Bank</b>	
	<b>2002</b> Rs.'000	2001 Rs.'000
Income tax provision for the year is made up as follows:		
Income tax on profit of the Domestic Banking Unit	<b>207,569</b>	240,707
Income tax on profit of the Off-shore Banking Centre	<b>35,431</b>	59,293
Provision for deferred tax	<b>78,000</b>	15,000
	<b>321,000</b>	315,000
Effective tax rate	<b>21.05%</b>	23.77%

### 10. Earnings per Ordinary Share

Earnings per ordinary share has been calculated by dividing the 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:

	<b>Bank</b>		<b>Group</b>	
	<b>2002</b> Rs.'000	2001 Rs.'000	<b>2002</b> Rs.'000	2001 Rs.'000
Profit after taxation and Minority Interest	<b>1,204,014</b>	1,009,967	<b>1,310,623</b>	1,045,261
Less: Dividends on 13% Cumulative Redeemable Preference Shares	<b>117,852</b>	32,934	<b>117,852</b>	32,934
Profit attributable to Ordinary Shareholders	<b>1,086,162</b>	977,033	<b>1,192,771</b>	1,012,327
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>25.99</b>	23.38	<b>28.54</b>	24.22

### 11. Dividends

	<b>Bank</b>		<b>Group</b>	
	<b>2002</b> Interim 18% (Paid on Dec. 23, '02) Rs.'000	2001 45% Total Rs.'000	<b>2002</b> Interim 18% (Paid on Dec. 23, '02) Rs.'000	2001 45% Total Rs.'000
<b>On Ordinary Shares</b>				
Net dividend paid/payable to the Shareholders	<b>75,222</b>	187,187	<b>75,222</b>	187,187
With-holding tax deducted at source	-	868	-	868
Gross dividend	<b>75,222</b>	188,055	<b>75,222</b>	188,055
<b>On Preference Shares</b>				
Dividend payable on 13% Cumulative Redeemable Preference Shares of Rs. 10/- each for the year/period				
Net dividend paid / payable	<b>106,067</b>	32,933	<b>106,067</b>	32,933
With-holding tax to be deducted at source	<b>11,785</b>	1	<b>11,785</b>	1
Gross dividend	<b>117,852</b>	32,934	<b>117,852</b>	32,934
Total dividend	<b>193,074</b>	220,989	<b>193,074</b>	220,989

## Notes to the Accounts

18% interim dividend paid in December 2002 to the Ordinary Shareholders was paid out of the exempt dividends received by the Bank (Rs. 10.383 million in 2001). The effective interim dividend rate was 20% for the year (15.34% for 2001).

Directors have recommended the payment of a final dividend of 32% for the year ended December 31, 2002 (31% in 2001), which will be declared at the Annual General Meeting to be held on March 28, 2003. In accordance with Sri Lanka Accounting Standard No. 12 - (Revised) Events After the Balance Sheet Date, this proposed final dividend has not been recognised as a liability as at December 31, 2002.

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

	Bank		Group	
	2002 Rs.'000	2001 Rs.'000	2002 Rs.'000	2001 Rs.'000
Commercial Bank of Ceylon Ltd.	<b>134,506</b>	1,566	<b>60,295</b>	(72,645)
<b>Subsidiary Companies:</b>				
Commercial Development Co. Ltd.	-	-	<b>22,408</b>	18,537
Commercial Bank Primary Dealer Ltd.	-	-	<b>153,808</b>	65,955
<b>Associate Companies:</b>				
Commercial Leasing Co. Ltd.	-	-	<b>70,641</b>	59,365
Equity Investments Lanka Ltd.	-	-	<b>(6,022)</b>	(8,038)
Commercial Fund Management (Pvt) Ltd.	-	-	<b>(2,282)</b>	(3,875)
	<b>134,506</b>	1,566	<b>298,848</b>	59,299

### 13. Cash and Short-Term Funds

Coins and notes held in local currency	<b>758,286</b>	795,575	<b>758,286</b>	795,575
Coins and notes held in foreign currency	<b>258,219</b>	92,430	<b>258,219</b>	92,430
Current Account with Central Bank of Sri Lanka	-	-	<b>1,897</b>	14,324
Placements/balances with foreign banks (maturing within one year)	<b>818,636</b>	1,633,556	<b>818,636</b>	1,633,556
Loans at call and short notice	-	1,750,000	-	1,750,000
	<b>1,835,141</b>	4,271,561	<b>1,837,038</b>	4,285,885

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

Bank's Current Account	<b>3,244,112</b>	3,090,702	<b>3,244,112</b>	3,090,702
------------------------	------------------	-----------	------------------	-----------

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, 2002 the minimum cash reserve requirement was 10% of the rupee deposit liabilities. There is no reserve requirement for foreign currency deposit liabilities of the Domestic Banking Unit and the deposit liabilities of the Off-shore Banking Centre.

### 15. Dealing Securities

	Bank				Group			
	As at 31.12.02		As at 31.12.01		As at 31.12.02		As at 31.12.01	
	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000
<b>Quoted SHARES</b>								
Sri Lanka Telecom Ltd. (13,333,300 Ordinary Shares of Rs. 10/- each)	<b>200,000</b>	<b>200,000</b> (@ Rs. 15/-)*	-	-	<b>200,000</b>	<b>200,000</b> (@ Rs. 15/-)*	-	-
	<b>200,000</b>	<b>200,000</b>	-	-	<b>200,000</b>	<b>200,000</b>	-	-

\* The market value of the shares of Sri Lanka Telecom Ltd. has been arrived at based on the issue price of Rs. 15/- per share, since these shares commenced trading after December 31, 2002.

# Notes to the Accounts

## 16. Investment Securities

	As at 31.12.02		As at 31.12.01		As at 31.12.02		As at 31.12.01	
	Cost	Market Value/ Manager's Buying Price	Cost	Market Value/ Manager's Buying Price	Cost	Market Value/ Manager's Buying Price	Cost	Market Value/ Manager's Buying Price
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Quoted</b>								
<b>SHARES</b>								
Sampath Bank Ltd. (1,000 Ordinary Shares of Rs. 10/- each)	49	72 (@ Rs. 72/-)	49	63 (@ Rs. 63/-)	49	72 (@ Rs. 72/-)	49	63 (@ Rs. 63/-)
Hatton National Bank Ltd. (2,750 Ordinary Shares of Rs. 10/- each)	254	217 (@ Rs. 79/-)	254	130 (@ Rs. 52/-)	254	217 (@ Rs. 79/-)	254	130 (@ Rs. 52/-)
Seylan Bank Ltd. (1,000 Ordinary Shares of Rs. 10/- each)	24	52 (@ Rs. 52/-)	24	26 (@ Rs. 26/-)	24	52 (@ Rs. 52/-)	24	26 (@ Rs. 26/-)
DFCC Bank (3,368,359 Ordinary Shares of Rs. 10/- each)	251,545	522,096 (@ Rs. 155/-)	251,545	387,361 (@ Rs. 115/-)	251,545	522,096 (@ Rs. 155/-)	251,545	387,361 (@ Rs. 115/-)
National Development Bank (1,500 Ordinary Shares of Rs. 10/- each)	198	136 (@ Rs. 90.75)	198	108 (@ Rs. 71.75)	198	136 (@ Rs. 90.75)	198	108 (@ Rs. 71.75)
Nations Trust Bank (1,000 Ordinary Shares of Rs. 10/- each)	14	17 (@ Rs. 16.75)	14	15 (@ Rs. 15/-)	14	17 (@ Rs. 16.75)	14	15 (@ Rs. 15/-)
Mercantile Leasing Ltd. (325,000 Ordinary Shares of Rs. 10/- each)	6,500	7,638 (@ Rs. 23.50)	6,500	4,388 (@ Rs. 13.50)	6,500	7,638 (@ Rs. 23.50)	6,500	4,388 (@ Rs. 13.50)
NDB Bank (1,725 Ordinary Shares of Rs. 10/- each)	17	25 (@ Rs. 14.75)	-	-	17	25 (@ Rs. 14.75)	-	-
<b>DEBENTURES</b>								
National Development Bank (10,000 Debentures of Rs. 1,000/- each)	10,000	10,000 (@ Rs. 1000/-)	10,000	8,600 (@ Rs.860/-)	10,000	10,000 (@ Rs. 1000/-)	10,000	8,600 (@ Rs. 860/-)
Sri Lanka Telecom Ltd. (7,500 Debentures of Rs. 1,000/- each)	7,500	5,625 (@ Rs. 750/-)	10,000	9,250 (@ Rs.925/-)	7,500	5,625 (@ Rs. 750/-)	10,000	9,250 (@ Rs. 925/-)
Hatton National Bank Ltd. (60,000 Debentures of Rs. 100/- each)	6,000	5,970 (@ Rs. 99.50)	-	-	6,000	5,970 (@ Rs. 99.50)	-	-
Aitken Spence & Company Ltd. (237,718 Debentures of Rs. 100/- each)	23,772	23,772 (@ Rs. 100/-)	-	-	23,772	23,772 (@ Rs. 100/-)	-	-
<b>UNITS</b>								
Comtrust Equity Fund (25,281,998 Units of Rs.10/-each)	132,730*	165,850 (@ Rs. 6.56)	132,730*	132,730 (@ Rs.5.25)	132,730*	165,850 (@ Rs. 6.56)	132,730*	132,730 (@ Rs. 5.25)
Namal Optima Fund (5,000,000 Units of Rs.10/-each)	50,000	57,600 (@ Rs. 11.52)	50,000	51,700 (@ Rs. 10.34)	50,000	57,600 (@ Rs. 11.52)	50,000	51,700 (@ Rs. 10.34)
	<b>488,603</b>	<b>799,070</b>	<b>461,314</b>	<b>594,371</b>	<b>488,603</b>	<b>799,070</b>	<b>461,314</b>	<b>594,371</b>
<b>Unquoted</b>								
<b>SHARES</b>								
Credit Information Bureau of Sri Lanka (4,400 Ordinary Shares of Rs. 10/- each)	440	440 (@ Rs. 100/-)	440	440 (@ Rs. 100/-)	440	440 (@ Rs. 100/-)	440	440 (@ Rs. 100/-)
Fitch Ratings Lanka Ltd. (62,500 Ordinary Shares of Rs. 10/- each)	625	625 (@ Rs. 10/-)	625	625 (@ Rs. 10/-)	625	625 (@ Rs. 10/-)	625	625 (@ Rs. 10/-)
NDB Bank (600 Ordinary Shares Rs.10/- each)	-	-	6	6 (@ Rs. 10/-)	-	-	6	6 (@ Rs. 10/-)
Lanka Clear (Pvt) Ltd. (1,000,000 Ordinary Shares Rs.10/- each)	10,000	10,000 (@ Rs. 10/-)	-	-	10,000	10,000 (@ Rs. 10/-)	-	-
Commercial Insurance Brokers (Pvt) Ltd. (120,000 Ordinary Shares of Rs. 10/- each)	-	-	-	-	100	1,200 (@ Rs. 10/-)	100	800 (@ Rs. 10/-)
<b>DEBENTURES</b>								
Singer Sri Lanka Ltd. (250,000 Debentures of Rs. 100/- each)	25,000	25,000 (@ Rs. 100/-)	-	-	25,000	25,000 (@ Rs. 100/-)	-	-
<b>BONDS</b>								
Housing Development Finance Corporation of Sri Lanka	137,357	137,357	-	-	137,357	137,357	-	-
Peoples Leasing Company Ltd.	42,873	42,873	-	-	42,873	42,873	-	-
	<b>216,295</b>	<b>216,295</b>	<b>1,071</b>	<b>1,071</b>	<b>216,395</b>	<b>217,495</b>	<b>1,171</b>	<b>1,871</b>
	<b>704,898</b>	<b>1,015,365</b>	<b>462,385</b>	<b>595,442</b>	<b>704,998</b>	<b>1,016,565</b>	<b>462,485</b>	<b>596,242</b>

\* At written down value

## Notes to the Accounts

### 17. Loans and Advances

	Bank		Group	
	2002 Rs.'000	2001 Rs.'000	2002 Rs.'000	2001 Rs.'000
<b>17.1 Bills of Exchange</b>				
Export bills	2,008,189	1,918,421	2,008,189	1,918,421
Import bills	613,057	493,089	613,057	493,089
	<u>2,621,246</u>	<u>2,411,510</u>	<u>2,621,246</u>	<u>2,411,510</u>
Less: Loan loss provision [Note 17.1 (a)]	68,982	43,717	68,982	43,717
Interest in suspense	-	-	-	-
	<u>2,552,264</u>	<u>2,367,793</u>	<u>2,552,264</u>	<u>2,367,793</u>

The maturity analysis of Bills of Exchange is given in Note 31.

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

##### Specific

Opening balance	43,717	36,484	43,717	36,484
Amount provided	27,272	8,150	27,272	8,150
Amount reversed	(2,007)	(917)	(2,007)	(917)
Closing balance	<u>68,982</u>	<u>43,717</u>	<u>68,982</u>	<u>43,717</u>

### 17.2 Loans and Advances

Sri Lanka Rupee and Foreign Currency				
loans and advances [Note 17.2 (a)]	50,925,540	39,458,966	50,925,540	39,458,966
Less: Loan loss provision [Note 17.2 (b)]	934,264	674,550	934,264	674,550
Interest in suspense [Note 17.2 (c)]	2,751,930	2,202,722	2,751,930	2,202,722
	<u>47,239,346</u>	<u>36,581,694</u>	<u>47,239,346</u>	<u>36,581,694</u>

The maturity analysis of Loans and Advances is given in Note 31.

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

##### Sri Lanka Rupee loans and advances

Overdrafts	11,366,705	9,669,293	11,366,705	9,669,293
Loans	23,728,595	17,980,876	23,728,595	17,980,876
Packing credit	405,242	542,614	405,242	542,614
Trust receipts	13,425	15,621	13,425	15,621
Staff loans	1,009,813	926,710	1,009,813	926,710
Other accounts	1,663,853	1,450,377	1,663,853	1,450,377
	<u>38,187,633</u>	<u>30,585,491</u>	<u>38,187,633</u>	<u>30,585,491</u>



## Notes to the Accounts

	<b>Bank</b>		<b>Group</b>	
	<b>2002</b> Rs. '000	2001 Rs. '000	<b>2002</b> Rs. '000	2001 Rs. '000
<b>Foreign Currency loans and advances</b>				
Overdrafts	<b>1,505,929</b>	1,092,512	<b>1,505,929</b>	1,092,512
Loans	<b>6,826,855</b>	4,758,463	<b>6,826,855</b>	4,758,463
Packing credit	<b>4,405,123</b>	3,022,500	<b>4,405,123</b>	3,022,500
	<b>12,737,907</b>	8,873,475	<b>12,737,907</b>	8,873,475
Total	<b>50,925,540</b>	39,458,966	<b>50,925,540</b>	39,458,966

### 17.2 (b) Movement in the provision for bad & doubtful loans and advances

<b>Specific</b>				
Opening balance	<b>644,711</b>	458,400	<b>644,711</b>	458,400
Amount provided	<b>339,988</b>	242,907	<b>339,988</b>	242,907
Exchange rate variance on foreign currency provisions	<b>2,485</b>	5,244	<b>2,485</b>	5,244
Amount reversed	<b>(63,977)</b>	(61,840)	<b>(63,977)</b>	(61,840)
Closing balance	<b>923,207</b>	644,711	<b>923,207</b>	644,711
<b>General</b>				
Opening balance	<b>29,839</b>	63,787	<b>29,839</b>	63,787
Amount provided	<b>210,649</b>	178,178	<b>210,649</b>	178,178
Amount made specific	<b>(229,431)</b>	(212,126)	<b>(229,431)</b>	(212,126)
Closing balance	<b>11,057</b>	29,839	<b>11,057</b>	29,839
Total provision	<b>934,264</b>	674,550	<b>934,264</b>	674,550

### 17.2 (c) Movement in the Interest in Suspense Account

Opening balance	<b>2,202,722</b>	1,756,663	<b>2,202,722</b>	1,756,663
Interest suspended during the year	<b>695,692</b>	596,339	<b>695,692</b>	596,339
Amount recovered during the year	<b>(146,484)</b>	(150,280)	<b>(146,484)</b>	(150,280)
Closing balance	<b>2,751,930</b>	2,202,722	<b>2,751,930</b>	2,202,722

### 17.3 Lease receivable within one year

Total lease rentals receivable	<b>2,787,820</b>	2,272,908	<b>2,761,916</b>	2,250,739
Less: Lease rentals receivable from one to five years from Balance Sheet date	<b>1,593,254</b>	1,262,686	<b>1,579,693</b>	1,248,442
Lease rentals receivable within one year from Balance Sheet date	<b>1,194,566</b>	1,010,222	<b>1,182,223</b>	1,002,297
Less: Unearned lease income	<b>309,600</b>	197,199	<b>309,600</b>	197,199
VAT/GST recoverable	<b>139,644</b>	117,683	<b>139,644</b>	117,683
Less: Loan loss provision	<b>34,669</b>	21,044	<b>34,669</b>	21,044
	<b>710,653</b>	674,296	<b>698,310</b>	666,371

## Notes to the Accounts

	Bank		Group	
	2002 Rs.'000	2001 Rs.'000	2002 Rs.'000	2001 Rs.'000
<b>17.4 Lease receivable from one to five years</b>				
Lease rentals receivable from one to five years				
from Balance Sheet date	<b>1,593,254</b>	1,262,686	<b>1,579,693</b>	1,248,442
Less: Unearned lease income	<b>232,127</b>	245,308	<b>232,127</b>	245,308
VAT/GST recoverable	<b>104,700</b>	146,060	<b>104,700</b>	146,060
Less: Loan loss provision	<b>46,240</b>	26,370	<b>46,240</b>	26,370
	<b><u>1,210,187</u></b>	<u>844,948</u>	<b><u>1,196,626</u></b>	<u>830,704</u>

The maturity analysis of Lease Receivable is given in Note 31.

There were no lease rentals receivable beyond 5 years.

Movement in the provision for bad & doubtful lease receivable

### Specific

Opening balance	<b>7,346</b>	763	<b>7,346</b>	763
Amount provided	<b>13,944</b>	7,033	<b>13,944</b>	7,033
Amount reversed	<b>(448)</b>	(450)	<b>(448)</b>	(450)
Closing balance	<b><u>20,842</u></b>	<u>7,346</u>	<b><u>20,842</u></b>	<u>7,346</u>

### General

Opening balance	<b>40,067</b>	36,800	<b>40,067</b>	36,800
Amount provided	<b>20,000</b>	10,300	<b>20,000</b>	10,300
Amount made specific	<b>-</b>	(7,033)	<b>-</b>	(7,033)
Closing balance	<b><u>60,067</u></b>	<u>40,067</u>	<b><u>60,067</u></b>	<u>40,067</u>
Total provision	<b><u>80,909</u></b>	<u>47,413</u>	<b><u>80,909</u></b>	<u>47,413</u>

### 17.5 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:

	2002		Bank		2002		Group	
	Rs.'000	%	Rs.'000	2001 %	Rs.'000	%	Rs.'000	2001 %
Non-performing loans and advances	<b>4,518,660</b>	<b>8.42</b>	4,183,900	9.95	<b>4,518,660</b>	<b>8.42</b>	4,183,900	9.95
Less: Interest in suspense included in overdrafts **	<b>878,755</b>		693,495		<b>878,755</b>		693,495	
Net non-performing loans and advances	<b><u>3,639,905</u></b>	<b>6.89</b>	<u>3,490,405</u>	8.44	<b><u>3,639,905</u></b>	<b>6.89</b>	<u>3,490,405</u>	8.44
Less: Prov. for bad & doubtful debts	<b>1,084,155</b>		765,681		<b>1,084,155</b>		765,681	
Net exposure	<b><u>2,555,750</u></b>	<b>4.94</b>	<u>2,724,724</u>	6.71	<b><u>2,555,750</u></b>	<b>4.94</b>	<u>2,724,724</u>	6.71

\*\* This does not tally with the total interest in suspense included in Note 17.2 (c) above due to the interest receivable on non-performing loans not being included.

## Notes to the Accounts

Net exposure of Rs. 2,555.750 million (Rs. 2,724.724 million as at December 31, 2001) is covered by securities valued at Rs. 2,555.750 million (Rs. 2,664.315 million as at December 31, 2001).

All loans and advances where the recovery of capital or interest is in arrears for over three months have been classified into the non-performing category in accordance with the guidelines issued by the Central Bank of Sri Lanka. The Bank's computer system has been programmed to classify the loans in accordance with these guidelines. In instances where the recovery of capital or interest is in arrears for over three months interest credited to the Income Statement on such loans and advances for the first three months too is transferred to interest in suspense.

### 17.5 (a) Provision for bad & doubtful debts - Summary

	Bank		Group	
	2002 Rs.'000	2001 Rs.'000	2002 Rs.'000	2001 Rs.'000
Opening balance	765,681	596,234	765,681	596,234
Provision made during the year	382,422	228,764	382,422	228,764
Exchange rate variance on foreign currency provisions	2,485	5,244	2,485	5,244
Recoveries/Reversals during the year	(66,433)	(64,561)	(66,433)	(64,561)
Closing balance	<u>1,084,155</u>	<u>765,681</u>	<u>1,084,155</u>	<u>765,681</u>

### 17.6 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			
	Rs.'000	2002 %	Rs.'000	2001 %	Rs.'000	2002 %	Rs.'000	2001 %
Exports	11,470,344	20.65	12,985,740	29.90	11,470,344	20.66	12,985,740	29.91
Tourism and allied	1,343,456	2.42	962,006	2.21	1,343,456	2.42	962,006	2.22
Industrial	9,156,950	16.48	4,450,454	10.25	9,156,950	16.49	4,450,454	10.25
Agriculture and fishing	1,373,407	2.47	794,220	1.83	1,373,407	2.47	794,220	1.83
Commercial trading	4,675,471	8.42	3,169,989	7.30	4,675,471	8.42	3,169,989	7.30
Imports	9,883,371	17.79	5,936,442	13.67	9,883,371	17.80	5,936,442	13.67
Consumption	1,786,084	3.22	418,999	0.96	1,786,084	3.22	418,999	0.97
Services	6,546,520	11.79	3,332,538	7.67	6,520,616	11.74	3,310,369	7.62
Housing and construction	3,030,766	5.46	1,344,603	3.10	3,030,766	5.46	1,344,603	3.10
Others	6,282,166	11.30	10,042,143	23.11	6,282,166	11.32	10,042,143	23.13
Gross loans and advances	<u>55,548,535</u>	<u>100.00</u>	<u>43,437,134</u>	<u>100.00</u>	<u>55,522,631</u>	<u>100.00</u>	<u>43,414,965</u>	<u>100.00</u>

### 18. Investment Properties

	Bank		Group	
	2002 Rs.'000	2001 Rs.'000	2002 Rs.'000	2001 Rs.'000
Opening balance	147,550	133,324	147,550	133,324
Additions during the year	7,803	14,226	7,803	14,226
	<u>155,353</u>	<u>147,550</u>	<u>155,353</u>	<u>147,550</u>
Disposals during the year	(29,640)	-	(29,640)	-
	<u>125,713</u>	<u>147,550</u>	<u>125,713</u>	<u>147,550</u>
Less: Provision for fall in value	(15,000)	-	(15,000)	-
Closing balance	<u>110,713</u>	<u>147,550</u>	<u>110,713</u>	<u>147,550</u>

## Notes to the Accounts

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

	Extent			2002		2001	Bank	
	A.	R.	P.	Cost/W.D.V	Forced sale value	Cost/W.D.V	Forced sale value	
				Rs. '000	Rs. '000	Rs. '000	Rs. '000	
1. Land and Building at Kochchikade, Negombo (*)	2	2	36.91	66,613	89,002	81,310	89,002	
2. Land at Katuwapitiya Road, Negombo	1	0	5.00	4,283	4,884	4,283	4,884	
3. Land at Thaladena, Pamunugama	11	1	5.60	20,717	27,168	20,717	27,168	
4. Land and Building at Negombo Road, Narammala	0	1	2.50	8,200	16,500	8,200	16,500	
5. Land at Puttalam Road, Kurunegala (sold on September 30, 2002)	2	3	6.00	-	-	25,000	25,000	
6. Land at Colombo Road, Kurunegala	0	0	30.00	3,400	3,400	3,400	3,400	
7. Land at Light House Street, Galle (sold on August 28, 2002)	0	0	21.52	-	-	4,640	4,640	
8. Land and Building at Old Airport Road, Ratmalana	0	1	26.00	7,500	7,500	-	-	
Total as above				<b>110,713</b>	<b>148,454</b>	<b>147,550</b>	<b>170,594</b>	

A = Acres, R = Roods, P = Perches

\* Bank acquired this hotel property in 1999 in settlement of a debt due to the Bank. With the approval of the Central Bank of Sri Lanka, Bank entered into a management agreement with Serendib Leisure Management (Pvt) Ltd. which agreement expired in December 2002. Currently, this hotel is closed for operations pending the disposal of the property at the earliest opportunity.

### 19. Investments in Associate Companies

	%	31.12.02		31.12.01		31.12.02		31.12.01		
		Holding	Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Quoted:</b>										
Commercial Leasing Co. Ltd. (incorporated in Sri Lanka) (2,420,001 Ordinary Shares of Rs. 10/- each fully paid)										
	30.00	20,000	100,430	20,000	46,200	20,000	100,430	20,000	46,200	
			(@ Rs. 41.50)		(@ Rs. 21/-)		(@ Rs. 41.50)		(@ Rs. 21/-)	
Add: Share Premium held by the Bank		-		-		26,146		26,146		
Less: Capitalisation of Share Premium		-		-		(2,200)		-		
Add: Bank's share of Bonus Issue		-		-		2,200		-		
						26,146		26,146		
Add: Share of profit/(loss) applicable to the Bank:										
Balance at the beginning of the year		-		-		33,219		52,014		
Current year's share of profit/(loss) after tax		-		-		21,829		(12,853)		
Less: Dividend received during the year		-		-		(10,553)		(5,942)		
Current year's retained profit/(loss)		-		-		11,276		(18,795)		
		-		-		44,495		33,219		
Balance at the end of the year		<b>20,000</b>	<b>100,430</b>	20,000	46,200	<b>90,641</b>	<b>100,430</b>	79,365	46,200	
<b>Unquoted:</b>										
Equity Investments Lanka Ltd. (incorporated in Sri Lanka) (4,110,938 Ordinary Shares of Rs. 10/- each fully paid)										
	22.92	44,331	38,309	44,331	36,293	44,331	38,309	44,331	36,293	
Add: Share of profit/(loss) applicable to the Bank:										
Balance at the beginning of the year		-		-		(8,038)		(7,334)		
Current year's share of profit/(loss) after tax		-		-		3,044		(704)		
Less: Dividend received during the year		-		-		(1,028)		-		
Current year's retained profit/(loss)		-		-		2,016		(704)		
		-		-		(6,022)		(8,038)		
Balance at the end of the year		<b>44,331</b>	<b>38,309</b>	44,331	36,293	<b>38,309</b>	<b>38,309</b>	36,293	36,293	

## Notes to the Accounts

	% Holding	Bank				Group			
		31.12.02		31.12.01		31.12.02		31.12.01	
		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	
Commercial Fund Management (Pvt) Ltd. (incorporated in Sri Lanka) (125,000 Ordinary Shares of Rs.100/- each fully paid) 50.00									
		12,500	10,218	12,500	8,625	12,500	10,218	12,500	8,625
		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:									
		-	-	-	-	(3,875)	(3,185)	(3,185)	
		-	-	-	-	1,593	(690)	(690)	
		-	-	-	-	-	-	-	
		-	-	-	-	1,593	(690)	(690)	
		-	-	-	-	(2,282)	(3,875)	(3,875)	
		<u>14,000</u>	<u>11,718</u>	<u>14,000</u>	<u>10,125</u>	<u>11,718</u>	<u>11,718</u>	<u>10,125</u>	<u>10,125</u>
		<u>58,331</u>	<u>50,027</u>	<u>58,331</u>	<u>46,418</u>	<u>50,027</u>	<u>50,027</u>	<u>46,418</u>	<u>46,418</u>
Total Value of Investments in Quoted & Unquoted Associate Companies									
		<u>78,331</u>		<u>78,331</u>		<u>140,668</u>		<u>125,783</u>	
Total Market Value/Directors' Valuation of Investments in Associate Companies									
			<u>150,457</u>		<u>92,618</u>		<u>150,457</u>		<u>92,618</u>

### 20. Investments in Subsidiary Companies

#### Quoted:

Commercial Development Co. Ltd.

(incorporated in Sri Lanka)

(11,345,705 Ordinary Shares of

Rs.10/- each fully paid) 94.55

274,393	249,606	274,393	161,676	-	-	-	-
	(@ Rs. 22/-)		(@ Rs. 14.25)				

#### Unquoted:

Commercial Bank Primary Dealer Ltd.

(incorporated in Sri Lanka)

(15,000,001 Ordinary Shares of

Rs.10/- each fully paid) 100.00

150,000	150,000	150,000	150,000	-	-	-	-
	(@ Rs. 10/-)		(@ Rs. 10/-)				
<u>424,393</u>	<u>399,606</u>	<u>424,393</u>	<u>311,676</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

### 21. Other Assets

	Bank		Group	
	2002	2001	2002	2001
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Deposits and prepayments	84,435	81,635	70,553	59,617
Clearing account balance	565,726	389,702	565,726	389,702
Others	1,202,775	445,595	1,321,657	715,513
	<u>1,852,936</u>	<u>916,932</u>	<u>1,957,936</u>	<u>1,164,832</u>

## Notes to the Accounts

### 22. Property, Plant and Equipment

	Freehold Land Rs.'000	Freehold 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>31.12.02 Total Rs.'000</b>	31.12.01 Total Rs.'000
<b>Bank</b>									
Cost / Valuation									
as at beginning of the year	201,707	587,269	23,425	1,045,095	42,397	639,827	32,797	<b>2,572,517</b>	2,296,199
Additions for the year	–	662	–	199,480	2,169	92,688	43,645	<b>338,644</b>	296,148
Disposals for the year	–	–	–	(863)	(2,898)	(5,940)	–	<b>(9,701)</b>	(13,507)
Transfers / Adjustments	–	66,341	–	1,147	–	(566)	(68,594)	<b>(1,672)</b>	(6,324)
As at end of the year	<u>201,707</u>	<u>654,272</u>	<u>23,425</u>	<u>1,244,859</u>	<u>41,668</u>	<u>726,009</u>	<u>7,848</u>	<b><u>2,899,788</u></b>	<u>2,572,516</u>
Accumulated depreciation									
as at beginning of the year	–	94,827	2,399	683,695	33,691	348,396	–	<b>1,163,008</b>	990,603
Charge for the year	–	15,870	355	104,069	3,892	75,475	–	<b>199,661</b>	180,719
Disposals	–	–	–	(156)	(2,898)	(4,560)	–	<b>(7,614)</b>	(9,494)
Transfers / Adjustments	–	–	–	(530)	–	(514)	–	<b>(1,044)</b>	1,180
As at end of the year	<u>–</u>	<u>110,697</u>	<u>2,754</u>	<u>787,078</u>	<u>34,685</u>	<u>418,797</u>	<u>–</u>	<b><u>1,354,011</u></b>	<u>1,163,008</u>
<b>Net book value as at 31.12.02</b>	<b><u>201,707</u></b>	<b><u>543,575</u></b>	<b><u>20,671</u></b>	<b><u>457,781</u></b>	<b><u>6,983</u></b>	<b><u>307,212</u></b>	<b><u>7,848</u></b>	<b><u>1,545,777</u></b>	
Net book value as at 31.12.01	201,707	492,442	21,026	361,400	8,706	291,431	32,796		1,409,508
<b>Group</b>									
Cost / Valuation									
as at beginning of the year	201,707	761,717	67,285	1,045,420	75,426	668,468	32,796	<b>2,852,819</b>	2,571,077
Additions for the year	–	1,985	–	199,480	16,069	93,256	43,645	<b>354,435</b>	301,573
Disposals for the year	–	–	–	(863)	(2,898)	(5,940)	–	<b>(9,701)</b>	(13,507)
Transfers / Adjustments	–	66,341	–	1,147	–	(566)	(68,594)	<b>(1,672)</b>	(6,324)
As at end of the year	<u>201,707</u>	<u>830,043</u>	<u>67,285</u>	<u>1,245,184</u>	<u>88,597</u>	<u>755,218</u>	<u>7,847</u>	<b><u>3,195,881</u></b>	<u>2,852,819</u>
Accumulated depreciation									
as at beginning of the year	–	128,346	6,306	683,881	47,381	370,753	–	<b>1,236,667</b>	1,050,194
Charge for the year	–	21,274	736	104,109	11,728	76,900	–	<b>214,747</b>	194,787
Disposals	–	–	–	(156)	(2,898)	(4,560)	–	<b>(7,614)</b>	(9,494)
Transfers / Adjustments	–	–	–	(530)	–	(514)	–	<b>(1,044)</b>	1,180
As at end of the year	<u>–</u>	<u>149,620</u>	<u>7,042</u>	<u>787,304</u>	<u>56,211</u>	<u>442,579</u>	<u>–</u>	<b><u>1,442,756</u></b>	<u>1,236,667</u>
<b>Net book value as at 31.12.02</b>	<b><u>201,707</u></b>	<b><u>680,423</u></b>	<b><u>60,243</u></b>	<b><u>457,880</u></b>	<b><u>32,386</u></b>	<b><u>312,639</u></b>	<b><u>7,847</u></b>	<b><u>1,753,125</u></b>	
Net book value as at 31.12.01	201,707	633,371	60,979	361,539	28,045	297,715	32,796		1,616,152

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:

	2002			2001		
	Cost Rs.'000	Accumulated Depreciation Rs.'000	Net Book Value Rs.'000	Cost Rs.'000	Accumulated Depreciation Rs.'000	Net Book Value Rs.'000
Land	<b>23,374</b>	–	<b>23,374</b>	23,374	–	23,374
Buildings	<b>94,639</b>	<b>42,478</b>	<b>52,161</b>	94,639	40,112	54,527
Total	<b><u>118,013</u></b>	<b><u>42,478</u></b>	<b><u>75,535</u></b>	<u>118,013</u>	<u>40,112</u>	<u>77,901</u>

There were no significant changes in the Bank's or Group's Property, Plant and Equipment during the year. The market value of land does not differ substantially from the book values.

If Commercial Development Co. Ltd. provided for depreciation on the assets purchased/disposed of during the year on a pro-rata basis as is done by the Bank the depreciation charge for the year 2002 in group accounts would have been lower by Rs. 0.535 million. (In 2001, profit would have been higher by Rs. 0.118 million).

## Notes to the Accounts

### 23. Deposits from Customers

	Bank		Group	
	2002 Rs.'000	2001 Rs.'000	2002 Rs.'000	2001 Rs.'000
<b>Local Currency Deposits</b>				
Current account deposits	4,863,702	3,951,161	4,759,489	3,832,014
Savings deposits	15,204,907	10,705,911	15,204,907	10,705,911
Time deposits	15,058,969	15,195,022	15,058,969	15,195,022
Certificates of deposit	4,309,379	3,118,473	4,309,379	3,118,473
	<b>39,436,957</b>	<b>32,970,567</b>	<b>39,332,744</b>	<b>32,851,420</b>
<b>Foreign Currency Deposits</b>				
Current account deposits	525,748	532,455	525,748	532,455
Savings deposits	6,651,235	5,933,271	6,651,235	5,933,271
Time deposits	7,970,578	6,869,476	7,970,578	6,869,476
	<b>15,147,561</b>	<b>13,335,202</b>	<b>15,147,561</b>	<b>13,335,202</b>
Total Deposits	<b>54,584,518</b>	<b>46,305,769</b>	<b>54,480,305</b>	<b>46,186,622</b>
<b>23 (a) Analysis of Deposits</b>				
Deposits from Banks	177,179	58,567	177,179	58,567
Deposits from Finance Companies	94,078	174,517	94,078	174,517
Deposits from other Customers	54,313,261	46,072,685	54,209,048	45,953,538
	<b>54,584,518</b>	<b>46,305,769</b>	<b>54,480,305</b>	<b>46,186,622</b>

The maturity analysis of deposits is given in Note 31.

### 24. Borrowings

Foreign bank balances	2,933,862	843,325	2,933,862	843,325
Refinance borrowings	1,266,374	1,019,350	1,266,374	1,019,350
	<b>4,200,236</b>	<b>1,862,675</b>	<b>4,200,236</b>	<b>1,862,675</b>

### 25. Other Liabilities

Accrued expenditure and interest	1,947,815	1,775,924	1,947,815	1,766,200
Provision for Gratuity	-	-	2,079	1,439
Others	2,026,641	1,322,226	1,962,316	1,469,860
	<b>3,974,456</b>	<b>3,098,150</b>	<b>3,912,210</b>	<b>3,237,499</b>

## Notes to the Accounts

### 26. Deferred Taxation

	Bank				Group			
	As at 31.12.02		As at 31.12.01		As at 31.12.02		As at 31.12.01	
	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>550,566</b>	<b>165,000</b>	499,784	150,000	<b>579,616</b>	<b>173,714</b>	508,087	152,490
Amount originating/(reversing) during the year	<b>259,434</b>	<b>78,000</b>	50,782	15,000	<b>263,374</b>	<b>79,183</b>	71,529	21,224
As at end of the year	<b>810,000</b>	<b>243,000</b>	550,566	165,000	<b>842,990</b>	<b>252,897</b>	579,616	173,714

Provision has not been made for deferred taxation on assets leased to customers as explained in the Accounting Policies.

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

	Bank				Group			
	As at 31.12.02		As at 31.12.01		As at 31.12.02		As at 31.12.01	
	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>938,228</b>	<b>281,468</b>	577,568	173,270	<b>938,228</b>	<b>281,468</b>	577,568	173,270
Amount originating/(reversing) during the year	<b>309,881</b>	<b>92,965</b>	360,660	108,198	<b>309,881</b>	<b>92,965</b>	360,660	108,198
As at end of the year	<b>1,248,109</b>	<b>374,433</b>	938,228	281,468	<b>1,248,109</b>	<b>374,433</b>	938,228	281,468

### 27. 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	2002 Value Rs.'000	2001 Value Rs.'000	Allotment Date	Maturity Date	Rate of Interest
250,000	<b>250,000</b>	250,000	20.07.1998	20.07.2003	Fixed - 13.5% p.a. payable quarterly (Effective Annual Yield 14.2% p.a.)
250,000	<b>250,000</b>	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.
<b>500,000</b>	<b>500,000</b>	500,000			

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.



## Notes to the Accounts

### 28. Share Capital

	<b>Bank</b>		<b>Group</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
	<b>Rs.'000</b>	Rs.'000	<b>Rs.'000</b>	Rs.'000
<b>Authorised</b>				
250,000,000 Ordinary Voting Shares of Rs. 10/- each	<b>2,500,000</b>	2,500,000	<b>2,500,000</b>	2,500,000
50,000,000 Ordinary Non-voting Shares of Rs. 10/- each	<b>500,000</b>	500,000	<b>500,000</b>	500,000
200,000,000 Cumulative Redeemable Preference Shares of Rs. 10/- each	<b>2,000,000</b>	2,000,000	<b>2,000,000</b>	2,000,000
	<b>5,000,000</b>	5,000,000	<b>5,000,000</b>	5,000,000
<b>Issued &amp; Fully Paid</b>				
<b>Ordinary Shares - Voting</b>				
Opening balance - 39,000,000 Shares of Rs. 10/- each (32,500,000 Shares in 2001)	<b>390,000</b>	325,000	<b>390,000</b>	325,000
Scrip Issue of 6,500,000 Shares of Rs. 10/- each	-	65,000	-	65,000
Closing balance - 39,000,000 Shares of Rs. 10/- each	<b>390,000</b>	390,000	<b>390,000</b>	390,000
<b>Ordinary Shares - Non-voting</b>				
Opening balance - 2,790,138 Shares of Rs. 10/- each (2,325,115 Shares in 2001)	<b>27,901</b>	23,251	<b>27,901</b>	23,251
Scrip Issue of 465,023 Shares of Rs. 10/- each	-	4,650	-	4,650
Closing balance - 2,790,138 Shares of Rs. 10/- each	<b>27,901</b>	27,901	<b>27,901</b>	27,901
<b>13% Cumulative Redeemable Preference Shares</b>				
Opening balance - 90,655,500 Shares of Rs. 10/- each	<b>906,555</b>	-	<b>906,555</b>	-
Issue of 90,655,500 Shares of Rs. 10/- each	-	906,555	-	906,555
Closing balance - 90,655,500 Shares of Rs. 10/- each	<b>906,555</b>	906,555	<b>906,555</b>	906,555
Total	<b>1,324,456</b>	1,324,456	<b>1,324,456</b>	1,324,456

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.

#### Employee Share Option Plan

The Bank obtained the approval of the shareholders at an Extra-ordinary General Meeting held in September 2002, to introduce an Employee Share Option Plan for the benefit of all the executive officers in Grade III and above by creating upto 5% of the ordinary voting shares at the rate of 1.25% shares each year over a period of four years, upon the Bank achieving specified performance targets.

## Notes to the Accounts

### 29. Statutory Reserve Fund

	Bank		Group	
	2002 Rs.'000	2001 Rs.'000	2002 Rs.'000	2001 Rs.'000
Opening balance	1,009,000	1,009,000	1,009,000	1,009,000
Add: Transfers during the year	–	–	–	–
Closing balance	<u>1,009,000</u>	<u>1,009,000</u>	<u>1,009,000</u>	<u>1,009,000</u>

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.

The balance in the Reserve Fund account will be used only for the purposes specified in the Section 20(2) of the Banking Act No.30 of 1988.

### 30. Reserves

	Bank		Group	
	2002 Rs.'000	2001 Rs.'000	2002 Rs.'000	2001 Rs.'000
<b>Capital Reserves</b>				
Share Premium Account [Note 30 (a)]	560,902	562,066	560,902	562,066
Revaluation Reserve [Notes 22 and 30 (b)]	157,286	157,286	157,286	157,286
	<u>718,188</u>	<u>719,352</u>	<u>718,188</u>	<u>719,352</u>
<b>Revenue Reserves</b>				
General Reserve [Note 30 (c)]	4,568,507	3,690,507	4,568,507	3,690,507
Unappropriated profit carried forward [Note 12]	134,506	1,566	298,848	59,299
	<u>4,703,013</u>	<u>3,692,073</u>	<u>4,867,355</u>	<u>3,749,806</u>
Total	<u>5,421,201</u>	<u>4,411,425</u>	<u>5,585,543</u>	<u>4,469,158</u>
<b>30 (a) Share Premium Account</b>				
Opening balance	562,066	641,780	562,066	641,780
Utilised for the scrip issue of shares	–	(69,650)	–	(69,650)
Writing-off of share issue expenses	(1,164)	(10,064)	(1,164)	(10,064)
Closing balance	<u>560,902</u>	<u>562,066</u>	<u>560,902</u>	<u>562,066</u>

Share Premium account is generally used for scrip issue of ordinary shares and writing-off of share and debenture issue expenses.

#### 30 (b) Revaluation Reserve

The Revaluation Reserve relates to revaluation of Land and Buildings and comprises the cumulative increase in the fair value of the property at the date of revaluation.

The Licensed Commercial Banks are allowed to carry out revaluation of their Land and Buildings every seven years and treat 50% of the surplus arising therefrom as supplementary capital in the Tier II of their Capital Base in the computation of Risk-weighted Capital Ratio.

## Notes to the Accounts

### 30 (c) General Reserve

	Bank		Group	
	2002 Rs.'000	2001 Rs.'000	2002 Rs.'000	2001 Rs.'000
Opening balance	3,690,507	2,880,624	3,690,507	2,880,624
Add: Transfer from the Income Statement	878,000	798,000	878,000	798,000
Appreciation in the value of investment in Comtrust Equity Fund	–	11,883	–	11,883
Closing balance	<u>4,568,507</u>	<u>3,690,507</u>	<u>4,568,507</u>	<u>3,690,507</u>

This comprises amounts appropriated by the Management for the general banking reserve.

### 31. Maturity Analysis

#### 31 (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 31.12.02 Rs.'000	Total as at 31.12.01 Rs.'000
<b>Interest earning assets:</b>							
Loans at call and short notice	–	–	–	–	–	–	1,750,000
Placements with foreign banks	397,264	–	–	–	–	397,264	1,315,498
Government of Sri Lanka							
Treasury Bills and Bonds	900,000	6,786,500	1,749,300	–	–	9,435,800	5,307,500
Commercial paper	843,500	236,000	–	–	–	1,079,500	1,170,000
Securities purchased under							
re-sale agreements	450,327	381,969	–	–	–	832,296	1,063,803
Investments	2,500	55,772	188,229	6,000	–	252,501	70,000
Bills of Exchange	2,552,264	–	–	–	–	2,552,264	2,367,793
Loans and advances	28,350,176	5,442,358	6,199,543	3,854,132	3,393,137	47,239,346	36,581,694
Lease receivable	177,663	532,990	1,113,372	96,815	–	1,920,840	1,519,244
	<u>33,673,694</u>	<u>13,435,589</u>	<u>9,250,444</u>	<u>3,956,947</u>	<u>3,393,137</u>	<u>63,709,811</u>	<u>51,145,532</u>
<b>Non-interest earning assets:</b>							
Cash in hand	1,016,505	–	–	–	–	1,016,505	888,005
Balance with Central Bank							
of Sri Lanka	2,141,114	713,705	162,206	129,764	97,323	3,244,112	3,090,702
Balances with foreign banks	421,372	–	–	–	–	421,372	318,058
Investments	–	200,000	–	–	1,065,834	1,265,834	1,042,659
Interest and fees receivable	295,368	–	–	–	–	295,368	334,583
Other assets	1,852,936	–	–	–	–	1,852,936	916,932
Property, Plant and Equipment	–	–	–	–	1,545,777	1,545,777	1,409,508
	<u>5,727,295</u>	<u>913,705</u>	<u>162,206</u>	<u>129,764</u>	<u>2,708,934</u>	<u>9,641,904</u>	<u>8,000,447</u>
<b>Total Assets</b>	<u>39,400,989</u>	<u>14,349,294</u>	<u>9,412,650</u>	<u>4,086,711</u>	<u>6,102,071</u>	<u>73,351,715</u>	<u>59,145,979</u>
<b>Percentage - 31.12.02</b>	<b>53.72</b>	<b>19.56</b>	<b>12.83</b>	<b>5.57</b>	<b>8.32</b>	<b>100.00</b>	
Percentage - 31.12.01	63.80	9.59	9.63	5.08	11.90		100.00

## Notes to the Accounts

(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	<b>Total as at 31.12.02 Rs.'000</b>	Total as at 31.12.01 Rs.'000
<b>Interest bearing liabilities:</b>							
Deposits	30,561,806	12,426,503	1,822,142	1,786,092	1,936,341	<b>48,532,884</b>	41,318,544
Borrowings	457,317	147,972	335,223	212,894	112,968	<b>1,266,374</b>	1,019,350
Securities sold under re-purchase agreements	1,937,555	691	–	–	–	<b>1,938,246</b>	227,694
Debentures	–	500,000	–	–	–	<b>500,000</b>	500,000
	<u>32,956,678</u>	<u>13,075,166</u>	<u>2,157,365</u>	<u>1,998,986</u>	<u>2,049,309</u>	<b><u>52,237,504</u></b>	<u>43,065,588</u>
<b>Non-interest bearing liabilities:</b>							
Deposits	6,051,634	–	–	–	–	<b>6,051,634</b>	4,987,225
Foreign bank balances	2,933,862	–	–	–	–	<b>2,933,862</b>	843,325
Other liabilities	3,974,456	–	–	–	–	<b>3,974,456</b>	3,098,150
Deferred taxation	–	–	–	243,000	–	<b>243,000</b>	165,000
Tax payable	24,619	14,131	–	–	–	<b>38,750</b>	79,327
Dividends payable	117,852	–	–	–	–	<b>117,852</b>	162,483
Shareholders' funds	–	–	–	906,555	6,848,102	<b>7,754,657</b>	6,744,881
	<u>13,102,423</u>	<u>14,131</u>	<u>–</u>	<u>1,149,555</u>	<u>6,848,102</u>	<b><u>21,114,211</u></b>	<u>16,080,391</u>
<b>Total Liabilities</b>	<u>46,059,101</u>	<u>13,089,297</u>	<u>2,157,365</u>	<u>3,148,541</u>	<u>8,897,411</u>	<b><u>73,351,715</u></b>	<u>59,145,979</u>
<b>Percentage - 31.12.02</b>	<b>62.79</b>	<b>17.85</b>	<b>2.94</b>	<b>4.29</b>	<b>12.13</b>	<b>100.00</b>	
Percentage - 31.12.01	61.15	16.01	5.33	2.74	14.77		100.00

### 31 (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	<b>Total as at 31.12.02 Rs.'000</b>	Total as at 31.12.01 Rs.'000
<b>Interest earning assets:</b>							
Loans at call and short notice	–	–	–	–	–	–	1,750,000
Placements with foreign banks Government of Sri Lanka	397,264	–	–	–	–	<b>397,264</b>	1,315,498
Treasury Bills and Bonds	2,627,710	10,344,100	3,489,300	415,000	50,000	<b>16,926,110</b>	12,936,275
Commercial paper	843,500	236,000	–	–	–	<b>1,079,500</b>	1,170,000
Securities purchased under re-sale agreements	1,448,505	–	–	–	–	<b>1,448,505</b>	929,477
Investments	2,500	55,772	188,229	6,000	–	<b>252,501</b>	70,100
Bills of Exchange	2,552,264	–	–	–	–	<b>2,552,264</b>	2,367,793
Loans and advances	28,350,176	5,442,358	6,199,543	3,854,132	3,393,137	<b>47,239,346</b>	36,581,694
Lease receivable	175,267	525,802	1,098,358	95,509	–	<b>1,894,936</b>	1,497,075
	<u>36,397,186</u>	<u>16,604,032</u>	<u>10,975,430</u>	<u>4,370,641</u>	<u>3,443,137</u>	<b><u>71,790,426</u></b>	<u>58,617,912</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 31.12.02 Rs.'000	Total as at 31.12.01 Rs.'000
<b>Non-interest earning assets:</b>							
Cash in hand	1,018,402	–	–	–	–	1,018,402	902,329
Balance with Central Bank of Sri Lanka	2,141,114	713,705	162,206	129,764	97,323	3,244,112	3,090,702
Balances with foreign banks	421,372	–	–	–	–	421,372	318,058
Investments	–	200,000	–	–	703,878	903,878	665,718
Interest and fees receivable	295,368	–	–	–	–	295,368	334,583
Other assets	1,957,936	–	–	–	–	1,957,936	1,164,832
Property, Plant and Equipment	–	–	–	–	1,753,125	1,753,125	1,616,152
	<u>5,834,192</u>	<u>913,705</u>	<u>162,206</u>	<u>129,764</u>	<u>2,554,326</u>	<u>9,594,193</u>	<u>8,092,374</u>
<b>Total Assets</b>	<b>42,231,378</b>	<b>17,517,737</b>	<b>11,137,636</b>	<b>4,500,405</b>	<b>5,997,463</b>	<b>81,384,619</b>	<b>66,710,286</b>
<b>Percentage - 31.12.02</b>	<b>51.89</b>	<b>21.52</b>	<b>13.69</b>	<b>5.53</b>	<b>7.37</b>	<b>100.00</b>	
Percentage - 31.12.01	58.09	12.20	18.36	4.55	6.80		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 31.12.02 Rs.'000	Total as at 31.12.01 Rs.'000
<b>Interest bearing liabilities:</b>							
Deposits	30,561,806	12,426,503	1,822,142	1,786,092	1,936,341	48,532,884	41,318,544
Borrowings	457,317	147,972	335,223	212,894	112,968	1,266,374	1,019,350
Securities sold under re-purchase agreements	7,293,547	2,430,919	192,392	5,121	–	9,921,979	7,688,167
Debentures	–	500,000	–	–	–	500,000	500,000
	<u>38,312,670</u>	<u>15,505,394</u>	<u>2,349,757</u>	<u>2,004,107</u>	<u>2,049,309</u>	<u>60,221,237</u>	<u>50,526,061</u>
<b>Non-interest bearing liabilities:</b>							
Deposits	5,947,421	–	–	–	–	5,947,421	4,868,078
Foreign bank balances	2,933,862	–	–	–	–	2,933,862	843,325
Other liabilities	3,912,210	–	–	–	–	3,912,210	3,237,499
Deferred taxation	–	–	–	252,897	–	252,897	173,714
Tax payable	49,849	14,131	–	–	–	63,980	83,425
Dividends payable	121,183	–	–	–	–	121,183	162,963
Minority interest	–	–	–	–	12,830	12,830	12,607
Shareholders' funds	–	–	–	906,555	7,012,444	7,918,999	6,802,614
	<u>12,964,525</u>	<u>14,131</u>	<u>–</u>	<u>1,159,452</u>	<u>7,025,274</u>	<u>21,163,382</u>	<u>16,184,225</u>
<b>Total Liabilities</b>	<b>51,277,195</b>	<b>15,519,525</b>	<b>2,349,757</b>	<b>3,163,559</b>	<b>9,074,583</b>	<b>81,384,619</b>	<b>66,710,286</b>
<b>Percentage - 31.12.02</b>	<b>63.00</b>	<b>19.07</b>	<b>2.89</b>	<b>3.89</b>	<b>11.15</b>	<b>100.00</b>	
Percentage - 31.12.01	62.24	17.52	5.24	3.59	11.41		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 deposit liabilities 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 deposit Liabilities 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.*

## Notes to the Accounts

### 32. Commitments and Contingencies

- 32 (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	
	2002 Rs.'000	2001 Rs.'000	2002 Rs.'000	2001 Rs.'000
<b>Commitments:</b>				
Commitments for unutilised facilities (direct advances)	<b>4,072,741</b>	3,847,517	<b>4,072,741</b>	3,847,517
<b>Contingent Liabilities:</b>				
Acceptances	<b>1,600,325</b>	1,604,249	<b>1,600,325</b>	1,604,249
Documentary credits	<b>5,478,970</b>	2,445,383	<b>5,478,970</b>	2,445,383
Guarantees	<b>7,773,740</b>	7,532,261	<b>7,773,740</b>	7,532,261
Bills for collection	<b>4,441,719</b>	3,663,071	<b>4,441,719</b>	3,663,071
	<b>19,294,754</b>	15,244,964	<b>19,294,754</b>	15,244,964
Forward exchange contracts (net)	<b>714,558</b>	656,659	<b>714,558</b>	656,659
	<b>20,009,312</b>	15,901,623	<b>20,009,312</b>	15,901,623
Total commitments and contingencies	<b>24,082,053</b>	19,749,140	<b>24,082,053</b>	19,749,140

### 32 (b) Litigation against the Bank

- (i) Court action has been initiated by a customer in proceedings Number 36/96 (i) to claim a sum of Rs.183.050 million on account of a forward exchange contract. Legal opinion has been obtained by the Bank and the Bank is defending the action.
- (ii) Judgement was delivered on September 21, 1995 on the Court action initiated by a customer in proceedings Number 93650/M to claim a sum of approximately Rs. 6.000 million relating to a dispute over the payment by the Bank of several cheques alleged to have been forged. The Bank has appealed against the judgement.
- (iii) Four Labour Tribunal cases filed by four ex-employees on termination of employment are pending against the Bank. In addition, the Bank has appealed against the orders of the Labour Tribunal in the case of two other Labour Tribunal cases.
- (iv) Labour Tribunal set aside an application filed by the Ceylon Bank 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.
- (v) 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.

## Notes to the Accounts

- (vi) Court action has been initiated by an insurance company in proceedings Number 26783/MR claiming a sum of Rs. 25.000 million in damages. This is sequel to the Bank filing action against this insurance company claiming a sum of approximately Rs. 106.012 million together with legal interest on an insurance claim.
- (vii) Court action has been initiated by a customer in proceedings Number 282/2002(1) restraining the Bank from paying a sum of Rs. 13.350 million on a bank guarantee. The Bank has lodged an appeal against the order of the District Court. The Bank has obtained a counter guarantee from an insurance company.
- (viii) Court action has been initiated by a customer in proceedings Number 3357/01/M to recover a sum of Rs. 0.085 million which has allegedly been withdrawn by using the lost Commercial Automated Teller (CAT) card of the customer. Legal opinion has been obtained by the Bank and the Bank is defending the action.
- (ix) Court action has been initiated by a customer in proceedings Number 27485/MR to recover a sum of Rs. 15.204 million in damages in relation to alleged wrongful payment of a cheque for Rs. 0.024 million and alleged incorrect remark on two other cheques for values of Rs. 0.500 million and Rs. 0.180 million that have been returned.
- (x) Court action has been initiated by a customer in proceedings Number 138/2002(1) demanding interest amounting to Rs. 148.298 million and legal interest thereon on an account in which the funds were frozen for a considerable length of time on the instructions of the Central Bank of Sri Lanka.
- (xi) Court action has been initiated by a customer in proceedings Number 25085/MR to recover a sum of US\$ 27,500 alleged to have been paid by the Bank by debiting the account without authority of the customer. Bank has paid this amount in pursuance of a counter guarantee issued by the Bank.

### 33. Capital Commitments

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

	Bank		Group	
	2002 Rs.'000	2001 Rs.'000	2002 Rs.'000	2001 Rs.'000
Approved and contracted for	<b>25,015</b>	31,014	<b>44,015</b>	31,014
Approved but not contracted for	<b>12,000</b>	9,800	<b>12,000</b>	9,800
	<b>37,015</b>	40,814	<b>56,015</b>	40,814

## Notes to the Accounts

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

#### 34(a) Business Segments

	Banking		Leasing		Dealing		Property/ Investments		Eliminations/ Unallocated		Total	
	2002 Rs. '000	2001 Rs. '000	2002 Rs. '000	2001 Rs. '000	2002 Rs. '000	2001 Rs. '000	2002 Rs. '000	2001 Rs. '000	2002 Rs. '000	2001 Rs. '000	2002 Rs. '000	2001 Rs. '000
<b>Revenue from external customers</b>												
Interest	4,657,180	5,360,077	-	-	2,518,556	1,720,799	-	-	-	-	7,175,736	7,080,876
Exchange	214,379	335,060	-	-	231,894	186,076	-	-	-	-	446,273	521,136
Lease income	-	-	310,020	258,061	-	-	-	-	-	-	310,020	258,061
Commissions	823,885	634,003	-	-	181	1,744	-	-	-	-	824,066	635,747
Other	44,667	18,526	-	-	-	-	78,284	31,596	21,175	(24)	144,126	50,098
Total revenue from												
external customers	5,740,111	6,347,666	310,020	258,061	2,750,631	1,908,619	78,284	31,596	21,175	(24)	8,900,221	8,545,918
Inter-segment revenue	-	(95,877)	-	-	-	95,877	-	-	-	-	-	-
Total revenue	5,740,111	6,251,789	310,020	258,061	2,750,631	2,004,496	78,284	31,596	21,175	(24)	8,900,221	8,545,918
Segment result	2,092,714	1,773,608	240,020	90,346	80,479	28,000	78,284	31,596	21,175	(24)	2,512,672	1,923,526
Unallocated expenses											(837,279)	(492,105)
Profit from operations											1,675,393	1,431,421
Net financing costs											-	-
Income from Associates											28,477	(9,877)
Income tax expense											(391,323)	(374,882)
Minority interests											(1,924)	(1,401)
Extraordinary items											-	-
Net profit for the year											1,310,623	1,045,261
Segment assets	58,586,498	52,050,994	1,894,936	1,497,075	15,740,377	9,310,832	1,015,711	610,035	4,006,429	3,115,567	81,243,951	66,584,503
Investment in Associates	-	-	-	-	-	-	140,668	125,783	-	-	140,668	125,783
Unallocated assets											-	-
Total assets											81,384,619	66,710,286
Segment liabilities	50,242,749	44,658,932	1,975,845	1,544,489	15,740,377	9,310,832	1,156,379	735,818	4,350,270	3,657,601	73,465,620	59,907,672
Unallocated liabilities											-	-
Total liabilities											73,465,620	59,907,672
Cash flows from												
operating activities	(3,007,010)	3,563,794	662,881	477,821	784,939	256,716	-	-	(45,997)	(24,449)	(1,605,187)	4,273,882
Cash flows from												
investing activities	(391,483)	(266,324)	-	-	(2,184,551)	(6,800,403)	62,418	67,362	-	-	(2,513,616)	(6,999,365)
Cash flows from												
financing activities	2,262,110	2,024,069	-	-	-	-	-	-	(237,719)	(167,358)	2,024,391	1,856,711
Capital expenditure	(352,450)	(281,116)	-	-	-	-	(1,985)	(20,457)	-	-	(354,435)	(301,573)



## Notes to the Accounts

### 34(b) Geographical Segments

	2002		Bank		2002		Group	
			2001				2001	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
<b>Assets</b>								
Domestic Banking Unit	63,616,852	86.73	51,855,028	87.67	71,649,756	88.04	59,419,335	89.07
Off-shore Banking Centre	9,734,863	13.27	7,290,951	12.33	9,734,863	11.96	7,290,951	10.93
	<u>73,351,715</u>	<u>100.00</u>	<u>59,145,979</u>	<u>100.00</u>	<u>81,384,619</u>	<u>100.00</u>	<u>66,710,286</u>	<u>100.00</u>
<b>Gross Income</b>								
Domestic Banking Unit	7,770,610	92.90	7,564,518	92.22	8,571,829	93.52	8,454,643	92.98
Off-shore Banking Centre	593,580	7.10	638,604	7.78	593,580	6.48	638,604	7.02
	<u>8,364,190</u>	<u>100.00</u>	<u>8,203,122</u>	<u>100.00</u>	<u>9,165,409</u>	<u>100.00</u>	<u>9,093,247</u>	<u>100.00</u>
<b>Profit before Tax</b>								
Domestic Banking Unit	1,150,593	75.45	878,875	66.33	1,329,449	78.03	975,452	68.62
Off-shore Banking Centre	374,421	24.55	446,092	33.67	374,421	21.97	446,092	31.38
	<u>1,525,014</u>	<u>100.00</u>	<u>1,324,967</u>	<u>100.00</u>	<u>1,703,870</u>	<u>100.00</u>	<u>1,421,544</u>	<u>100.00</u>
<b>Profit after Tax</b>								
Domestic Banking Unit	865,024	71.85	623,168	61.70	973,557	74.17	659,863	63.04
Off-shore Banking Centre	338,990	28.15	386,799	38.30	338,990	25.83	386,799	36.96
	<u>1,204,014</u>	<u>100.00</u>	<u>1,009,967</u>	<u>100.00</u>	<u>1,312,547</u>	<u>100.00</u>	<u>1,046,662</u>	<u>100.00</u>

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

- 35(a) Current Account No.1 of Mr. M.J.C. Amarasuriya was overdrawn by Rs. 4,793.68 on December 31, 2002. (Rs. 181,021.75 as at December 31, 2001 against an overdraft facility of Rs. 440,000/-). Funds were transferred from Account No. 2 (which carried a credit balance of Rs. 79,416.93 as at December 31, 2002) on January 2, 2003 in settlement of the amount overdrawn.
- 35(b) Mr. A. L. Gooneratne, Mr. J.S. Mather and Dr. H.S. Wanasinghe who were Directors of the Company as at December 31, 2002 were also Directors of Commercial Development Co. Ltd. (CDC) which Company has leased part of its premises to the Bank at an annual rental of Rs. 57,487,500/- excluding VAT and has hired motor vehicles to the Bank for which a hiring charge of Rs. 20,839,941/- was charged. Further, CDC has paid Rs. 14,917,283/- to the Bank as lease rentals for the motor vehicles leased from the Bank.
- 35(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, 2002. The balance outstanding on these facilities as at December 31, 2002 was Rs. 2,626,422/-. The provisions of Section 47 of the Banking Act No. 30 of 1988 have been complied with.
- 35(d) Banking facilities amounting to Rs. 216,000/- were made available against the security of fixed deposits totalling to Rs. 331,683/- to Clodagh Western Estate in which Mr. M.J.C. Amarasuriya is a co-partner. The balance outstanding as at December 31, 2002 was Rs. 217,158/-. The provisions of Section 47 of the Banking Act No. 30 of 1988 have been complied with.

## Notes to the Accounts

35(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, 2002 was Rs. 13,609/-. The provisions of Section 47 of the Banking Act No. 30 of 1988 have been complied with.

35(f) Banking facilities amounting to Rs. 600,000/- 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, 2002 was nil. The provisions of Section 47 of the Banking Act No. 30 of 1988 have been complied with.

35(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, 2002 was nil. The provisions of Section 47 of the Banking Act No. 30 of 1988 have been complied with.

### 36. 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, 2002 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	6,000,000	362,927		
			Short-Term Loan (Sub Limit of O/D)	(6,000,000)	6,000,000		
			Letters of Credit	10,000,000	203,554		
			Import Loans (Sub Limit of L/C)	(8,000,000)	9,023,420		
			DA (Sub Limit of L/C)	(8,000,000)	-		
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	-		
			Letters of Credit	75,000,000	1,006,164		
			Import Loans/DA (Sub Limit of L/C)	(50,000,000)	53,834,690		
Orient Motor Co. Ltd.	Mr. M.J.C. Amarasuriya	Chairman	Letters of Guarantee	15,000,000	5,336,066		
			Overdraft	15,000,000	4,818,285		
			Term Loan	200,000,000	179,779,125		
			Leases	100,000,000	42,802,963		
			Letters of Credit	25,000,000	-		
UML Agencies & Distributors Ltd.	Mr. M.J.C. Amarasuriya	Chairman	Import Loans/DA (Sub Limit of L/C)	(25,000,000)	-		
			Overdraft	5,000,000	655,045		
			Letters of Credit	35,000,000	15,307,432		
Commercial Leasing Co. Ltd.	Mr. M.J.C. Amarasuriya	Director	Import Loans/DA (Sub Limit of L/C)	(35,000,000)	27,477,428		
			Mr. A.L. Gooneratne	Director	Overdraft	10,000,000	Credit Balance
					Short-Term Loan	65,000,000	49,000,000
					Letters of Credit	10,000,000	-
Pelawatte Sugar Co. Ltd.	Mr. M.J.C. Amarasuriya	Chairman	Letters of Guarantee	5,000,000	500,000		
					Letters of Credit	-	12,746,500
			Letters of Guarantee	-	3,258,400		

## Notes to the Accounts

Name of Related Party	Name of Director	Relationship	Accommodation Granted	Limit Rs.	Balance Outstanding Rs.		
Acme Printing & Packaging Ltd.	Mr. J.S. Mather	Director	Overdraft	10,000,000	13,229,373		
			Mr. M.L. Mack	Director	Letters of Credit	15,000,000	106,098
			Import Demand Loans (Sub Limit of L/C)	(7,500,000)	4,956,174		
			Import Loans D/A (Sub Limit of L/C)	(7,500,000)	2,289,277		
			Letters of Guarantee	2,500,000	-		
Ceylon Tobacco Co. Ltd.	Mr. J.S. Mather	Director	Overdraft	60,000,000	38,432,275		
Chemical Industries (Colombo) Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft	275,000,000	14,698,426		
			Mr. J.S. Mather	Director	Short-Term Loan (Combined Limit with Overdraft)	(275,000,000)	205,000,000
			Letters of Credit	150,000,000	33,520,082		
			Import Loans D/A (Sub Limit of L/C)	(150,000,000)	15,988,948		
			Shipping Guarantee	-	29,881,000		
CIC Fertilizers (Pvt) Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft	250,000,000	13,846,794		
			Short-Term Loan (Combined Limit with Overdraft)	(250,000,000)	200,000,000		
			Letters of Guarantee	5,000,000	165,290		
			Letters of Credit	350,000,000	159,654,000		
			D/A (Sub Limit of L/C)	(350,000,000)	179,436,435		
			Import Demand Loan (Sub Limit of L/C)	(350,000,000)	-		
CIC Feeds (Pvt) Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft	100,000,000	7,672,283		
			Short-Term Loan (Combined Limit with Overdraft)	(100,000,000)	30,000,000		
			Term Loan	217,300,000	217,331,000		
			Letters of Guarantee	3,000,000	322,000		
			Letters of Credit	150,000,000	134,897,091		
			D/A or IDL (Sub Limit of L/C)	(150,000,000)	-		
			Shipping Guarantee	-	60,822,000		
CIC Agri Biotech (Pvt) Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft	-	26,390		
The Light House Hotel Ltd.	Mr. B.R.L. Fernando	Director	Overdraft	10,000,000	Credit Balance		
			Overdraft	5,000,000	1,639,810		
DFCC Bank	Mr. A.N. Fonseka	Director	Overdraft	100,000,000	2,911		
			Mr. M.L. Mack	Director	Overdraft	350,000,000	Credit Balance
	Mr. M.J.C. Amarasuriya	Director	Overdraft	50,000,000	Credit Balance		
			Money Market Placements	600,000,000	-		
			Letters of Credit	360,000,000	29,448,967		
			D/A (Sub Limit of L/C)	(250,000,000)	20,576,809		
			Shipping Guarantee (Sub Limit of L/C)	(250,000,000)	51,167,000		
			Bills Receivable	-	5,136,754		
			Government Security Re-purchase Transaction Limit (Sub Limit of MM Placement Limit)	(500,000,000)	200,000,000		

## Notes to the Accounts

Name of Related Party	Name of Director	Relationship	Accommodation Granted	Limit Rs.	Balance Outstanding Rs.
Associated Battery Manufacturers (Ceylon) Ltd.	Mr. A.N. Fonseka	Director	Shipping Guarantee	–	4,854,000
National Asset Management Ltd.	Mr. A.N. Fonseka	Chairman	Overdraft	25,000,000	–
			Intra-day Limit	200,000,000	–
Commercial Fund Management (Pvt) Ltd.	Mr. M.J.C. Amarasuriya	Chairman	Leasing	600,000	199,220
	Mr. A.L. Gooneratne	Director			
Commercial Development Co. Ltd.	Mr. A.L. Gooneratne	Director	Leasing	46,500,000	26,089,785
	Dr. H.S. Wanasinghe	Director			
	Mr. J.S. Mather	Director			
Rainwear (Pvt) Ltd.	Mr. B.R.L. Fernando	Director	Overdraft	US\$ 112,000	US\$ 117,593
			Letters of Credit	US\$ 183,000	US\$ 4,352
			Import Demand Loans (Sub Limit of L/C)	(US\$ 183,000)	US\$ 220,769
Chemanex Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft	15,000,000	Credit Balance
			Short-Term Loan (Sub Limit of Overdraft)	(15,000,000)	6,000,000
			Letters of Credit	15,000,000	2,211,476
			Import Demand Loans (Sub Limit of L/C)	(15,000,000)	–
			D/A (Sub Limit of L/C)	(15,000,000)	–
			Shipping Guarantees	–	6,196,000
			Letters of Guarantee	–	500,000
Lak Jaya Thrift and Credit Foundation Ltd.	Mr. M.J.C. Amarasuriya	Co Founder	Lease	1,048,888	940,861
Gestetner of Ceylon Ltd.	Mr. B.R.L. Fernando	Alternate Director	Overdraft	12,500,000	12,171,385
			Short-Term Loan	11,500,000	11,500,000
			Letters of Credit	24,800,000	4,573,064
			Import Loans D/A (Sub Limit of L/C)	12,000,000	27,010,678
			Letters of Guarantee	12,300,000	10,194,026
CISCO Speciality Packaging (Pvt) Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft	10,000,000	7,696,840
			Import Loans	5,000,000	4,560,757
			D/A	–	4,415,023
			Letters of Credit	15,000,000	3,711,492
			Term Loan	2,000,000	1,208,059
			Letters of Guarantee	5,000,000	–
			Shipping Guarantee	–	4,636,000

## Notes to the Accounts

### 37. Events After the Balance Sheet Date

No circumstances have arisen since the Balance Sheet date which would require adjustments to or disclosure in the Financial Statements except as stated below:

- (a) The Bank in a consortium with the DFCC Bank and with the technical assistance from ICICI Prudential Life Insurance Co. Ltd. and ICICI Lombard General Insurance Co. Ltd. of India submitted a bid to the Public Enterprises Reform Commission through C.B.C. - D.F.C.C. Insurance Holding Ltd. for the acquisition of the Sri Lanka Insurance Corporation Ltd. which is in the process of being privatised.
- (b) The Bank has given an undertaking for a sum of Rs. 100.000 million to the Secretary to the Treasury on behalf of the C.B.C. – D.F.C.C. Insurance Holding Ltd., a bidder for the acquisition of the Sri Lanka Insurance Corporation Ltd., which the Bank will be called upon to pay if the bidder breaches its obligations to the Vendor (Government of Sri Lanka), or the bidder withdraws its bid, or if the bidder has ceased to negotiate in good faith, or upon being selected as the preferred bidder, the bidder fails to complete the transaction.
- (c) The Bank in a consortium with the DFCC Bank has given an undertaking to the Government of Sri Lanka, to make its share of the necessary funds available to the C.B.C. – D.F.C.C. Insurance Holding Ltd., by way of equity, loans or other means to meet its obligations arising from the final bid submitted to the Government of Sri Lanka for the acquisition of the Sri Lanka Insurance Corporation Ltd.
- (d) The Bank has called for an Extraordinary General Meeting of the shareholders to be held on February 25, 2003, in order to obtain their approval to introduce an Employee Share Ownership Plan for the benefit of all its permanent staff through a share trust to be set up, by acquiring a 5% of the voting ordinary shares currently held by the Sri Lanka Insurance Corporation Ltd., which is in the process of being privatised.
- (e) The Bank intends to issue Unsecured Subordinated Redeemable Debentures up to a total value of Rs. 3.000 billion and Cumulative Redeemable Preference Shares up to a total value of Rs. 1.000 billion in March 2003. The Colombo Stock Exchange has already been informed of these proposed issues.

## Income Statement

For the year ended December 31,	Bank			Group		
	2002 US\$'000	2001 US\$'000	Change %	2002 US\$'000	2001 US\$'000	Change %
<b>Net income</b>	<b>83,811</b>	82,287	1.85	<b>92,011</b>	91,744	0.29
Interest income	<b>68,364</b>	69,886	(2.18)	<b>77,983</b>	79,939	(2.45)
Less: Interest expense	<b>38,735</b>	44,810	(13.56)	<b>45,848</b>	53,770	(14.73)
Net interest income	<b>29,629</b>	25,076	18.16	<b>32,135</b>	26,169	22.80
Foreign exchange profit	<b>4,800</b>	6,048	(20.63)	<b>4,800</b>	6,048	(20.63)
Fee and commission income	<b>8,519</b>	6,825	24.82	<b>8,519</b>	6,825	24.82
Other income	<b>2,826</b>	1,036	172.78	<b>1,490</b>	538	176.95
	<b>45,774</b>	38,985	17.41	<b>46,944</b>	39,580	18.61
Less: Turnover tax	-	124	-	-	133	-
National Security Levy	<b>699</b>	1,383	(49.46)	<b>781</b>	1,474	(47.01)
	<b>45,075</b>	37,478	20.27	<b>46,163</b>	37,973	21.57
Less: Operating expenses						
Personnel costs	<b>11,535</b>	10,278	12.23	<b>11,593</b>	10,321	12.32
Premises, equipment and establishment expenses	<b>7,650</b>	6,612	15.70	<b>7,072</b>	6,073	16.45
Provision for staff retirement benefits	<b>2,024</b>	696	190.80	<b>2,024</b>	696	190.80
Other overhead expenses	<b>3,791</b>	3,125	21.31	<b>3,882</b>	2,936	32.22
	<b>25,000</b>	20,711	20.71	<b>24,571</b>	20,026	22.70
Profit before loan losses and provisions and provision for fall in value of investments/investment properties	<b>20,075</b>	16,767	19.73	<b>21,592</b>	17,947	20.31
Less: Loan losses and provisions	<b>4,156</b>	2,541	63.56	<b>4,156</b>	2,541	63.56
Fall in value of investments / investment properties	<b>155</b>	-	-	<b>117</b>	40	192.50
Profit from Operations	<b>15,764</b>	14,226	10.81	<b>17,319</b>	15,366	12.71
Add/(Less): Share of profit/(loss) before tax of Associate Companies	-	-	-	<b>294</b>	(106)	377.36
<b>Profit before taxation</b>	<b>15,764</b>	14,226	10.81	<b>17,613</b>	15,260	15.42
Less: Provision for taxation	<b>3,319</b>	3,382	(1.86)	<b>4,046</b>	4,024	0.55
<b>Profit after taxation</b>	<b>12,445</b>	10,844	14.76	<b>13,567</b>	11,236	20.75
Less: Minority interest	-	-	-	<b>20</b>	15	33.33
Profit attributable to shareholders	<b>12,445</b>	10,844	14.76	<b>13,547</b>	11,221	20.73
Earnings per Ordinary Share	<b>0.27</b>	0.25	8.00	<b>0.30</b>	0.26	15.38
Dividend per Ordinary Share	<b>0.05</b>	0.05	-	<b>0.05</b>	0.05	-

Exchange Rate 1 US\$ was Rs. 96.73 as at 31.12.2002 (Rs. 93.15 as at 31.12.2001).

## US DOLLAR ACCOUNTS

The Income Statement and the Balance Sheet given on pages 100 and 101 are solely for the convenience of shareholders, investors, bankers and other users of Financial Statements.

## Balance Sheet

As at December 31,	Bank			Group		
	2002 US\$'000	2001 US\$'000	Change %	2002 US\$'000	2001 US\$'000	Change %
<b>ASSETS</b>						
Cash and short-term funds	18,972	45,857	(58.63)	18,991	46,011	(58.73)
Balance with Central Bank of Sri Lanka	33,538	33,180	1.08	33,538	33,180	1.08
Government of Sri Lanka Treasury						
Bills and Bonds	89,463	56,978	57.01	144,103	138,876	3.76
Commercial paper	11,160	12,560	(11.15)	11,160	12,560	(11.15)
Securities purchased under						
re-sale agreements	8,604	11,420	(24.66)	14,975	9,978	50.08
Dealing securities	2,068	-	-	2,068	-	-
Investment securities	7,287	4,964	46.80	7,287	4,964	46.79
Treasury Bonds maturing after one year	8,084	-	-	30,880	-	-
Bills of Exchange	26,385	25,419	3.80	26,385	25,419	3.80
Loans and advances	488,363	392,718	24.35	488,363	392,718	24.35
Lease receivable within one year	7,347	7,239	1.49	7,219	7,154	0.91
Lease receivable from one to five years	12,511	9,071	37.92	12,371	8,918	38.72
	<u>713,782</u>	<u>599,406</u>	<u>19.08</u>	<u>797,340</u>	<u>679,778</u>	<u>17.29</u>
Investment properties	1,145	1,584	(27.71)	1,145	1,584	(27.71)
Investments in Associate Companies	810	841	(3.69)	1,454	1,350	7.70
Investments in Subsidiary Companies	4,387	4,556	(3.71)	-	-	-
Interest and fees receivable	3,054	3,592	(14.98)	3,054	3,592	(14.98)
Other assets	19,156	9,844	94.60	20,242	12,506	61.86
Property, Plant and Equipment	15,980	15,132	5.60	18,124	17,350	4.46
	<u>758,314</u>	<u>634,955</u>	<u>19.43</u>	<u>841,359</u>	<u>716,160</u>	<u>17.48</u>
<b>FINANCED BY</b>						
<b>LIABILITIES</b>						
Deposits from customers	564,298	497,110	13.52	563,220	495,831	13.59
Dividends payable	1,218	1,744	(30.16)	1,253	1,749	(28.36)
Borrowings	43,422	19,997	117.14	43,422	19,997	117.14
Securities sold under						
re-purchase agreements	20,038	2,444	719.89	102,574	82,535	24.28
Other liabilities	41,088	33,260	23.54	40,446	34,755	16.37
Tax payable	401	852	(52.93)	661	896	(26.23)
Deferred taxation	2,512	1,771	41.84	2,614	1,865	40.16
Debentures	5,169	5,368	(3.71)	5,169	5,368	(3.71)
	<u>678,146</u>	<u>562,546</u>	<u>20.55</u>	<u>759,359</u>	<u>642,996</u>	<u>18.10</u>
<b>MINORITY INTEREST</b>	-	-	-	133	135	(1.48)
<b>SHAREHOLDERS' FUNDS</b>						
Share capital	13,692	14,219	(3.71)	13,692	14,219	(3.71)
Statutory Reserve Fund	10,431	10,832	(3.70)	10,431	10,832	(3.70)
Reserves	56,045	47,358	18.34	57,744	47,978	20.36
Shareholders' funds	<u>80,168</u>	<u>72,409</u>	<u>10.72</u>	<u>81,867</u>	<u>73,029</u>	<u>12.10</u>
Total liabilities, minority interest and shareholders' funds	<u>758,314</u>	<u>634,955</u>	<u>19.43</u>	<u>841,359</u>	<u>716,160</u>	<u>17.48</u>
Commitments and contingencies	248,962	212,014	17.43	248,962	212,014	17.43

Exchange Rate 1 US\$ was Rs. 96.73 as at 31.12.2002 (Rs. 93.15 as at 31.12.2001).

## Subsidiary/Associate Companies

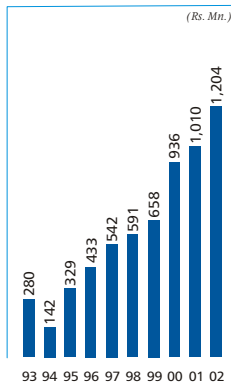
	BANK'S INTEREST	PRINCIPAL ACTIVITY	DIRECTORS	PRE-TAX PROFIT/(LOSS) Rs. Mn.		DIVIDEND RATE %	
				2002	2001	2002	2001
<b>Subsidiary Companies:</b> <b>Commercial Development Co. Ltd.</b> "Commercial House", 21, Bristol Street, Colombo 1. Tel: 447300 Incorporated on March 14, 1980	94.55%	Property Development	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> )	51.673	35.959	10.0	16.0
<b>Commercial Bank Primary Dealer Ltd.</b> "Commercial House", 21, Bristol Street, Colombo 1. Tel: 445010-15, 336700, 328193-5, 332319 Incorporated on October 18, 1999	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> )	229.834	86.247	62.0	-
<b>Associate Companies:</b> <b>Commercial Leasing Co. Ltd.</b> "Commercial House", 68, Baudhaloka Mawatha, Colombo 4. Tel: 074-526526 Incorporated on April 22, 1988	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 P.R. Saldin N.C. Peiris ( <i>Alternate</i> ) Mrs. R.K. Jayawardena ( <i>Company Secretary</i> )	62.634	45.628	15.0	35.0
<b>Equity Investments Lanka Ltd.</b> 108 A, 1st Floor, Maya Avenue, Colombo 6. Tel: 075-373745, 507605, 507606 Incorporated on August 08, 1990	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 E. Perera ( <i>Alternate</i> ) N.C. Peiris ( <i>Alternate</i> ) P. Amarasinghe Mrs. R.R. Dunuwille ( <i>Company Secretary</i> )	3.783	11.591	-	2.5
<b>Commercial Fund Management (Pvt) Ltd.</b> 108 A, 1/1, Maya Avenue, Colombo 6. Tel: 074-515262, 075-373747 Incorporated on January 20, 1992	50.0%	Fund Management	M.J.C. Amarasuriya ( <i>Chairman</i> ) H.D.S. Amarasuriya A.L. Gooneratne R.C. Melville R. Hill E. Perera Mrs. R.R. Dunuwille ( <i>Company Secretary</i> )	2.571	(0.941)	-	-

The Dividend rates shown above for 2002 are interim Dividends paid by the respective companies.

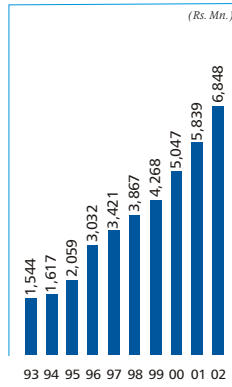


# Graphical Review of a Decade

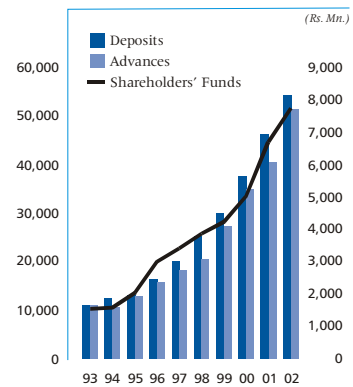
**Profit after Taxation**



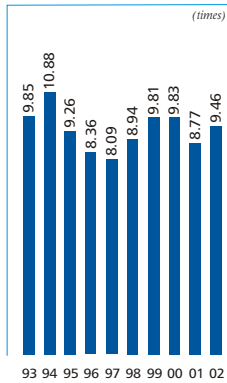
**Shareholders' Funds**



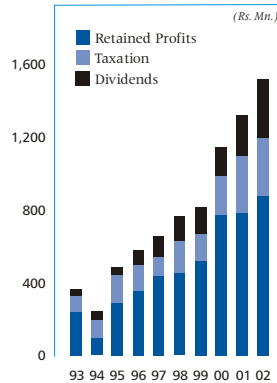
**Balance Sheet Growth**



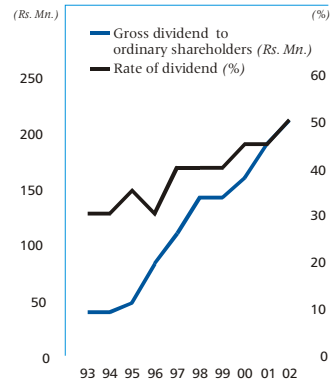
**Total Assets to Shareholders' Funds (times)**



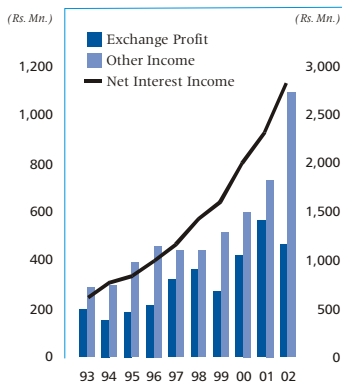
**Distribution of Profits**



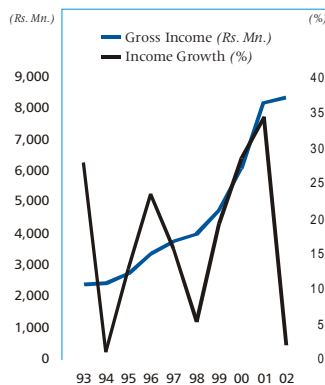
**Gross Dividend to Ordinary Shareholders & Rate of Dividend**



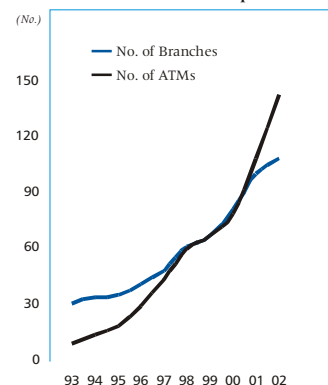
**Net Interest Income, Exchange Profit & Other Income**



**Gross Income & Income Growth**



**Branches & ATM Expansion**



## Decade at a Glance

(Rs. Mn.)	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
<i>Year ended December 31,</i>										
<b>OPERATING RESULTS</b>										
Gross income	2,391	2,416	2,727	3,365	3,781	3,979	4,744	6,096	8,203	8,364
Interest income	1,819	1,875	2,038	2,553	2,876	3,031	3,762	4,796	6,510	6,613
Interest expense	(1,233)	(1,124)	(1,213)	(1,572)	(1,723)	(1,605)	(2,158)	(2,776)	(4,174)	(3,747)
Exchange income	198	156	187	219	320	362	274	421	563	464
Other income	287	299	393	461	440	440	517	600	732	1,097
Operating expenses	(701)	(966)	(916)	(1,081)	(1,261)	(1,459)	(1,586)	(1,891)	(2,306)	(2,902)
Profit before income tax	370	240	489	580	652	769	809	1,150	1,325	1,525
Income tax on profits	(90)	(98)	(160)	(147)	(110)	(178)	(151)	(214)	(315)	(321)
Profit after taxation	280	142	329	433	542	591	658	936	1,010	1,204
<i>As at December 31,</i>										
<b>ASSETS</b>										
Cash and short-term funds	1,451	2,971	3,066	4,363	4,639	8,440	3,761	5,456	4,272	1,835
Statutory deposit with Central Bank	1,345	1,456	1,804	2,274	1,938	1,840	2,644	2,583	3,091	3,244
Govt. of Sri Lanka T. Bills and T. Bonds	-	-	-	-	-	409	3,573	1,449	5,307	9,436
Commercial paper	-	-	-	-	-	-	745	331	1,170	1,080
Investments	61	94	86	308	658	409	300	208	462	905
Securities purchased under re-sale agreements	-	-	26	20	-	70	-	-	1,064	832
Placements with banks maturing after one year	-	-	-	-	-	-	289	-	-	-
Bills of Exchange	1,694	1,598	1,564	2,135	2,074	1,597	1,873	2,331	2,368	2,552
Loans and advances	9,323	9,161	11,269	13,414	15,690	18,312	24,692	31,570	36,582	47,239
Lease receivable	-	-	-	177	489	730	1,047	1,263	1,519	1,921
	13,874	15,280	17,815	22,691	25,488	31,807	38,924	45,191	55,835	69,044
Investment properties	-	-	-	-	-	-	95	133	148	111
Investments in Associate Companies	298	329	414	128	128	78	78	78	78	78
Investments in Subsidiaries	-	-	-	274	274	274	274	424	424	424
Other assets	524	1,430	1,445	1,571	972	1,368	1,253	2,478	1,251	2,149
Property, Plant and Equipment	521	549	604	671	797	1,059	1,263	1,306	1,410	1,546
ASSETS EMPLOYED	15,217	17,588	20,278	25,335	27,659	34,586	41,887	49,610	59,146	73,352
<b>LIABILITIES</b>										
Deposits from customers	10,909	12,261	13,048	16,611	20,156	25,274	30,128	37,523	46,306	54,585
Borrowings	1,709	1,952	2,150	2,601	1,321	1,124	1,350	2,317	1,862	4,200
Securities sold under re-purchase agreements	-	-	1,213	1,030	1,468	2,130	3,371	1,430	228	1,938
Other liabilities	954	1,698	1,706	1,975	1,226	1,594	2,168	2,643	3,263	4,218
Taxation	63	37	75	38	(8)	(1)	4	42	79	39
Dividends Payable	38	23	27	48	75	98	98	108	163	118
Debentures	-	-	-	-	-	500	500	500	500	500
	13,673	15,971	18,219	22,303	24,238	30,719	37,619	44,563	52,401	65,598
<b>SHAREHOLDERS' FUNDS</b>										
Share capital	125 <sup>*</sup>	125	125	268 <sup>@#!</sup>	268	348 <sup>+</sup>	348	348	1,324 <sup>~^</sup>	1,324
Reserve fund	940	1,009	1,009	1,009	1,009	1,009	1,009	1,009	1,009	1,009
Reserves	479	483	925	1,755	2,144	2,510	2,911	3,690	4,412	5,421
CAPITAL EMPLOYED	15,217	17,588	20,278	25,335	27,659	34,586	41,887	49,610	59,146	73,352
Commitments and contingencies	9,559	13,222	11,027	10,517	13,768	14,612	15,445	17,880	19,749	24,082

## Decade at a Glance

### RATIOS

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Return on average -										
shareholders' funds (%)	22.92	9.00	18.00	17.00	16.80	16.20	16.21	20.09	17.95	17.12
Income growth (%)	27.97	1.06	12.88	23.40	15.71	5.24	19.25	28.49	34.56	1.96
Return on average assets (%)	2.03	0.86	1.74	1.90	2.05	1.90	1.72	2.05	1.86	1.82
Rate of dividend (%)	30.00	30.00	35.00	30.00	40.00	40.00	40.00	45.00	45.00	50.00
Ordinary share dividend cover (times)	7.46	3.78	7.25	5.39	3.90	4.24	4.73	5.91	5.20	5.20
Gross dividends										
to ordinary shareholders (Rs. Mn.)	37.50	37.50	45.37	80.40	107.10	139.30	139.30	156.71	188.06	208.95
Advances to deposits and										
refinance (%)	96.80	84.80	95.30	92.50	88.95	80.42	89.75	91.81	85.51	92.59
Property, Plant and Equipment to										
shareholders' funds (%)	33.74	33.99	29.12	22.14	23.29	27.37	29.72	25.87	20.90	19.93
Total assets to shareholders'										
funds (times)	9.85	10.88	9.26	8.36	8.09	8.94	9.81	9.83	8.77	9.46
Liquid assets to liabilities (%)	32.48	27.12	20.74	28.17	25.36	24.97	22.19	27.22	27.72	27.88
(As specified in the Banking Act										
No. 30 of 1988)										
Capital adequacy (%) Tier I	9.71	11.04	13.56	17.13	16.71	15.53	14.90	14.97	15.72	14.94
Tier I & II	10.45	11.67	13.94	17.47	17.63	18.45	17.14	16.62	16.20	15.07

### SHARE INFORMATION

Market value of a share (Rs.)	350	288	200	124	150	120	115	93	127	200
Earnings per share (Rs.)	22	11	26	18	16	17	19	22	23	26
Price earnings ratio (times)	16	25	8	7	10	7	6	4	5	8
Net assets per share (Rs.)	124	129	165	113	128	111	123	121	140	164
Earnings yield (%)	6	4	13	15	11	14	16	29	18	13
Dividend payout ratio (%)	14	27	13	17	25	24	21	17	22	19

### OTHER INFORMATION

No. of employees	1,780	1,849	1,845	1,837	1,889	1,985	1,996	2,067	2,259	2399
No. of branches / CSPs / MiniComs	31	34	36	41	49	61	67	81	100	109
No. of Automated										
Teller Machines	9	14	19	29	44	60	67	79	109	143

\* Rights issue of one ordinary share for every four shares 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 shares 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 shares held was made in June 1998.

~ Scrip issue of one bonus share for every five ordinary shares held was made in May 2001.

^ Issue of 13% Cumulative Redeemable Preference Shares of Rs. 10/- each for Rs. 906.555 Mn. was made in August 2001.

# Share and Debenture Information

## 1. Stock Exchange listing

The ordinary shares, both voting and non-voting, preference shares and debentures, both fixed and floating interest rate, of the Bank are all listed in the Colombo Stock Exchange. The audited Income Statement for the year ended December 31, 2002 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, 2002

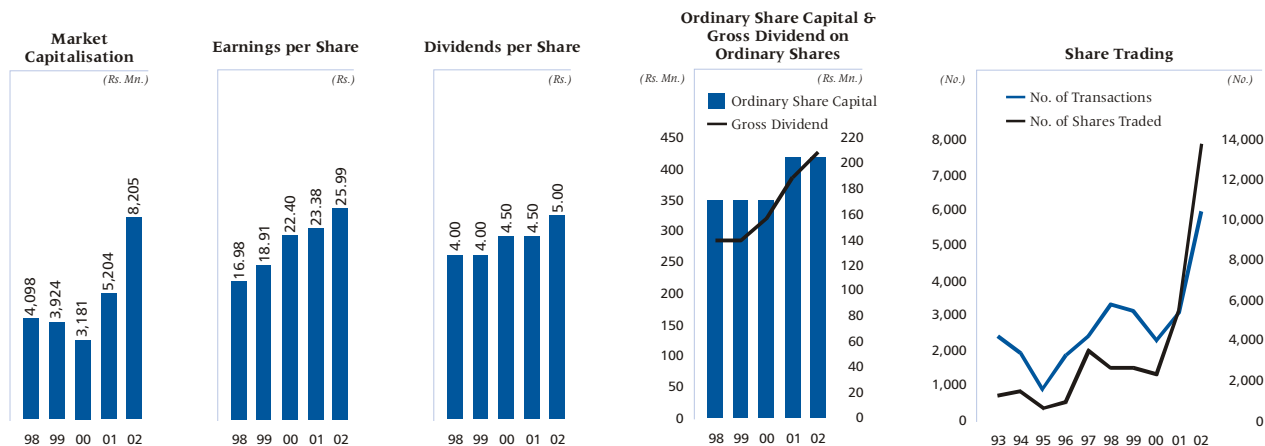
### 2.1 Voting

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	%
Up to 500 shares	2,235	383,422	26	5,288	2,261	388,710	1.00
501 - 5,000	1,762	2,870,127	48	77,524	1,810	2,947,651	7.56
5,001 - 10,000	124	860,876	3	19,764	127	880,640	2.26
10,001 - 20,000	50	640,962	3	35,300	53	676,262	1.73
20,001 - 30,000	21	506,693	2	43,445	23	550,138	1.41
30,001 - 40,000	16	571,168	—	—	16	571,168	1.46
40,001 - 50,000	11	511,851	—	—	11	511,851	1.31
50,001 - 100,000	13	947,351	2	149,300	15	1,096,651	2.81
100,001 - 1,000,000	13	5,107,490	3	790,000	16	5,897,490	15.12
over 1,000,000 shares	3	23,279,439	1	2,200,000	4	25,479,439	65.33
	<b>4,248</b>	<b>35,679,379</b>	<b>88</b>	<b>3,320,621</b>	<b>4,336</b>	<b>39,000,000</b>	<b>100.00</b>

There were 4,549 resident and 84 non-resident shareholders as at December 31, 2001.

Analysis of Shareholders	December 31, 2002			December 31, 2001		
	No. of Shareholders	Total Holdings	%	No. of Shareholders	Total Holdings	%
Individuals	4,076	8,560,514	21.95	4,370	7,740,778	19.85
Institutions	260	30,439,486	78.05	263	31,259,222	80.15
	<b>4,336</b>	<b>39,000,000</b>	<b>100.00</b>	<b>4,633</b>	<b>39,000,000</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, 2002 was 39.99% (40.19% as at December 31, 2001).



## 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	%
Up to 500 shares	673	104,469	6	1,505	679	105,974	3.80
501 - 5,000	304	463,646	3	2,196	307	465,842	16.70
5,001 - 10,000	33	234,259	1	8,000	34	242,259	8.68
10,001 - 20,000	14	204,713	1	10,563	15	215,276	7.72
20,001 - 30,000	6	143,259	-	-	6	143,259	5.13
30,001 - 40,000	5	178,999	-	-	5	178,999	6.42
40,001 - 50,000	-	-	-	-	-	-	-
50,001 - 100,000	4	291,828	-	-	4	291,828	10.46
100,001 - 1,000,000	4	1,146,701	-	-	4	1,146,701	41.10
over 1,000,000 shares	-	-	-	-	-	-	-
	<b>1,043</b>	<b>2,767,874</b>	<b>11</b>	<b>22,264</b>	<b>1,054</b>	<b>2,790,138</b>	<b>100.00</b>

There were 1,111 resident and 14 non-resident shareholders as at December 31, 2001.

Analysis of Shareholders	December 31, 2002			December 31, 2001		
	No. of Shareholders	Total Holdings	%	No. of Shareholders	Total Holdings	%
Individuals	<b>966</b>	<b>1,632,016</b>	<b>58.49</b>	1,027	1,187,023	42.54
Institutions	<b>88</b>	<b>1,158,122</b>	<b>41.51</b>	98	1,603,119	57.46
	<b>1,054</b>	<b>2,790,138</b>	<b>100.00</b>	1,125	2,790,142	100.00

As per the Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at December 31, 2002 was 87.83% (88.92% as at December 31, 2001).

### 3. Twenty largest Shareholders as at December 31, 2002

#### Ordinary Voting Shares

Name of the Shareholder	2002		2001*	
	No. of Shares	%	No. of Shares	%
DFCC Bank	<b>11,611,881</b>	<b>29.77</b>	11,611,881	29.77
Sri Lanka Insurance Corporation Ltd.	<b>9,588,072</b>	<b>24.58</b>	9,588,072	24.58
Raj Rajaratnam	<b>2,200,000</b>	<b>5.64</b>	-	-
Sri Lanka Insurance Corporation Ltd. - Life Fund	<b>2,079,486</b>	<b>5.33</b>	2,079,151	5.33
Distilleries Company of Sri Lanka Ltd.	<b>896,991</b>	<b>2.30</b>	896,991	2.30
Ceylon Petroleum Corporation	<b>748,800</b>	<b>1.92</b>	748,800	1.92
Sholi Edulji Captain	<b>636,910</b>	<b>1.63</b>	172,710	0.44
Hongkong & Shanghai Banking Corporation Ltd. (Nat. Eq. Fund)	<b>550,954</b>	<b>1.41</b>	428,354	1.10
Readywear Industries Ltd.	<b>523,159</b>	<b>1.34</b>	523,159	1.34
Hatton National Bank Ltd.	<b>388,000</b>	<b>0.99</b>	167,020	0.43
Lloyds TSB Bank PLC-Chelmsford S/A Aberdeen Asian Smaller Companies Invest.	<b>345,000</b>	<b>0.88</b>	345,000	0.88
HSBC Intl. Nominees Ltd. - JPM - Scottish ORL SML TR GTI	<b>327,000</b>	<b>0.84</b>	-	-
Bank of Ceylon A/c - CeyBank Unit Trust	<b>317,711</b>	<b>0.81</b>	451,711	1.16
Bank of Ceylon	<b>294,284</b>	<b>0.75</b>	719,120	1.84
CEI Plastics Ltd.	<b>267,900</b>	<b>0.69</b>	432,000	1.11
Ambalavanar Ratnam	<b>134,546</b>	<b>0.34</b>	134,546	0.34
Fruedenberg Shipping Agencies Ltd.	<b>131,360</b>	<b>0.34</b>	131,360	0.34
Tivili Lanka Ltd.	<b>119,340</b>	<b>0.31</b>	119,340	0.31
Explorer Capital International Services Ltd.	<b>118,000</b>	<b>0.30</b>	-	-
Mahendra Jayanthipal Chandima Amarasuriya	<b>100,580</b>	<b>0.26</b>	21,580	0.06
	<b>31,376,929</b>	<b>80.45</b>	28,570,795	73.26
Others	<b>7,623,071</b>	<b>19.55</b>	10,429,205	26.74
Total	<b>39,000,000</b>	<b>100.00</b>	39,000,000	100.00

\* Comparative shareholdings as at December 31, 2001 of the twenty largest shareholders as at December 31, 2002.

## Share and Debenture Information

### Ordinary Non-voting Shares

Name of the Shareholder	2002		2001*	
	No. of Shares	%	No. of Shares	%
Leesha Anne Captain	385,200	13.81	86,200	3.09
Paints and General Industries (Exports) Ltd.	343,500	12.31	40,700	1.46
Sri Lanka Insurance Corporation Ltd.	296,301	10.62	296,301	10.62
Ajith Anthony Neville De Fonseka	121,700	4.36	-	-
Hongkong & Shanghai Bk. Cor. Ltd. - Comtrust Equity Fund	100,000	3.58	-	-
Sohli Edulji Captain	67,500	2.42	61,800	2.21
Dickowita Kankanamge Weeratunga	67,000	2.40	27,000	0.97
The Associated Newspapers of Ceylon Ltd.	62,479	2.24	62,479	2.24
Hongkong & Shanghai Bk. Corporation Ltd.	61,849	2.22	61,849	2.22
MJF Exports Ltd.	37,440	1.34	37,440	1.34
Mahendra Jayanthipal Chandima Amarasuriya	36,580	1.31	4,480	0.16
Joseph Rosary Philip Mancius Paiva	33,700	1.21	19,200	0.69
Lambert Maasiri Maalyn Dias	31,279	1.12	31,279	1.12
Paints and General Industries Ltd.	26,600	0.95	-	-
Waldock Mackenzie Ltd. - A.M. De Mel	25,500	0.91	13,500	0.48
Anant Hargovind Udeshi	23,200	0.83	8,100	0.29
William Ryan Herbert Perera	20,859	0.75	20,859	0.75
DPMC Financial Services (Pvt.) Ltd.	20,100	0.72	-	-
J.B. Cocoshell (Pvt.) Ltd.	20,000	0.72	20,000	0.72
Karunamuni Manjula Prasanna Karunaratne	20,000	0.72	-	-
	<b>1,800,787</b>	<b>64.54</b>	<b>791,187</b>	<b>28.36</b>
Others	<b>989,351</b>	<b>35.46</b>	<b>1,998,951</b>	<b>71.64</b>
Total	<b>2,790,138</b>	<b>100.00</b>	<b>2,790,138</b>	<b>100.00</b>

\* Comparative shareholdings as at December 31, 2001 of the twenty largest shareholders as at December 31, 2002.

### 4. Market Value of Shares

	2002 Rs.	2001 Rs.
<b>Ordinary Shares</b>		
<b>Voting:</b>		
Highest	230.00	155.00
Lowest	120.00	70.50
Year end	200.00	127.00
<b>Non-Voting:</b>		
Highest	160.00	130.00
Lowest	80.00	55.00
Year end	145.00	90.00
<b>Preference Shares</b>		
Highest	9.75	(Not traded
Lowest	9.75	during the
Year end	9.75	year)

### 5. Information on Debentures

	Fixed Interest Rate		Floating Interest Rate	
	2002 Rs.	2001 Rs.	2002 Rs.	2001 Rs.
<b>5.1 Market Value of Debentures</b>				
Highest	1,000.00	925.00	1,000.25	900.00
Lowest	900.00	800.25	900.00	800.00
Year end	990.00	925.00	1,000.25	900.00
	(As at 26.12.02)	(As at 26.11.01)	(As at 27.11.02)	(As at 03.10.01)

## Share and Debenture Information

	Fixed Interest Rate		Floating Interest Rate	
	2002 Rs.	2001 Rs.	2002 Rs.	2001 Rs.
<b>5.2 Interest Rates</b>				
Coupon Rate	<b>13.50%</b>	13.50%	<b>13.42% *</b>	15.31% *
Effective Annual Yield	<b>14.20%</b>	14.20%	<b>14.11%</b>	16.21%
* 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.				
<b>5.3 Interest Rate of Comparable Government Security</b>				
Interest Rate of Comparable Government Security	<b>9.90%</b>	14.40%	<b>9.95%</b>	14.60%
<b>5.4 Other Ratios</b>				
Interest yield as at date of last trade	<b>11.24%</b>	15.35%	<b>10.00%</b>	18.65%
	<b>(As at 26.12.02)</b>	(As at 26.11.01)	<b>(As at 27.11.02)</b>	(As at 03.10.01)
Yield to Maturity of last trade	<b>14.94%</b>	19.08%	<b>11.74%</b>	23.07%
	<b>(As at 26.12.02)</b>	(As at 26.11.01)	<b>(As at 27.11.02)</b>	(As at 03.10.01)
	<b>2002</b>	<b>2001</b>		
Debt Equity Ratio (%)	<b>7.30</b>	8.56		
Interest Cover (Times)	<b>23.55</b>	19.07		
Quick Assets Ratio (%)	<b>27.88</b>	27.72		

## 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. 8,205 million as at December 31, 2002 (Rs. 5,204 million in 2001). This accounted for 5.05% (4.20% in 2001) of the total Market Capitalisation of the Colombo Stock Exchange and ranked number 03 (number 03 in 2001 too) among the listed public companies. Commercial Bank ranked No. 03 in terms of the value of the shares traded too on the Colombo Stock Exchange.

## 7. Dividends

	2002	2001
<b>On Ordinary Shares</b>		
Interim paid	<b>18.00%</b>	14.00%
Final proposed/paid	<b>32.00%</b>	31.00%
	<b>50.00%</b>	45.00%

On Cumulative Redeemable Preference Shares - 13% paid on January 3, 2003 for the year ended December 31, 2002.

## 8. Share Trading

	2002	2001
<b>Ordinary Shares</b>		
No. of transactions	<b>5,984</b>	3,051
No. of shares traded	<b>13,754,300</b>	5,455,656
Value of shares traded (Rs.)	<b>2,295,604,975</b>	553,907,417
<b>13% Cumulative Redeemable Preference Shares</b>		
No. of transactions	<b>1</b>	(Not traded
No. of shares traded	<b>3,000</b>	during the
Value of shares traded (Rs.)	<b>29,250</b>	year)

## 9. Financial Ratios

Key financial ratios are given in the "Decade at a Glance" on page 104.

## 10. Investments

The details of investments in shares of Subsidiary/Associate companies are given on page 102.

# Eighty Two 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.
- 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.



## Eighty Two Years Tradition

- 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, Kuliypitiya, 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.
- 2002** - Selected as the No. 1 Corporate in Sri Lanka by "Business Today" Magazine. Rated as the best Bank in Sri Lanka by "Global Finance" for the fourth consecutive year. Selected as the Bank of the Year by "The Banker Magazine" for the second consecutive year. Fitch Ratings Lanka Ltd., upheld the SL AA+ rating in their annual review.
- Adjudged the winner of the overall National Award for HRM-2002 organised jointly by the Insititute of Personnel Management, Post Graduate Institute of Management and the Association of Human Resource Professionals. South Asian Federation of Accountants (SAFA) adjudged Commercial Bank Annual Report - 2001 to be the first in the Financial Sector.
- 5 new branches, 2 Customer Service Points and 2 MiniComs were opened. Linked Jaffna Branch to the ICBS system.

## Branch Network

### Akuressa

No. 119, Deniyaya Road.  
Tel: 041-83144-6  
Fax: 041-83145

### Aluthgama

No. 335, Galle Road.  
Tel: 034-75391, 034-75272,  
075-580072  
Fax: 034-75394

### Ambalangoda

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

### Ambalantota

No. 129, Tissa Road.  
Tel: 047-23816/8-9, 075-480000  
Fax: 047-23817

### Ampara

No. 15, D.S. Senanayake Street.  
Tel: 063-24771/3-4  
Fax: 063-24772

### Anuradhapura

No. 271, Maithripala  
Senanayake Mawatha.  
Tel: 025-23596-7, 075-810005  
Fax: 025-23596

### Avissawella

No. 56, Yatiyantota Road.  
Tel: 036-31301/3-4  
Fax: 036-31302

### Baddegama (CSP)

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

### Badulla

No. 225, Modern Complex,  
Lower Street.  
Tel: 055-30581/3-4  
Fax: 055-30582

### Balangoda

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

### Bandaragama (CSP)

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

### Bandarawela

No. 260/2, Dharmavijaya  
Mawatha.  
Tel: 057-32653/5-6  
Fax: 057-32654

### Battaramulla

No. 213, Kaduwela Road.  
Tel: 867916-7, 874558  
Fax: 867521

### Batticaloa

No. 27, Bar Road.  
Tel: 065-26401-3  
Fax: 065-26404

### Borella

No. 92, D.S. Senanayake Mawatha  
Colombo 8.  
Tel: 687051/3-4, 670984-5  
Fax: 687052

### Chilaw

No. 52, Colombo Road.  
Tel: 032-22956, 032-22966-7  
Fax: 032-22957

### City Office

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

### Colombo 7

No. 209, Dharmapala Mawatha.  
Tel: 698200-1  
Fax: 698199

### Dambulla

No. 642, Anuradhapura Road.  
Tel: 066-84950, 066-84934-5  
Fax: 066-84950

### Dehiwela

No. 85, Galle Road.  
Tel: 722312/5  
Fax: 722311

### DFCC Bank (CSP)

No. 73, DFCC Building  
W.A.D. Ramanayake Mawatha,  
Colombo 2.  
Tel: 381351, 305560-77  
Fax: 381351

### Duplication Road

No. 405, R.A. De Mel Mawatha,  
Colombo 3.  
Tel: 505220, 075-376343/5-6,  
Fax: 075-376444

### Ekala (CSP)

No. 218, Minuwangoda Road.  
Tel: 240051, 075-355572  
Fax: 240050

### Elpitiya

No. 51A, Ambalangoda Road.  
Tel: 09-90283-5  
Fax: 09-90286

### Embilipitiya

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

### Foreign Branch

"Commercial House"  
No. 21, Bristol Street,  
Colombo 1.  
Tel: 445010-13, 328193-5,  
430420, 336700  
Fax: 449889

### Galewela

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

### Galle City

No. 130, Main Street, Galle.  
Tel: 09-34467, 09-34356,  
09-25786  
Fax: 09-34467

### Galle Fort

No. 22, Church Street.  
Tel: 09-42771, 09-32223,  
09-34377  
Fax: 09-42770

### Gampaha

No. 19, Queen Mary's Road.  
Tel: 033-24136-8  
Fax: 033-24135

### Gampaha - Minicom

C/o. Cargills Food City,  
No. 45, Bauddhaloka Mawatha.  
Tel: 033-31730  
Fax: 033-31731

### Gampola

No. 121, Kandy Road.  
Tel: 08-354131-3  
Fax: 08-354134

### Grandpass

No. 507, Prince of Wales  
Avenue, Colombo 14.  
Tel: 451600-1  
Fax: 451603

### Hikkaduwa

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

### Hingurakgoda

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

### Homagama

No. 100, High Level Road.  
Tel: 895126/8-9  
Fax: 895127

### Horana

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

### Ja-Ela

No. 140, Negombo Road.  
Tel: 243612/5  
Fax: 243613

### Jaffna

No. 474, Hospital Road.  
Tel: 021-2223148, 021-2222176  
Fax: 021-2223148

### Kadawatha

No. 143/B, Kandy Road.  
Tel: 921454/6-7  
Fax: 921455

### Kaduruwela

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

### Kaduwela

No. 50 B/C, Avissawella Road.  
Tel: 571084, 571090  
Fax: 571091

### Kalutara

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

### Kamburupitiya

No. 151, Matara Road.  
Tel: 041-92944-6  
Fax: 041-92947

### Kandana

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

### Kandy

No. 120, Kotugodella Veediya.  
Tel: 08-223163, 08-223217,  
08-234392-3  
Fax: 08-222440

### Katugastota

No. 184, Madawela Road.  
Tel: 08-498476, 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, E.P.Z.  
Tel: 253254, 253256/8  
Fax: 253253

### Kegalle

No. 186, Kandy Road.  
Tel: 035-30231-2, 075-240003  
Fax: 035-30231

### Keyzer Street

No. 32, Keyzer Street,  
Colombo 11.  
Tel: 336770-1/3-4  
Fax: 336772

### Kiribathgoda

No. 137, Kandy Road.  
Tel: 909954, 909956-7  
Fax: 909955

### Kirulapone

No. 94-A, Pamankada Road,  
Colombo 5.  
Tel: 598252, 599731,  
074-511170  
Fax: 074-511171

### Kochchikade

No. 42, Main Street.  
Tel: 031-76085/7  
Fax: 031-76088

### Koggala

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

### Kohuwela (CSP)

No. 14, Sunethradevi Road.  
Tel: 769600-2  
Fax: 769603

## Branch Network

### Kollupitiya

No. 285, Galle Road,  
Colombo 3.  
Tel: 577280-1, 573546,  
577620  
Fax: 575448

### Kotahena

No. 198, George R. De Silva  
Mawatha, Colombo 13.  
Tel: 341170, 323874, 341171,  
323471  
Fax: 431613

### Kuliyapitiya

No. 74, Hettipola Road.  
Tel: 037-81642/4  
Fax: 037-81643

### Kurunegala

No. 4, Suratissa Mawatha.  
Tel: 037-23892, 037-24092,  
037-24556-7  
Fax: 037-22749

### Kurunegala - Minicom

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

### Maharagama

No. 108A, High Level Road.  
Tel: 844914-5, 850505  
Fax: 851232

### Maharagama - Minicom

C/o. Cargills Food City,  
No. 75, Dehiwela Road.  
Tel: 075-556918  
Fax: 075-556919

### Main Street

No. 280, Indika Building,  
Main Street, Colombo 11.  
Tel: 380490-2  
Fax: 380493

### Majestic City - Minicom

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

### Malabe (CSP)

No. 838, Kaduwela Road.  
Tel: 762815-6  
Fax: 762817

### Maradana

No. 524, Maradana Road,  
Colombo 10.  
Tel: 699133, 699195  
Fax: 676204

### Matale

No. 70, King Street.  
Tel: 066-31870, 066-22485,  
066-31880  
Fax: 066-22204

### Matara

No. 18, Station Road.  
Tel: 041-24443-4, 041-22819  
Fax: 041-24445

### Matugama

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

### Mawanella

No. 51, Kandy Road.  
Tel: 035-47884/6-7  
Fax: 035-47885

### Minuwangoda

No. 42, Samarakkody Mawatha.  
Tel: 296220-1/3  
Fax: 295309

### Mirigama

No. 93, Giriulla Road.  
Tel: 033-74311-3  
Fax: 033-74314

### Moratuwa

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

### Mount Lavinia (CSP)

No. 295, Galle Road.  
Tel: 737100, 737074-5  
Fax: 737067

### Mutwal

No. 677, Aluthmawatha Road,  
Colombo 15.  
Tel: 522553/9, 525276  
Fax: 522557

### Narahenpita

No. 201, Kirula Road,  
Colombo 5.  
Tel: 505524, 500305, 502425  
Fax: 502490

### Narammala

No. 77, Kuliyapitiya Road.  
Tel: 037-49916-7  
Fax: 037-48550

### Nattandiya

No. 62, Marawila Road.  
Tel: 032-55171/3  
Fax: 032-55172

### Nawala (CSP)

No. 157A, Nawala Road,  
Nugegoda.  
Tel: 815148, 815158  
Fax: 815157

### Nawalapitiya

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

### Negombo

No. 24-26, Fernando Avenue.  
Tel: 031-33403, 031-22217,  
031-33955, 031-31813-4  
Fax: 031-33403

### Nikaweratiya

No. 48 E, Heelagama Road.  
Tel: 037-60704-5/7  
Fax: 037-60707

### Nittambuwa

No. 127/B, Kandy Road.  
Tel: 033-90548-50  
Fax: 033-90551

### Nugegoda

No. 100, Stanley Tillekaratne  
Mawatha.  
Tel: 852320, 810942-4  
Fax: 827772

### Nugegoda - Minicom

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

### Nuwara Eliya

No. 36, Park Road.  
Tel: 052-23761/3, 075-720001  
Fax: 052-23762

### Old Moor Street

No. 442/A, Old Moor Street,  
Colombo 12.  
Tel: 345595, 345554, 345579  
Fax: 345575

### Palavi (CSP)

Holcim (Lanka) Ltd., Puttalam.  
Tel: 032-69268  
Fax: 032-69269

### Panadura

No. 383, Galle Road.  
Tel: 038-36808, 038-34169  
Fax: 038-34167, 038-40657

### Panchikawatte

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

### Peradeniya

No. 935, Peradeniya Road,  
Kandy.  
Tel: 08-386445/7  
Fax: 08-386446

### Pettah

No. 180/1/31,  
People's Park Shopping  
Complex, Colombo 11.  
Tel: 388295, 446290,  
074-712643  
Fax: 449594

### Piliyandala

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

### Rajagiriya

No. 1444/A, Kotte Road.  
Tel: 884022, 884024-5  
Fax: 884023

### Ratmalana

No. 381, Galle Road.  
Tel: 738125-6, 715513  
Fax: 715514

### Ratnapura

No. 408 & 410, Main Street,  
Kudugalwatte.  
Tel: 045-30354-6, 045-23659  
Fax: 045-30356

### Ratnapura - Minicom

C/o. Cargills Food City,  
Commercial Complex, Old Bus  
Stand Site.  
Tel: 045-25051  
Fax: 045-25051

### Seeduwa

No. 791, Jayalath Plaza  
Building, Negombo Road.  
Tel: 256571-3  
Fax: 256573

### Sri Lanka Ins. Corp. (CSP)

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

### Staples Street - Minicom

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

### Thalawathugoda (CSP)

No. 7, Suramya Building.  
Tel: 773550-1  
Fax: 773553

### Trincomalee

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

### Union Place

No. 1, Union Place,  
Colombo 2.  
Tel: 300383, 074-710536-7  
Fax: 300382

### Vavuniya

No. 14, 2nd Cross Street.  
Tel: 024-22956, 024-20655  
Fax: 024-22955

### Wattala

No. 503, Negombo Road.  
Tel: 938749, 938751-2  
Fax: 938750

### Wellawatte

No. 343, Galle Road,  
Colombo 6.  
Tel: 363556, 361379, 586097  
Fax: 589437

### Wenappuwa

No. 262 & 264, Colombo Road.  
Tel: 031-53444-5, 031-55552-3  
Fax: 031-55551

### Yakkala (CSP)

No. 182, Kandy Road.  
Tel: 033-31106/8  
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 S.A./N.V. 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>	Nordea Bank Denmark A/S P.O. Box 850, DK-0900, Copenhagen C, Denmark.
<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 Duesseldorf, Germany.
<b>HONG KONG</b>	Standard Chartered Bank 9th Floor, 4/4A, Des Voeux Road, Central, Hong Kong.
<b>ITALY</b>	Intesabci S.P.A. Int'l Money Transfer Dept. Piazza Della Scala 6, 20121 Milano, Italy.

COUNTRY	NAME & ADDRESS OF THE BANK
<b>JAPAN</b>	Standard Chartered Bank 21st Floor, Sanno Park Tower, 2-11-1, Nagata-cho, Chiyoda-ku, Tokyo 100-6155 Japan
<b>MALAYSIA</b>	Standard Chartered Bank Malaysia Berhard No. 2, Jalan Ampang P.O. Box 11001, Kuala Lumpur 507332, Malaysia.
<b>NETHERLANDS</b>	ABN Amro Bank N.V. 32, Vijzelstraat, P.O. Box 669, Amsterdam, Netherlands.  ING Bank N.V. 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>	UBS - A.G. 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.
	Deutsche Bank Trust Company Americas 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 One Madison Avenue, New York NY 10010-3603 U.S.A.
	Citi Bank N.A. 111, Wall Street, 19th Floor, New York 10043 U.S.A.
	Wachovia Bank 11, Penn Plaza 4th Floor, New York, NY 10038 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, Pakistan.
	Habib Bank Limited Foreign Exchange Branch, Karachi 21, Pakistan.

# 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.

## **Associate Company**

A company other than a subsidiary in which a holding company has a participating interest and exercises a significant influence over its operating and financial policies.

## **Bills for Collection**

A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

## **Bonus Issue (Scrip Issue)**

The issue of new shares to existing shareholders in proportion to their shareholdings. It is a process for converting a company's reserves (in whole or part) into issued capital and hence does not involve an infusion of cash.

## **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.

## **Cost /Income Ratio**

Operating expenses as a percentage of net income.

## **Cost Method**

A method of accounting whereby the investment is record at cost. The Income Statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee arising subsequent to the date of acquisition.

## **Corporate Governance**

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

## **Dealing Securities**

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

## **Deferred Taxation**

Sum set aside for tax in the Financial Statements that will become payable in a financial year other than the current financial year.

## **Dividend Cover**

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by current year's distributable profits.

## **Documentary Credits**

Commercial letters of credit provided for payment by a bank to the named beneficiary usually the seller of merchandise, against delivery of documents specified in the credit.

## **Earnings per Ordinary Share (EPS)**

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.

## **Equity Method**

A method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee. The Income Statement reflects the investor's share of the results of operations of the investee.

## **Finance Lease**

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

## **Foreign Exchange Profit**

Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/last balance sheet date and the settlement/balance sheet date. Also arises from trading in foreign currencies.

## **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 and Equipment and Investments.

## **Gross Dividends**

The portion of profits distributed to the shareholders including the tax withheld.

## **Guarantees**

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person 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.

## **Interest Margin**

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

# Glossary of Financial & Banking Terms

## **Investment Properties**

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

## **Investment Securities**

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

## **Interest Spread**

Represents the difference between the average interest rate earned and the average interest rate paid on funds.

## **Liquid Assets**

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

## **Loan Losses and Provisions**

Amounts set aside against possible losses on loans, advances and other credit facilities as a result of 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.

## **Net Interest Income**

The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

## **Non-Performing Loans**

A loan placed on a cash basis (i.e. Interest income is only recognised when cash is received) because, in the opinion of management, there is reasonable doubt regarding the collectability of principal or interest. Loans are automatically placed on cash basis when a payment is 3 months past due. All loans are classified as non-performing when a payment is 3 months in arrears.

## **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 (P/E 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.

## **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 (ROA)**

Profit after tax divided by the average assets.

## **Risk Weighted Assets**

On balance sheet assets and the credit equivalent of off balance sheet assets multiplied by the relevant risk weighting factors.

## **Segmental Analysis**

Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

## **Repurchase Agreement**

Contract to sell and subsequently repurchase securities at a specified date and price.

## **Reverse Repurchase Agreement**

Transaction involving the purchase of securities by a bank or dealer and resale back to the seller at a future date and specified price.

## **Return on Average Equity (ROE)**

Net income, less preference share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

## **Revenue Reserve**

Reserves set aside for future distribution and investment.

## **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.

## **Subsidiary Company**

A company is a subsidiary of another company if the parent company holds more than 50% of the nominal value of its equity capital or holds some shares in it and controls the composition of its Board of Directors.

## **Tier I Capital**

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

## **Tier II Capital**

Supplementary capital representing revaluation reserves, general provisions and other capital instruments which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

## **Triple Bottom Line Reporting**

Reporting on the efforts of a corporate to enhance Shareholder value while being ethical and accountable to the society and environment.

## **Unit Trust**

An undertaking formed to invest in securities under the terms of a trust deed.

## **Value Added**

Value of wealth created by providing banking and other related services less the cost of providing such services.

# Subject Index

	<b>Page</b>		<b>Page</b>		<b>Page</b>
Advances to Deposits Ratio	105	Dividend Cover	3	Mission	1
Appropriations	51	Dividends	75	Net Assets Value per Share	3
Associate Companies	102	Dividend per Share	3	Net Income	72
Audit Committee Report	56	Donations	51	Non-performing loans and advances	80
Auditors' Report	57	Earnings per Share	75	Notice of Meeting	119
Balance Sheet	59	Economic Value Added	35	Operating Expenses	73
Balance with Central Bank	76	Effective tax rate	75	Operating highlights	2
Bills of Exchange	78	Eighty Two Years Tradition	110	Other Liabilities	85
Board of Directors	8	Events after the Balance Sheet Date	99	Other Assets	83
Borrowings	85	Exchange Profit	58	Price Earnings Ratio	3
Branch Network	112	Financial Calendar	49	Principal Activities	50
Capital Adequacy Ratios	32	Form of Proxy	Enclosed	Property, Plant and Equipment	84
Capital Commitments	93	Free Capital	2	Related party transactions	96
Capital Employed	3	Glossary	116	Reserve Fund	88
Cash and Cash Equivalents	61	Gross Advances to Customers	81	Reserves	88
Cash and Short-Term Funds	76	Gross Income	72	Return On Assets	3
Cash Flows from:		Income Statement	58	Return on Average Shareholders' Funds	3
Operating Activities	60	Income Tax on Profits	74	Risk Management	43
Investing Activities	60	Interest cover	109	Segmental Analysis	94
Financing Activities	61	Interest Income	72	Senior Management	15
Cash Flow Statement	60	Interest Expense	72	Share Capital	87
Chairman's Message	5	Interest Yield	109	Shareholders' Funds	59
Commitments and Contingencies	92	Investment Securities	77	Significant Accounting Policies	63
Corporate Governance	36	Investments in Associate Companies	82	Social Impact Report	24
Corporate Management	14	Investment Properties	81	Sources and Distribution of Income	22
Correspondent Banks	114	Investments in Subsidiaries	83	Statement of Changes in Equity	62
Cost/Income Ratio	2	Lease Receivable	79	Taxation	74
Debentures	86	Liquid Assets Ratio	3	Total Liabilities and Shareholders' Funds	59
Debt/Equity Ratio	109	Litigation	92	Triple Bottom Lines	24
Decade at a Glance	104	Loans and Advances	78	US Dollar Accounts	100
Deferred Taxation	86	Loans, Losses and Provisions	73	Value Added Statement	34
Deposits from Customers	85	Management Discussion & Analysis	17	Vision	1
Directors' Interests in Contracts	95	Managing Director's Report	11	Yield to Maturity	109
Directors' Report	50	Market Value of Shares	108		
Directors' Responsibility for financial reporting	55	Market Capitalisation	109		
		Maturity Analysis	89		



## Notice of Meeting

Notice is hereby given that the **Thirty Fourth 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 Friday, March 28, 2003 at 10.30 a.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, 2002 with the Report of the Auditors thereon.
2. To declare a dividend as recommended by the Directors.
3. To re-elect Directors in place of those retiring by rotation or otherwise-
  - a) Mr. M.J.C. Amarasuriya
  - b) Mr. M.L. Mack

A special notice dated February 06, 2003 has been received by the Company from Sri Lanka Insurance Corporation Ltd., No. 21, Vauxhall Street, Colombo 2, a shareholder of the Company giving notice of its intention to move the following resolution as an ordinary resolution at the forthcoming Annual General Meeting of the Company.

In regard to the re-election of Mr. M.L. Mack, who retires under Section 181 of the Companies Act and also by rotation "that the age limit stipulated in Section 181 of the Companies Act No. 17 of 1982 shall not be applicable to Mr. Michael Lloyd Mack, who has attained the age of 70 years on October 24, 2002 and that he be re-elected a Director of the Company".

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 2003.

By Order of the Board,

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

February 21, 2003  
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 enclosed with this Report. The completed Form of Proxy should be deposited at the Registered Office of the Company, "Commercial House", No. 21, Bristol Street, Colombo 1, not less than 48 hours before the time appointed for the holding of the Meeting.
3. It is proposed to post the Dividend Warrants on March 28, 2003.



# Form of Proxy

I/We .....  
of .....  
being a member/s of Commercial Bank of Ceylon Ltd. 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. Palenage Amarasinghe	whom failing
Mr. Sumith Abeysinghe	whom failing

..... of.....  
as my/our Proxy Holder to represent me/us and \* .....  
to vote for me/us on my/our behalf as indicated below at the Thirty-Fourth Annual General Meeting of the Company to be held on March 28, 2003 and any adjournment thereof and at every poll which may be taken in consequence thereof.

	<b>For</b>	<b>Against</b>
1. To receive, consider and adopt the Report of the Directors and the Financial Statements for the year ended December 31, 2002 with the report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a Dividend as recommended by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Directors in place of those retiring by rotation or otherwise-		
(a) Mr. M. J. C. Amarasuriya	<input type="checkbox"/>	<input type="checkbox"/>
(b) Mr. M. L. Mack	<input type="checkbox"/>	<input type="checkbox"/>
4. To reappoint Messrs. KPMG Ford, Rhodes, Thornton & Company as Auditors and authorise the Board of Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorise the Board of Directors to determine donations for 2003.	<input type="checkbox"/>	<input type="checkbox"/>

In witness my/our hand/seal given on this .....day of March Two Thousand and Three.

.....  
Signature/s

(Please indicate with an 'X')

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

- Notes:
- i. Instructions as to completion of this Form of Proxy are given overleaf.
  - ii. Shareholders of non-voting shares are entitled only to speak.
  - iii. As regards voting on the above Resolutions if no words are struck out or there is in the view of the Proxy Holder doubt (by reason of the way in which the instructions in the Form of Proxy have been stated by the shareholder) as to the way in which the Proxy Holder should vote, the Proxy Holder will vote as he thinks fit.
  - iv. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney (POA) should accompany the completed Form of Proxy for registration, if such POA has not already been registered with the Company.
  - v. If the shareholder is a company or a corporate body, the Form of Proxy should be executed under its common seal in accordance with its Articles of Association / Statute.

# 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 instruments 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 signed either under its common seal or shall be signed by its Attorney or by an Officer on behalf of the corporation.

A Proxy Holder need not be a member of the Company.”

(ii) The full name(s) and address(es) of the Proxy Holder and of the shareholder appointing the Proxy Holder should be entered legibly in the Form of Proxy.

(iii) The completed Form of Proxy should be deposited with the Company Secretary at the Registered Office of the Company, No. 21, Bristol Street, Colombo 1, not less than 48 hours before the time fixed for the holding of the meeting.

## Corporate Information

### Name of Company

Commercial Bank of Ceylon Ltd.

### Legal Form

A public limited liability company incorporated in Sri Lanka on June 25, 1969 under the Companies Ordinance No. 51 of 1938 and quoted in the Colombo Stock Exchange in March 1970. A licensed commercial bank under the Banking Act No. 30 of 1988.

### Company Registration Number

PBS 600

### Tax Payer Identification Number (TIN)

124006007

### Stock Exchange Listing

The Ordinary Shares, the 13% Cumulative Redeemable Preference Shares and the Unsecured Subordinated Redeemable Debentures of the Company are listed on the Colombo Stock Exchange.

### Registered Office

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

Telephone : 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

### Head Office

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

### Board of Directors

Mr. M.J.C. Amarasuriya (*Chairman*)  
Mr. J.S. Mather (*Deputy Chairman*)  
Mr. A.L. Gooneratne  
Dr. H.S. Wanasinghe  
Mr. B.R.L. Fernando  
Mr. M.L. Mack  
Mr. A.N. Fonseka  
Mr. P. Amarasinghe  
Mr. S. Abeysinghe

### Company Secretary

Mrs. R.R. Dunuwille

### Audit Committee

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

### Auditors

KPMG Ford, Rhodes, Thornton & Company,  
Chartered Accountants,  
No. 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.

### Credit Ratings

The Bank has received SL AA+ credit rating from Fitch Ratings Lanka Ltd.

### Subsidiary Companies

<i>Name of the Company</i>	<i>Holding</i>	<i>Principal Activity</i>
Commercial Bank Primary Dealer Ltd.	100.00%	Primary Dealer for Government Securities
Commercial Development Company Ltd.	94.55%	Property Development

### Associate Companies

<i>Name of the Company</i>	<i>Holding</i>	<i>Principal Activity</i>
Commercial Leasing Company Ltd.	30.00%	Leasing and Factoring
Equity Investments Lanka Ltd.	22.92%	Venture Capital
Commercial Fund Management (Pvt.) Ltd.	50.00%	Fund Management

*For any clarifications on this Report please write to*

*The Company Secretary,  
Commercial Bank of Ceylon Ltd.,  
"Commercial House",  
21, Bristol Street,  
Colombo 1*

*or e-mail to email@combank.net*

*Minimise waste by informing the Commercial Bank Company Secretary to update the mailing list if you are receiving more than one copy of the Annual Report.*

