



COMMERCIAL BANK

ANNUAL REPORT 2004

Up until 8.27 a.m. on December 26, 2004, life for most Sri Lankans, it was 'business as usual'. The tsunami waves that struck our coastline carried away whole communities, schools, businesses, towns and villages. The immediate aftermath saw survivors coming together as never before - sans race or creed - to rescue; to rebuild. Today, the passage of time has wrought a change in most Sri Lankans - we have re-discovered true values in life and learnt to celebrate the resilience of the human spirit.

Vision To be THE LEADER in the financial industry in Sri Lanka, having a visible presence in the region by the year 2010.

Mission To deliver optimum value to our customers, employees, shareholders and the nation.

The High Spirit

The human spirit lies at the beginning, the centre and the end of all our activity. It begins with the human imagination, dreaming dreams, designing solutions and then transporting thoughts to drawing board and then to projects.

It ends with the human personality. Solutions and products are aimed to satisfy the human spirit, tailor made to fit each unique personality and to offer each the broadest possible choice. From beginning to end humanity and human spirit is the focus. And at the end of the day, when the great scorer comes to write against our books, he should be able to tell us that we have enriched and made the best use, of humanity.

For that is what it should always be: the 'human' element should be at the centre, the human spirit should be the focus. Whether it be development, whether it be music, whether it be architecture or other forms of artistic expression it's all got to do with humanity: with human imagination, human emotions and human foibles.

So it must be with all corporate activity. Every entrepreneurial flame that is lit must show the way, to a higher life, to better forms of living, to a superior existence.

Corporate activities emanate from the soul, they emanate from the mind. The best form of corporate activity is that which combines mind and soul, that reaches the human mind, that caresses the human soul.

Imagine a Sri Lankan mind, imagine a Sri Lankan soul talking to men and women, reaching across oceans, conversing across miles. Building partnerships, using technology, healing wounds, creating better worlds, cleaner neighbourhoods, ... happier families. Quintessentially Sri Lankan.

Financial Goals & Achievements

Financial Indicator	Goal	Achievements				
		2004	2003	2002	2001	2000
Return on Average Assets (%)	Over 2	1.35	1.61	1.82	1.86	2.05
Return on Average Shareholders' Funds (%)	Over 20	13.16	15.20	16.61	17.13	20.09
Growth in Income (%)	Over 20	22.17	20.26	1.96	34.56	28.49
Growth in Profit after Taxation (%)	Over 20	14.03	22.71	19.21	7.91	42.14
Growth in Total Assets (%)	Over 20	25.57	50.34	24.02	19.22	18.44
Dividend Rate (%)	Over 40	60.00	50.00	50.00	45.00	45.00
Capital Adequacy Ratios:						
Tier I (%)	Over 10	10.78	13.43	14.94	15.72	14.97
Tier I & II (%)	Over 15	13.16	15.46	15.07	16.20	16.62

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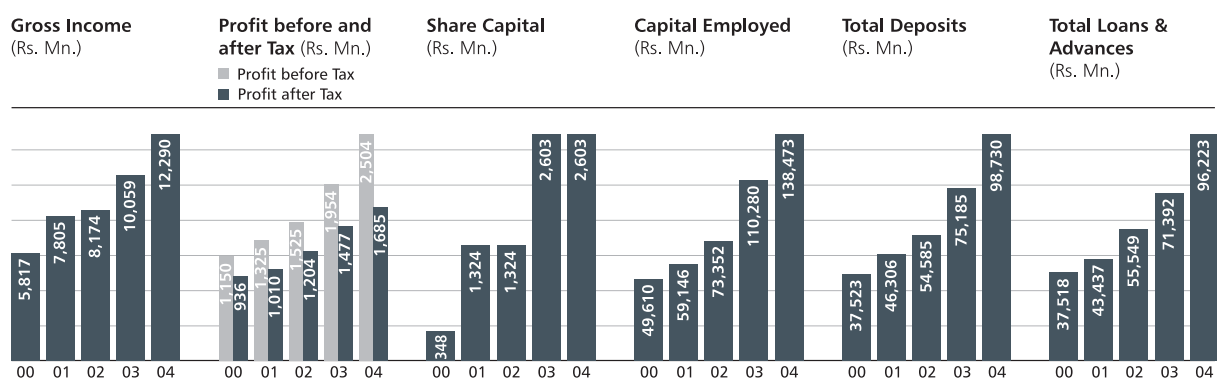
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- The Group recorded a pre-VAT and pre-tax profit of Rs. 3.037 billion for the year, exceeding the Rs. 3.000 billion mark at this stage for the first time.
- The Group recorded a pre-tax profit of Rs. 2,594.471 million for 2004. This was an increase of Rs. 555.390 million over the previous year's pre-tax profit of Rs. 2,039.081 million and represents a 27.24% growth over 2003.
- The Bank recorded a pre-tax profit of Rs. 2,503.931 million for 2004. This was an increase of Rs. 549.336 million over the previous year's pre-tax profit of Rs. 1,954.595 million and represent 28.10% growth over 2003.
- The Group's post-tax profit for 2004 was Rs. 1,727.101 million. This represented a growth of 17.71% or Rs. 259.894 million over the previous year's figure of Rs. 1,467.207 million.
- The Bank's post-tax profit for 2004 was Rs. 1,684.714 million. This represented a growth of 14.03% or Rs. 207.227 million over the previous year's figure of Rs. 1,477.487 million.
- Deposits grew by 31.32% to reach Rs. 98,729.841 million.
- Advances grew by 34.78% to reach Rs.96,222.585 million.
- The growth rates of both deposits and advances are believed to be higher than the industry average.
- The Bank continued to grant new loan facilities to the Maldivian customers.
- The Return on Average Assets (ROA) was 2.01% (before tax) and 1.35% (after tax).
- The Bank's Cost/Income Ratio was 56.78% in 2004 as against 55.87% in 2003, despite the Financial VAT rate being increased from 10% to 15% with effect from January 1, 2004.
- The Non-Performing Loan Ratio (NPL) improved to 5.34% from 7.63% in 2003, despite the foreclosed properties being accounted for as part of the Non-performing Loans.
- The Bank's capital buffer (Shareholders' Funds in relation to total assets) was 10.05%.
- The Bank had a free capital of Rs. 5,521.431 million at the end of 2004.
- The Group's Capital Adequacy Ratios stood at 10.78% and 13.16% respectively for Tier I and Tier I & II as at December 31, 2004.
- All of the 125 local branches are linked on-line real time by a state-of-the-art information technology system.
- The Bank has decided to recommend a final dividend of 40% in addition to the interim dividend of 20% paid in November 2004.

	Bank			Group		
	2004 Rs. Mn.	2003 Rs. Mn.	Change %	2004 Rs. Mn.	2003 Rs. Mn.	Change %
Results for the year						
Income	12,289.645	10,059.107	22.17	12,436.752	9,749.463	27.56
Profit before taxation	2,503.931	1,954.595	28.10	2,594.471	2,039.081	27.24
Income Tax on Profits	819.217	477.108	71.70	867.370	571.874	51.67
Profit after taxation	1,684.714	1,477.487	14.03	1,727.101	1,467.207	17.71
Revenue to the Governments	1,273.062	748.857	70.00	1,313.475	863.131	52.18
Gross Dividends	648.456	537.918	20.55	648.456	537.918	20.55
Unappropriated Profit carried forward	0.111	0.854	(87.00)	192.285	153.202	25.51
At the year end						
Shareholders' Funds (Capital and Reserves)	13,911.517	11,683.958	19.07	14,104.509	11,836.305	19.16
Deposits from Customers	98,729.841	75,184.547	31.32	98,621.515	75,097.022	31.33
Gross Loans & Advances to Customers	96,222.585	71,392.671	34.78	96,152.084	71,355.196	34.75
Capital Employed	138,473.385	110,279.926	25.57	141,792.485	112,822.239	25.68
Information per Ordinary Share						
Earnings (Basic) (Rs.)	20.87	18.48	12.93	21.46	18.31	17.20
Dividends (Rs.)	6.00	5.00	20.00	6.00	5.00	20.00
Net Assets Value (Rs.)	172.29	140.32	22.78	175.06	142.51	22.84
Market Value at the year end - voting (Rs.)	159.75	144.00	10.94	159.75	144.00	10.94
Market Value at the year end - non-voting (Rs.)	90.00	100.00	(10.00)	90.00	100.00	(10.00)
Ratios						
Return on Average Shareholders' Funds (%)	13.16	15.20	(13.42)	13.32	14.85	(10.30)
Return on Average Assets (%)	1.35	1.61	(16.15)	1.35	1.58	(14.56)
Price Earnings (times) - Ordinary voting shares	7.65	6.50	17.69	7.44	6.22	19.61
Price Earnings (times) - Ordinary non-voting shares	4.31	4.51	(4.43)	4.19	4.32	(3.01)
Year on year growth in Earnings (%)	14.03	22.71	(38.22)	17.71	17.12	3.45
Year on year growth in Dividends on Ordinary shares (%)	20.00	-	-	20.00	-	-
Dividend Yield (%) - Ordinary voting shares	3.76	3.47	8.36	3.76	3.47	8.36
Dividend Yield (%) - Ordinary non-voting shares	6.67	5.00	33.40	6.67	5.00	33.40
Dividend Cover on Ordinary shares (times)	3.48	3.70	(5.95)	3.58	3.67	(2.45)
Dividend Cover on Preference shares (times)	7.31	7.79	(6.16)	7.49	7.74	(3.23)
Statutory Ratios						
Liquid Assets (%)	23.17	23.95	(3.26)	23.17	23.95	(3.26)
Capital Adequacy Ratios - Group						
Tier I (%)	10.70	13.43	(20.33)	10.78	13.43	(19.73)
Tier I & II (%)	12.92	15.46	(16.43)	13.16	15.46	(14.88)





Thinking out of the box and breaking out of the box. Taking not just new ideas to new borders, but ideas lit with the glow of compassion and humanity. Spreading the smile and resilience that our country is now becoming famous for.

Gritty Performance

During a turbulent year, which saw a change in the Government, policy uncertainties, a prolonged drought and soaring oil prices, the Bank managed to maintain its superior performance undeterred by the adverse circumstances.

While recording sound profits, the Bank retained the AA+ (Sri) national rating, by Fitch Ratings Lanka Ltd. (FRL), for its implied long-term unsecured senior debt.

The Commercial Bank, its subsidiaries and associate companies recorded a pre-tax profit (before the Financial Value Added Tax on profit) of Rs. 3.037 billion for 2004. This is a growth of Rs. 709.978 million or 30.51% over the previous year.

The Financial Value Added Tax calculated on the basis of 15% of the pre-tax profit (as against 10% for the previous year) and staff emoluments (after charging it) amounted to Rs. 442.276 million. After providing for this Financial Value Added Tax, the profit before corporate tax amounted to Rs. 2.594 billion, a growth of Rs. 555.390 million or 27.24%.

A 7.8% depreciation of the Rupee against the US Dollar from Rs. 96.90 as at December 31, 2003 to Rs. 104.45 as at December 31, 2004, resulted in an exchange profit of Rs. 687.189 million compared to Rs. 355.179 million in the previous year, a growth of 93.45%.

Commission and other income recorded a growth of Rs. 325.949 million to reach Rs. 1,377.023 million, up by 31.01% compared to the previous year.

Total operating expenses including the Loan Losses and provisions increased from previous year's Rs. 3.873 billion to Rs. 4.879 billion in 2004, recording an increase of 25.96%. This significant increase in operating expenses is partly due to the inclusion of a full year's expenses relating to the Bank's Bangladesh operations in 2004, in contrast to inclusion of such expenses for only six months in 2003.

The Bank also provided an additional Rs. 100.000 million to its Pension Fund to improve funding levels. This allocation was over and above the normal contributions recommended by the Actuary. In addition, Rs. 27.866 million was paid under a Voluntary Retirement Scheme.

Provision for corporate tax for 2004 of Rs. 867.370 million resulted in a post-tax profit of Rs. 1.727 billion, a growth of Rs. 259.894 million or 17.71%. The corporate tax liability of the Group rose by Rs. 295.496 million due mainly to an increase in the corporate tax rate applicable to on-shore operations of the Off-shore Banking Centre to 30%, off-shore operations of the Off-shore Banking Centre becoming liable for tax at 20% with effect from April 1, 2004 and contributions to the Pension Fund and Employees' Provident Fund in excess of 25% of the salaries of the pensionable employees being added back for tax purposes.

Total deposits rose from Rs. 75.184 billion as at December 31, 2003 to Rs. 98.730 billion as at December 31, 2004, which represented a growth of Rs. 23.545 billion or 31.31%. Net loans, advances and leases increased from Rs. 66.444 billion as at December 31, 2003 to Rs. 90.720 billion as at December 31, 2004, a growth of Rs. 24.276 billion or 36.53%.

The growth in the Group's total assets from Rs. 112.822 billion at end 2003 to Rs. 141.792 billion at end 2004 represented a growth of Rs. 28.970 billion or 25.67%.

The Bank paid an interim dividend of 20% in November 2004. A final dividend of 40% has been recommended by the Directors for your approval.

An International Vote of Confidence

During the year, Commercial Bank raised US \$ 35 million from the international debt market via a syndication arrangement with Standard Chartered Bank (SCB). It was the first time that a private sector company in Sri Lanka had mobilised funds in this manner. The funds mobilised would be used to further enhance the Bank's growing corporate lending activities and also to improve the liquidity of the Off-Shore Banking Centre.

The mandated Lead Arranger, SCB, successfully syndicated the 364-day facility, which was launched at US \$ 25 million initially, and closed at US \$ 50 million, recording a 100% oversubscription that reflected the confidence commanded by the two banks in the international arena.

The fund raising was completed within 8 weeks.

A Steady Flow of Awards

Commercial Bank continued to enjoy a rich harvest of awards in 2004. The Bank was selected in 2004 as the 'Best Bank in the Country' by the prestigious US based 'Global Finance' Magazine for the sixth consecutive year. The UK based 'The Banker' Magazine too selected Commercial Bank as the 'Bank of the Year 2004' in Sri Lanka, the fourth consecutive year for which the Bank received this title.

At the HRM Awards 2003, Commercial Bank, while emerging as the Overall HRM Award Winner in the Large Services Sector, also won the award for the Most Innovative HR Practice for its Employee Outsourcing programme.

At the Annual Report Competition organised by The Institute of Chartered Accountants of Sri Lanka in 2004, the Bank's Annual Report for 2003 won the Overall Award for the best Annual Report. This was the third consecutive year for which the Bank won this award. The same Annual Report was also the winner in the banking institutions sector. Apart from these two awards, the Report was the joint 1st runners up in the categories of Corporate Governance Disclosures and Corporate Social Responsibility Reporting. At the SAFA (South Asian Federation of Accountants) Best Presented Accounts Awards for 2003, the Report came first in the banking sector.

Technological Innovation

During the year, your Bank introduced a fully in-house developed, sophisticated yet low cost, real time on-line, money transfer service, branded as Combank e-Exchange. Combank e-Exchange enables Sri Lankan expatriates and other remitters to remit money through a network of agents in over 50 countries worldwide.

Those receiving money through this facility can collect the proceeds of the remittances from any of Commercial Bank's 125 on-line connected branches islandwide. Proceeds can be collected even on holidays through the Holiday Banking Centre at Commercial Bank's Colombo 07 branch and the Bank's MiniCom Centres at Cargills Food City supermarkets and Service Points at Arpico Super Centres.

This facility also makes it possible for non-customers of Commercial Bank to receive inward remittances direct or to their accounts with other banks in Sri Lanka.

Widening Scope

During 2004, the Bank added six branches to its network: in Hatton, Pilimathalawa, Kekirawa, Reid Avenue (Colombo), Deniyaya and Weligama. In addition, a MiniCom Centre was opened at the Cargills Food City, Nawala. Service Points were opened at the Arpico Super Centre at Hyde Park Corner and at the Arpico Mall in Battaramulla.

At the end of the year, the Bank had 125 branches and 187 CAT (Commercial Automated Teller) machines, strategically located all over the country affording convenient access to our customers. Further, there were 4 branches/booths and one ATM in Bangladesh too.

In a bid to further the Bank's reach in Human Resource Development, the Bank floated a 100% owned subsidiary in the name of X-Pertise Ltd. towards the latter part of 2004. The Company will be offering training as well as consultancy services on Human Resource Development to both the Bank and outsiders.

Capital Infusion

The Bank mobilised Rupees one billion through an issue of 2004/2009 Unsecured Subordinated Redeemable Debentures by way of a private placement in 2004. These debentures were assigned the AA (sri) national rating by FRL.

The funds raised will supplement deposit mobilisation and help fund the expansion of the loan book of the Bank. The issue also qualifies as Tier II capital thereby strengthening the Bank's regulatory capital.

Commercial Bank Social Responsibility Trust

Commercial Bank, in line with the objective of being a responsible corporate citizen of the country, established a Trust in the name and style of 'Commercial Bank Social Responsibility Trust'. This represents a systematic approach by the Bank concerning its social responsibility projects. The Trust was initially funded with a contribution of Rs. 25.000 million and will hereafter be funded by contributions of up to 1% of the Bank's post tax profits annually.

The Economy - "No Pain No Gain"

GDP growth rate for 2004 is estimated to have been between 5%-5.5%. Rising international and domestic demand could be observed especially for the textiles and apparel sector. Within the services sector, the telecommunications sector contributed strongly, while 'port activity' also grew with the expansion in international trade. A healthy growth was seen in tourist arrivals and earnings from tourism.

GDP growth in 2002 (4%) and 2003 (5.9%) was driven by consumer confidence and a rebound in exports. The cessation of hostilities since February 2002 and the peaceful environment that has prevailed in the country since then, paved the way for consumer demand driven growth.



A Penumbra of Responsibility

Ethical and sustainable banking is our core business. Sri Lanka's leading private bank leads the way in best practices when it comes to state-of-the-art banking. But beyond the core, outside the glare of the banking spotlight, in the margins, and on the periphery are needs that no ethical modern corporate entity can ignore.

The challenge of modern business is not just to generate a sound financial performance, but to perform outside of the balance sheet. To generate sustainable and constant dividends for different segments of society, but especially for those who are most disadvantaged, for those who require empowerment most urgently.

This is the goal of the Bank's CSR Trust. Cutting edge in every sense of the word. Swathing new frontiers so that all Sri Lankans can march forward, head held high to the promised land of good life, better opportunity and human security.

It was to patrol this penumbra of responsibility, beyond the Bank's core business, that we established the Commercial Bank Social Responsibility Trust. The Trust will not provide charity and handouts, but rather will seek to empower communities and individuals, to help communities become self-reliant and independent, to motivate people to run where no one has run before, to encourage individuals to think out of the box, to reward artistic endeavour, to capture and preserve heritage and folk wisdom. The participation of beneficiary communities will be key in all the Trust's activities. As will a strict monitoring process.

During the first half of 2004, investment expenditure grew, indicating that investment, rather than consumption, would provide the impetus for economic growth in 2004. Consumer driven growth is unlikely to be sustainable in the long run without a corresponding rise in investment. Higher investment goods imports in 2004 indicate that the latter was taking place. According to Central Bank sources, investment goods were increasingly imported by sectors such as tourism, construction, apparel, telecom and transport.

Sound fiscal policies are an integral element of a solid development strategy. The budget deficit is estimated to have been 8.6 % of the GDP for 2004. Fiscal policy should dovetail with the monetary policy in order for any development strategy to be successful. Monetary aggregates have been expanding at a faster rate than anticipated, driven mainly by the higher than expected growth in credit to both the public and private sectors. An area of concern is the excessive growth in public sector credit, largely arising out of subsidies given on imported commodities such as petroleum products, wheat flour and other related goods and services. A rising trend in inflation could also be observed from May 2004.

Activity at the share market gained momentum in 2004 with both price indices recording appreciable gains. Foreign investors are expected to become more active in the period ahead, particularly in relation to liquid shares. The boom in the Indian share market also indicate that foreign investors were looking at South Asia as a region and Sri Lanka may benefit as a result.

The worst natural disaster in the history of Sri Lanka, the tsunami resulted in over 40,000 deaths and affected around one million people on the coastal belt from Jaffna in the North to Negombo in the west, a coastline of around 900 kilometers. The damage caused as a result to some of our valued customers was considerable.

The impact of the tsunami is yet to be properly assessed. A well coordinated plan with clearly identified priorities will have to be implemented to revive the country. Fortunately, the tsunami has had little impact on the key apparel and tea industries.

Prospects for 2005 - Turning a Disaster into an Opportunity

Strong international support for resumption of peace talks between the Government and the LTTE, coupled with an equally strong expectation that the country would not slip back to war, makes it possible to be optimistic about Sri Lanka's future. Besides, many countries, international donor agencies and various other organisations and individuals have pledged their support for the post-tsunami rehabilitation and reconstruction effort of the country.

Although the negative impact of the tsunami on GDP growth for 2005 will probably be around one percentage point according to information available up to now, the impact over the medium to long term is not expected to be significant. Arguably, the worst affected sectors would include fisheries and tourism, which account for about 2.4% and 1% of GDP respectively. Banking and insurance industries would also have to face some difficulties. Sector profitability of banks for 2005 could be adversely affected due to possible write offs and provisions against bad loans arising as a result of the damages caused. The magnitude of the losses that may be suffered by the banks on account of directly affected borrowers could be exacerbated in view of the significant damage to underlying collateral such as real estate and stock in trade which would have mitigated the losses suffered by banks under normal circumstances. Banks could also face a deterioration in asset quality as the negative effects of the catastrophe unfolds over the period ahead. The banks with relatively higher exposures to the affected areas and also straddled with lower capital ratios will face a

bigger burden. However, the impact on bank solvency appears to be moderate. The disaster could also bring about opportunities since public infrastructure, hotels, houses and other properties will have to be reconstructed or built anew within a fairly short period of time. This may result in a sudden boost for the construction industry which accounts for 7.2% of the country's GDP. Banks and other financial institutions may stand to gain as a result.

In the area of trade and investment, the Government is keen on broadening the scope of the Indo-Lanka Free Trade Agreement and extending it to a Comprehensive Economic Partnership Agreement which will cover not only trade in terms of goods and services but also services and investment in relation to the two countries. The Government has also entered into a Free Trade Agreement with Pakistan. Additionally, a free trade agreement with the USA is also being sought. While appreciating these efforts, it is also important that urgent measures are taken to strengthen the apparel industry to meet the challenges posed by a 'quota-free' environment. The end of quotas could mean a dip in apparel exports on the one hand and laying off of many who are employed in the industry on the other hand. The Government along with industry would have to jointly come up with a programme of action to counter these adversities and to convert challenges into opportunities. In this light, I wish to record my appreciation of the provisions made in the budget proposals of the Government for 2005 to assist the apparel industry to compete in a quota-less environment. The bigger players in the apparel industry appear to be confident of their ability to increase their export earnings in the quota-less era.

The prospects for the Sri Lankan economy in 2005 would critically depend on the degree of political stability and commitment for securing a lasting peace to the civil conflict. Additionally, improvements in macro-economic management, including fiscal discipline and reducing economic policy uncertainties and price distortions would have to be consistently pursued. Speedy implementation of structural reforms, restoration and improvement of infrastructure facilities, particularly power and roads, efficient resource allocation through clear market signals, effective utilisation of external assistance and higher private sector investments to expand capacity are other key areas on which the success of our economy would depend.

The cost of electricity in Sri Lanka is among the highest in the world. Although there has been much discussion about a coal power plant for years, it has not materialised. Unless immediate action is taken in this regard, Sri Lanka will face a severe power crisis obstructing all good plans and development activities. Apart from the coal power plant, the country is urgently in need of better highways.

Forward March

Commercial Bank is planning to engage in new businesses in the period ahead. The Branch network would be further expanded. There are still un-banked and under-banked areas where we could profitably operate. The Bank is also planning to enhance its fee-based activities including Bancassurance arrangements.

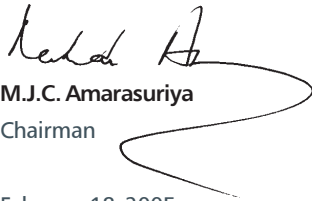
We will strengthen our operations in Bangladesh. Two new branches are planned: one in Dhanmondi in March 2005 and another towards the end of 2005. The Bank's ATM network in Bangladesh will also be expanded. The Indian market is being seriously explored.

The challenges that the Bank will have to face in 2005 include the widening Pension Fund gap, the escalating cost of utility services and other inputs and the adverse impact on cost / income ratio, as a result of these developments. Additionally, exchange rate volatility too could adversely impact the performance in 2005.

Fine-Tuning our Excellence

The Managing Director assisted by his excellent management team and a committed staff have provided a harmonious blend, which enabled the Bank to end 2004 on a high note. My colleagues on the Board contributed immensely by providing expert guidance. I wish to express my deep and sincere gratitude to all of them and look forward to their continued support. It is with a profound sense of sadness that I record the demise of Mr. Michael Mack, my colleague on the Board of Directors. I will always remember the contribution made by him at Board deliberations with a warm sense of gratitude. I also take this opportunity to express my sincere thanks to Mr. Dimitris Tsitsiragos who resigned from the Board and warmly welcome Mr. Iyad M. Malas and Mr. S. K. G. Senanayake, (Alternate Director to Mr. Malas) who joined the Board.

While thanking all our stakeholders for their marvellous efforts and support, I remain confident of their continued vigour. Together, let us fine-tune our excellence in the coming year, to continue with our remarkable progress.



M.J.C. Amarasuriya
Chairman

February 18, 2005
Colombo



01 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., Pelwatta Sugar Industries Ltd. and Serendib Flour Mills (Pvt) Ltd. Director, DFCC Bank, Commercial Leasing Company Ltd. Immediate Past Chairman of Joint Business Forum of Chambers of Commerce & Industry, Employers' Organizations & Trade Associations of Sri Lanka (JBIZ) and Chairman, International Chamber of Commerce, Sri Lanka, Chairman of the Regional Industry Service Committee of the North-Western Province. Past Chairman, The Employers' Federation of Ceylon.

02 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 Chemical Industries Colombo Ltd., Acme Printing and Packaging Ltd., Lanka Aluminium Industries Ltd., David Peiris Motor Company Ltd., Delmege Forsyth & Co. Ltd. and few other unlisted companies. Member of Public Utilities Commission.

03 A. L. Gooneratne
Managing Director

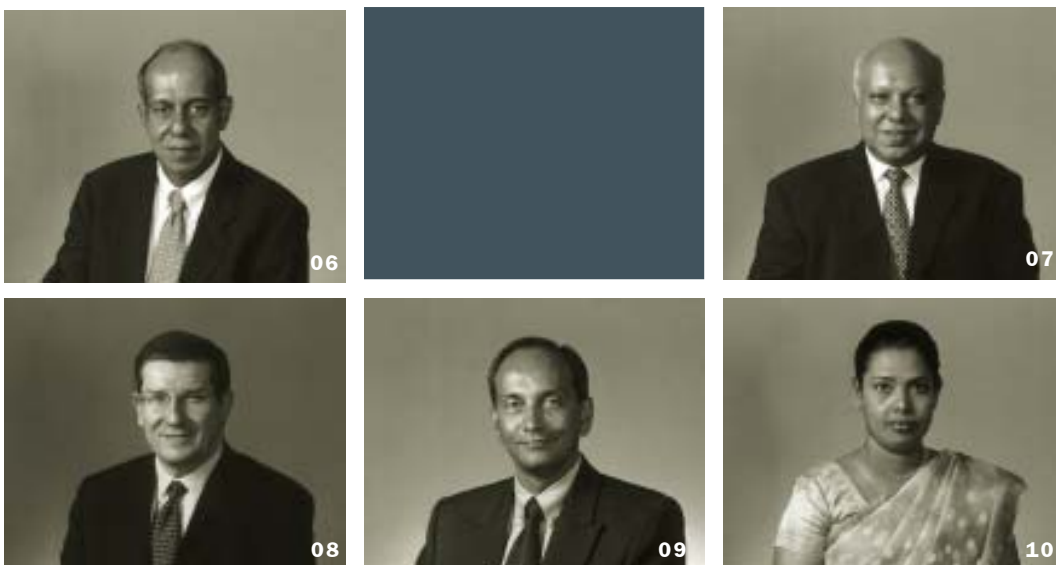
Appointed to the Board of Commercial Bank as Managing Director on January 6, 1997. Joined the Bank in March 1983 and has held several senior positions prior to his appointment as General Manager/Chief Executive in March 1996. A Fellow of The Institute of Chartered Accountants, England & Wales. Represents the Bank's interests on the Boards of all its Associate and Subsidiary Companies. Chairman, The Sri Lanka Banks' Association (Guarantee) Ltd., Chairman, The Financial Ombudsman Sri Lanka (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, representing The Sri Lanka Banks' Association as a Council Member on the National Task Force for Corporate Governance Sri Lanka. Council Member of The Employers' Federation of Ceylon.

04 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.

05 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 Feeds (Pvt) Ltd., CIC Vetcare (Pvt) Ltd., CIC Agri-biotech (Pvt) Ltd., CIC Poultry Farms Ltd., CIC Bio Security Breeder Farms Ltd., and Non-Executive Chairman of Chemanex Ltd., CIC Paints (Pvt) Ltd., CISCO Speciality Packaging (Pvt) Ltd., Crop Management Services (Pvt) Ltd. Also Non-Executive Director of Paints & General Industries Ltd., Agro Enterprises Japan-Lanka (Pvt) Ltd. Exchange & Finance Investments Ltd., Rainwear (Pvt) Ltd., Trustee of The Employers' Federation of Ceylon. Possesses extensive experience of finance and commerce.



06 A.N. Fonseka

Appointed to the Board of Commercial Bank on January 31, 2000. General Manager/ Chief Executive/Director of DFCC Bank. Director, Credit Information Bureau of Sri Lanka and Colombo Stock Exchange. Member, Governing Board, National Institute of Business Management and Post Graduate Institute of Management, University of Sri Jayawardenapura. Member of the Government's Strategic Enterprise Management Agency (SEMA) and the Financial Sector, Capital Markets and Taxation Clusters of the National Council for Economic Development (NCED). Member of the Presidential Task Force for Rebuilding the Nation (TAFREN). Chairman of the Exchange Control and Banking & Finance Sub-Committees of the Ceylon Chamber of Commerce.

07 Lalin J.A. Fernando

Appointed to the Board of Commercial Bank on April 25, 2003. Founder, Managing Director of Standard Trading Company (Pvt) Ltd. Counts for over 34 years experience in the Tea Trade and Private Sector Management. Director of L F Holdings (Pvt) Ltd., Horana Plantations Ltd., Uni Dil Packaging (Pvt) Ltd., Ceytea Plantations Management Ltd., STC Logistics (Pvt) Ltd., L F Teas (Pvt) Ltd., STC Trading House (Pvt) Ltd., Classic International (Pvt) Ltd., Research International (Pvt) Ltd., Motor Marvels (Pvt) Ltd., Frontier Automotive (Pvt) Ltd. and Koboshu Corporation (Pvt) Ltd.

08 Iyad M. Malas

Appointed to the Board of Commercial Bank on November 23, 2004. Iyad Malas holds an MBA from George Washington University and is a Chartered Financial Analyst. He has been with the World Bank Group since 1987 and was previously a Manager in the IFC's Central Asia, Middle East and North Africa department. Instrumental in developing the Emerging Markets Data Base into a fully fledged commercial product, he has extensive experience in Latin America, Asia, South Europe and the Middle East. As head of the investment bank Flemming CIIC in Cairo Mr. Malas was responsible for the creation of the largest investment bank in the MENA Region. He has extensive experience in the private sector and IFC including strong industry knowledge in General Manufacturing, Information Technology and Financial Markets.

09 Sanjiva Senanayake

Appointed to the Board of Commercial Bank on July 27, 2004 as an Alternate Director to Mr. D. Tsitsiragos and then re-appointed as an Alternate Director to Mr. Iyad Malas on November 23, 2004. Sanjiva Senanayake has been IFC's Resident Representative for Sri Lanka and Maldives since 1998. He holds a first class BSc. degree in Electronic and engineering from King's College, University of London and a Masters degree in Communication Engineering from Imperial College of Science and Technology of the same University. His banking career started in 1979 with Citibank, where he worked in Sri Lanka, Brunei and Australia. Prior to his IFC appointment, he was the AGM Treasury at NDB and Consultant (Treasury and Business Development) at Commercial Bank. He has extensive experience in Treasury and Risk Management.

10 Mrs. R.R. Dunuwille
(Company Secretary)
Attorney-at-Law,
Chartered Secretary (UK)



To create a banking utopia where clutter is a relic of the past. Where space and simplicity dominate. Where the bank fits into peoples lives at a pace and time that people choose and not the other way around.

Cruising Along

The Bank recorded another year of solid performance while facing adverse circumstances of varying degrees. A few years ago, we established ourselves as the leading private sector bank in Sri Lanka. In 2004, we maintained this pre-eminent position.

From Local to Regional

We are hopeful of becoming a major regional player in the near future. While consolidating our position in Bangladesh, we are probing ways of entering the Indian market.

There is considerable untapped potential in the region.

Bangladesh Operations Gain Momentum

It is now 14 months since we acquired the Bangladesh operations of Credit Agricole Indosuez (CAI) and in this short time span, we have established ourselves as a player to be reckoned within that market. We have received a rating of AA from Credit Rating Information Services Ltd. (CRISL), the highest rating for a financial institution in that country. We were also adjudged the Best Foreign Bank operating in Bangladesh for the year 2004. We already have two fully-fledged branches in the country, one each in Dhaka and Chittagong and we are planning to open two more branches in 2005, the first of which will be opened in the up market Dhanmondi area in March 2005.

Since Sri Lanka lacks a sovereign risk rating, it is no easy task to venture into a foreign market and make an impact. A bank like ours is forced to battle the multinationals and other well established players on a playing field that is not level. Over the next couple of years, we will move from an almost exclusive focus on corporate banking to looking at new opportunities in retail banking in the Bangladeshi market. ATMs and credit cards also are in the pipeline. We are happy with our performance and are looking at this market with great promise.

India Beckons

India continues to beckon. India's regulatory regime is slightly tougher. The Reserve Bank of India insists on the infusion of a significant initial capital. Yet, we are extremely keen on entering the Indian market and are looking at every opportunity. We will most certainly take this step in the near future.

Tapping the Remittances Market

Our other international operations will focus on tapping the remittances market. We are already affiliated to and have also positioned our staff in Dollorco Exchange Co. in Kuwait and Gulf Exchange Co. in Qatar. In addition to several other Middle Eastern countries, we are also planning to establish our presence in other locations with a significant South Asian diaspora such as Canada, Italy and UK, offering them a cheap and swift way of sending their remittances to their home countries.

Establishing International Credibility

Last year, the Bank raised a short-term syndicated loan in the international debt market. One of the objectives of this exercise was to make our mark internationally. The exercise exceeded all expectations. We had expressions of interest from a broad range of financial institutions from China, the United States and the Middle East. It was a giant leap and a total success. We are now confident that in case we need to raise resources in the international debt market, we can do so with relative ease.

Bullion Trading runs into VAT

For the past two years, Commercial Bank has had a partnership with ScotiaMocatta, bullion trading arm of the Bank of Nova Scotia to sell bullion in the local market. As a result, we became the largest bullion seller in this country. Last year, we had a particularly good year in the bullion sales. However, our bullion operations have suddenly come to a halt now with the imposition of VAT on the bullion trade with effect from January 1, 2005.

Human Resources

In the area of human resources, we strengthened our existing partnerships and forged new ones. Our training programmes with the Asian Institute of Technology (AIT) in Thailand continued and we initiated a new partnership with the National University of Singapore.

We have also just signed a deal with the Indian Institute of Banking and Finance. Through this new partnership, we hope to offer an Indian Banking qualification for those in the Sri Lankan Banking industry.

Corporate Social Responsibility

We have created a strong culture of corporate social responsibility at all levels and laboured the point that the Bank has a significant role to play as a leading corporate citizen.

Sri Lanka has a rapidly ageing population and the Bank has begun to develop tailor-made solutions for this segment. Last year we opened our branch at Reid Avenue in Colombo 7 that is dedicated mainly to the senior citizens. The branch includes a pharmacy that enables them to purchase medicinal drugs at special discounts.

Last year, we also established the Commercial Bank Social Responsibility Trust, with a seed investment of Rs. 25.000 million from the Bank. We are committed to investing a portion of our profits every year in this Trust.

Nurturing Our History

With the objective of capturing and revitalising Sri Lanka's mythological history, rituals, traditions, customs, cures and beliefs that have come down from generation to generation, the Bank published a book titled "හෙල මග විසිතුරු" (Hela Maga Visithuru). This 262-page book has been dubbed as a 'treasure trove' of folk knowledge.

Information Technology

As we have been doing over the past few years, we spent considerable time and money in upgrading and developing our IT systems. Our state-of-the-art IT systems have put us way ahead of the pack and we intend ensuring that we retain this position. Internet Banking and e-Banking are growing markets and we are pleased at the way our customers are becoming accustomed to the new technologies. The IT of Sri Lankan banks is on par with the best in the world and among the Sri Lankan banks, Commercial Bank leads the field.

A Model Corporate Citizen

One of the constant criticisms of the banking sector is that it makes 'super profits' without a commensurate return to customers. However, what this criticism fails to take into account is that banks are one of the highest contributors to the national exchequer through payment of Income Tax, Financial VAT, Debits Tax and PAYE tax. Most of these taxes are collected at source by banks without any additional cost to the Government.

While the Bank invests a considerable amount on overseas training, this investment is not an allowable deduction for tax purposes although it adds considerably to the country's human resource base.

The criticism of banks also ignores the fact that today in Sri Lanka financial institutions operate in a highly competitive and de-regulated environment. There are 22 licensed commercial banks competing for a share of the local market. This applies additional pressure on us to stay competitive and ahead of the rest. In some respects, it is not a level playing field because the state banks enjoy an advantage in many respects. Additionally, we operate in an environment in which the legal process for the recovery of loans is very long and expensive.

It is because of the heavy investment that corporates have made in training their staff that the country boasts of a human resource base that is on par with the world's best. It is due in large measure to the heavy investment the banks have made in IT that the country can boast of an IT banking infrastructure that is on par with the world's best.

Risk Management

An area in which we are likely to focus over the next few years is with regard to Risk Management. The Basle II framework is likely to come into operation within a few years time.

The Basle II Regulations impose higher standards with regard to the management of the different risks: credit, market and operational risks. Banks will have to maintain capital for these risks, develop new software to capture historical data and monitor rating migrations of the borrowers and train the Bank's staff in this regard.

Financial Ombudsman

We are glad that Ombudsman under the Consumer Protection Act is operational. All financial institutions that accept the Ombudsman's jurisdiction are required to comply with awards up to a limit of Rs. 3.000 million. Initially, the awards applied only to personal banking customers but now they have been extended to include corporate customers as well. The Bank welcomes this move and sees this mechanism as a speedy and inexpensive way of resolving disputes.

Amendments to the Banking Act

The long awaited amendments to the Banking Act have now been passed by the Parliament and banks will be required to comply with the provisions therein shortly.

International Finance Corporation (IFC)

The IFC partnership which we forged in 2003 was strengthened during 2004. We anticipate that it will grow further in 2005. The IFC partnership has given us access to training, to 'know how' and to credit which we would not otherwise have had. We also expect the IFC to be closely involved in infrastructure development in the post-tsunami phase and we hope that we could become part of this effort at national reconstruction.

Small and Medium Enterprises (SME)

The SME sector continues to show immense potential. We are endeavouring to streamline our procedures for processing applications so as to provide a faster service to potential clients. There are new credit lines for the SME sector that are likely to become available from the multilateral agencies and we hope to make use of every possible opportunity in this regard. We see this as another high growth area.

Staff Relations

Our relations with the staff continued to be of the highest order. The target oriented culture that we have been trying to establish is now firmly entrenched in the Bank's work ethics and we hope to improve on this in 2005.

Pension Fund

An area of concern is the Pension Fund. The Bank is looking at ways of rationalising this. In dismantling pension funds, we would need some form of Government relief. This could be in the form of a tax-break on compensation to those who opt to give up pension rights.

Wealth Management

Wealth Management is the other area where we see immense potential. Those with significant assets often lack the time and capacity to manage these assets effectively. This is where the Bank hopes to step in, by offering them services beyond what traditionally banks used to do.

The Impact of the Tsunami

The tsunami had a serious impact on the Bank's operations. Thirty-five of our staff were directly affected and one of our staff, Malintha de Silva and her family, did not survive. I take this opportunity to extend the Bank's condolence to the parents and relations of Malintha and to all those who lost their loved ones.

Soon after the tsunami, a coordinating team consisting of representatives from the staff at all levels was formed to develop an appropriate response. As an interim measure, the Bank provided up to Rs. 50,000/- to all those affected staff members, partly as a grant and the balance as an interest free loan. The Bank is in the process of assessing how it could help in the medium term and also assist by providing counselling and other psycho-social support. I must thank all those members of staff who acted with great sacrifice and courage at this moment.

Our Galle City and Hikkaduwa branches were damaged. However, due to the prompt action of the staff at those branches and the availability of the 'destroyed data' in a central data base, we were able to recommence operations within days.

Upbeat about the Future

Despite the tsunami, I am upbeat about the outlook in the short to medium term. I do not think the tsunami will have effects on the economy that are going to shackle it for any considerable period of time.

We at the Bank believe that the country should focus on becoming a financial hub for the region and beyond. The groundwork has been laid and we already have the human and technological resources in place for this.

I would like to thank the Board of Directors for their support and inspiration. My thanks are also due to our committed and dynamic staff. The success of any institution is inextricably linked to the performance of its staff and we are proud that we have one of the best human resource pools in the country. My appreciation to those at the Central Bank for their cooperation at all times. I also thank M/s. KPMG Ford, Rhodes, Thornton & Co. for their professional role in carrying out the external audit and issuing the report on a timely basis enabling the Bank to publish this report early.

I look forward to another rewarding year.



A.L. Gooneratne
Managing Director

February 18, 2005
Colombo

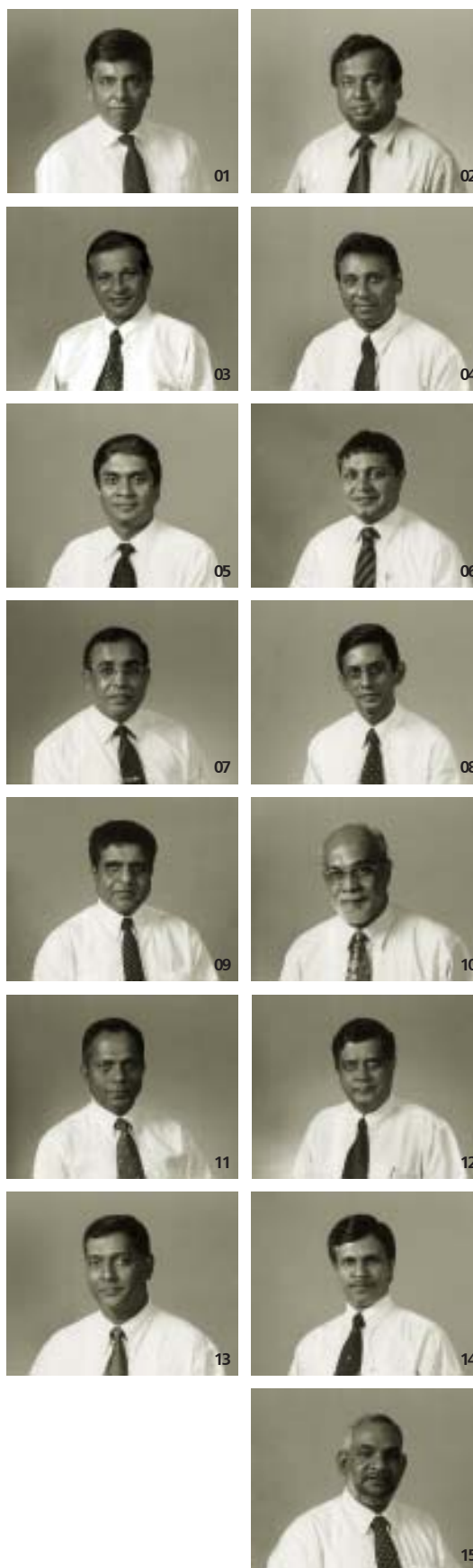
Corporate Management

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

Senior Management

- 16 **S. Raghavan**
(Head of Exports)
- 17 **Vimal Fernando**
(Senior Regional Manager - Colombo South)
- 18 **Mrs. Marion Abeywardena**
(Head of Corporate Banking - I)
- 19 **Ajith Wijayasundare**
(Head of Information Technology)
- 20 **Mrs. Carmelita De Silva**
(Head of Corporate Banking - I)
- 21 **Chandana Gunasekera**
(Senior Regional Manager - Colombo Inner)
- 22 **Claude Perera**
(Head of Human Resource Management)
- 23 **Palitha Narangoda**
(Head of Treasury)
- 24 **Felician Perera**
(Head of Recoveries)
- 25 **Richard Rodrigo**
(Head of Marketing)
- 26 **Palitha Perera**
(Chief Manager - Operations)
- 27 **Gamini Wijesinghe**
(Chief Manager - Lease Promotion)
- 28 **Mrs. Sandra Walgama**
(Regional Manager - North Western)
- 29 **C.M. Abeysekera**
(Chief Manager - Corporate Banking II)
- 30 **Mrs. Sarojini Dunuwille**
(Chief Manager - Legal)
- 31 **S. Renganathan**
(Country Manager - Bangladesh)
- 32 **Hilary Fernando**
(Chief Manager - Treasury Processing)
- 33 **Niran De Costa**
(Regional Manager - Colombo North)
- 34 **B.W.R. Srikantha**
(Regional Manager - Central Region)
- 35 **Naveen Sooriyarachchi**
(Chief Manager - Corporate Finance)
- 36 **Duminda Kurukulasuriya***
(Chief Manager - Imports)
- 37 **Roshan Perera***
(Regional Manager - Greater Colombo)
- 38 **Mrs. R.R. Dunuwille***
(Company Secretary)
- 39 **Nugent Kapuwatte***
(Chief Manager - Lease Promotion)
- 40 **Noel Wickramasinghe***
(Chief Manager - Logistics)

* Since promoted





Management Committee - Bangladesh

- 1 **S. Renganathan**
(Country Manager)
- 2 **D. Das Gupta**
(General Manager)
- 3 **S. Prabagar**
(Chief Operating Officer)
- 4 **S. Kutubuddin Ahmed**
(Deputy General Manager - Risk,
Compliance and Corporate Affairs)
- 5 **Golam Mortuza**
(Deputy General Manager -
International Trade)
- 6 **Mehboobur Rehman**
(Deputy General Manager -
Human Resources)



It always feels really great to be vindicated!

When the Commercial Bank ventured beyond Sri Lanka to Bangladesh, we did so with confidence; confidence in our ability to contribute to a nation quietly emerging into the “sunlight” of sustainable prosperity; confidence in our ability to contribute as well as gain, in truly mutual symbiosis.

How right we were!

In 2004, the Commercial Bank received “The Industry - Business Award 2004” for the Best Foreign Bank in Bangladesh, bestowed by The Industry Magazine. We won recognition for our outstanding performance in enriching Bangladesh banking services, whilst also contributing to the country’s economy.

Also within our first year of operation, the Bank was awarded the highest credit rating for a financial institution in Bangladesh, AA, which was conferred by Credit Rating Information Services Limited.

These manifestations of genuine recognition and appreciation truly gladdens our heart and strengthens our resolve to continue to offer great banking and financial services to the people of Bangladesh in the years ahead.



Mr. S. Renganathan, receiving the “Best Foreign Bank” award from Mr. Altaf Hossain Chowdhury, the Minister of Commerce of Bangladesh, Air Vice Marshal - Retd.

Financial Review

World GDP growth is estimated to have recorded 4% in 2004. Despite the sharp rise in oil prices, the volume of world trade is estimated to have grown by 8.5% in real terms in 2004. In the backdrop of this global environment, Sri Lanka's GDP growth for 2004 is estimated to have been between 5%-5.5%. A rising trend in inflation could be observed while interest rates were under control. Although the Sri Lankan Rupee recorded a sharp depreciation against most major currencies, in the post-tsunami period, the Rupee has recorded an appreciation on the back of massive pledges of funds from around the world for post-tsunami relief and reconstruction.

Despite the challenging environment that prevailed, Commercial Bank continued to be the most profitable and financially strong bank in Sri Lanka, among its peer banks, as evident from the level of profit, financial ratios and the local and international recognition it has received. Today, Commercial Bank accounts for approximately 10% and 11% of the market shares in Deposits and Advances respectively, among all the commercial banks.

The Bank made a pre-tax profit of Rs. 2,503.931 million in 2004 as against Rs. 1,954.595 million in 2003, which reflected a growth of 28.10%. The increase in pre-tax profit was facilitated by a 26.72% growth in net interest income, 120.06% growth in foreign exchange profit and 31.0% growth in fee and commission income. However, other income declined by 33.01%. Operating expenses including Loan Losses and Provisions also increased by 26.27% mainly due to inclusion of full year's charges of the Bangladesh Operations for the first time.

The Bank's post tax profit of Rs. 1,684.714 million in 2004 reflected a growth of 14.03% compared to Rs. 1,477.487 million in 2003. The lower growth in post-tax profits is mainly attributable to the increase in the provision for taxation from Rs. 477.108 million in 2003 to Rs. 819.217 million in 2004 as a result of the increase in tax rates on the profits of the Off-shore Banking Centre, lower contribution to profit from tax friendly sources such as dividends, contributions to the Pension Fund and Employees' Provident Fund in excess of 25% of the salaries of the pensionable employees being added back for tax purposes etc.

These pre and post-tax profits of the Bank were arrived at after providing for Rs. 784.073 million on account of possible loan losses in 2004 including provisions required in terms of the new "Hair Cut Rule" of the Central Bank of Sri Lanka (CBSL) amounting to Rs. 478.690 million and a part provision of Rs. 75.000 million on account of the borrowings of the tsunami affected customers, compared to Rs. 623.207 million provided in 2003. However, the net charge to the Income Statement amounted to Rs. 699.200 million only, as a result of an excess provision against lease receivables amounting to Rs. 84.873 million being released during the year, consequent to the Bank revising the provisioning policy on lease receivables in line with the accepted market practices.

The Directors recommend a final dividend of 40% payable on March 30, 2005, which together with the interim dividend of 20% paid in November 2004 will add up to a total dividend of 60% for the year 2004, the highest ever dividend from the Bank.

The pre-tax profit of the Commercial Bank Group amounted to Rs. 2,594.471 million as against Rs. 2,039.081 million recorded in 2003, a growth of 27.24%.

The post-tax profit of the Group for the year which amounted to Rs. 1,727.101 million, reflected a growth of 17.71% only, compared to the post-tax profit of Rs. 1,467.207 million of the Group in 2003.

The business volumes of the Bank recorded impressive growths during the year. Deposits grew by 31.32% while advances grew by 34.78%. A favourable shift in deposits mix was also observed during the year. In order to raise medium term funds from a non-deposit source, Bank issued Rs. 1.000 billion worth debentures through a private placement during the year. In addition, the Bank borrowed US \$ 35 million. from the international markets through a syndicated loan for general corporate purposes. The total assets of the Bank too grew by 25.57% in 2004.

Products

- Letters of Credit
- Shipping and other guarantees
- Import and export finance
- SWIFT facilities
- Syndicated loans
- Project financing
- Securitisations
- Initial Public Offerings and Private Placement of Equity
- Company valuations and restructuring
- Investment advice and evaluation
- Structuring of Corporate Debt Instruments
- Working capital financing
- Internet banking

- Bullion trading
- Domestic and International Factoring
- Off-shore banking facilities
- Leasing

Core Competencies

- Expertise in trade finance and corporate credit
- High level of professionalism
- Speedy response to customer requests
- Customer friendly service
- Innovative products
- State-of-the-art technology
- Largest linked branch network

Future Strategies

- To offer exclusive and the best service standards in the Industry
- To strengthen and broaden our presence in Bangladesh
- To consolidate relationships with Maldivian clients
- To simplify operations and ensure speedy delivery
- To offer the most competitive terms backed by state-of-the-art IT
- To further improve the quality of the total advances portfolio.
- To diversify the advances portfolio.
- To leverage on the strong relationships with our worldwide correspondents.

Up, Close and Capable

Doing what really close friends do. Being with you in times of distress, being with you at times of joy. Holding you close when you need that support, but letting you roam when you need to.

Just letting know we are there for you. Personally yours. Everyday of the year. It's not what you expect from corporate banking but then again, it's what you don't expect that keeps you going, that keeps you smiling.



Corporate Banking

The Corporate Banking Division comprises of the Foreign Branch, the Off-shore Banking Centre and the Bangladesh Operations. This Division with its expertise in Trade Finance, Corporate Finance, Project Financing, Leasing, Factoring, Working Capital Financing and related services caters mainly to the banking needs of the multinational corporate clients and large to medium size domestic corporate customers.

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

	2004		2003	
	Rs. Mn.	%	Rs. Mn.	%
Profit before tax	1,168.666	46.68	689.698	35.29
Loans and Advances (Gross)	56,252.681	58.46	44,015.641	61.65
Deposits	31,053.746	31.45	22,331.949	29.70

Loans and advances portfolio of the Corporate Banking Division and the Bangladesh Operations grew by 27.80% and 58.43% respectively. We were also able to get back most of the business lost during the early days of acquisition in Bangladesh and have now established our name as one of the trusted providers of Financial Services. Our growth there is expected to improve further with the proposed opening of new branches and introduction of innovative products. We were adjudged the Best Foreign Bank operating in Bangladesh for the year 2004, by The Industry Magazine.

The portfolio to the Maldivian corporates grew by 73.59%. The Bank participated in major lending propositions there. Even though the Bank does not have a physical presence in the country, the Maldivian portfolio is of high quality. The Bank is planning to consolidate its position before further expansion is contemplated.

The overall optimism in the country as a result of the continuance of the peace process led to an increased level of economic activity and has resulted in an enhanced demand for credit by the business community during the year 2004.

Leasing operations performed exceptionally in the year 2004 recording a growth of 54.02% to reach Rs. 5.383 billion for the year under review.

Export factoring is poised to be added to our portfolio of services during 2005. This is made possible by us having obtained membership with the Factors Chain International. This is the largest group of factors in the world with representation in most countries. We will continue our thrust in the Domestic Factoring Market in order to build a sizeable portfolio in the year 2005.

The Corporate Finance Division (CFD) was established as a separate unit in 2003 to handle Investment Banking assignments and large scale projects including infrastructure projects.

During 2004, CFD financed several infrastructure projects including large scale thermal power projects and small to medium hydro power projects. CFD arranged several securitisations with structuring and investments.

The Bullion Trading business grew substantially and the Bank easily maintained its market leadership in the trade. We are now well established as the premier supplier of bullion in the country. However, with the imposition of VAT on bullion sales, the future for this line of business looks bleak.

The Bank has a well established and trusted worldwide correspondent network. Our ability to provide a reliable bank to deal with in any part of the world has provided our customers with a distinctive advantage in structuring their international business. In 2004, we successfully raised US \$ 35 million through a syndicated loan arranged by the Standard Chartered Bank.

The non-performing loans ratio of the Bank was brought down to 5.34% as at December 31, 2004 from 7.63% a year earlier. The net Non-Performing Ratio after discounting for Interest in Suspense and loan loss provision improved to 2.26%. These ratios are the best among indigenous Banks in the country. This signifies that we have satisfactory systems in place for Credit Appraisal, Risk Assessment and post sanction monitoring. A total provision of Rs. 699.200 million was made during the year to enhance the provision cover to 50% of the total non-performing loans. The open Credit Exposure Ratio stood at 16% as at December 31, 2004. In the year 2005, we will focus to further improve the non-performing ratio and the provision cover.

Products

- Current, Savings (Passbook and Statement) and Fixed Deposit Accounts
- CAT Card
- Priority Banking Card
- Credit Cards
- "Arunalu" and "Isuru" Minors' Accounts
- "DotCom" and "DotCom Spin" Teen Saver Accounts
- Progressive Saver Accounts
- Certificates of Deposit
- Salary Remittance Packages
- "Nivahana" Housing Loans with Fixed and Floating Rates
- "Pahan" Personal Loans
- "ComShakthi" Leasing facility
- "Diribala" Development Loans

- e-Exchange - Money transfer facility
- Holiday Banking Centre
- Saturday Banking
- Priority Banking
- ComBank Online-Internet Banking
- Telephone/SMS Banking
- "Udara" Senior Citizens' Deposit Account
- "FC Plus" - Foreign Currency Savings Account with high interest rates
- DOLLARSMART - Foreign Currency Deposits in Bangladesh
- Utility Bill payment service through ATM/Internet

Core Competencies

- State-of-the-art Information technology
- "ComNet" computer linked branch and ATM network
- Wide range of products
- "One Stop" facilities
- Speedy and friendly service

Future Strategies

- To develop new low cost delivery channels
- To adopt new customer relationship and segmentation techniques
- To expand cross-selling
- To develop new products tailor-made to specific market segments

Infinitely Alone

Shaking off that yoke of clutter. Creating space, the space of choice, the space of time. Almost endless and seamless in the access you get. Giving you the sense of peace, the sensation of calm and above all the tranquility of security. It's not what you expect from Personal Banking, but then what you don't expect is that which marks a personality, in this case a corporate personality.



Personal Banking

The Personal Banking Division is responsible for the successful operation of the extensive islandwide network of delivery channels which caters mainly to the banking needs of personal customers and small & medium enterprises.

The traditional brick and mortar branches still continue to play an important role in Sri Lankan banking. During 2004, nine new delivery points were opened and 21 ATMs were installed including 8 at off-site locations widening the network and making Commercial Bank truly a National Bank. Additionally, two Customer Service Points (CSPs) were upgraded to fully-fledged branches, while five branches were relocated in more convenient locations.

Bank considers the network, branded ComNet, to be a great asset that provides immense potential and opportunities for future growth of the Bank. By the end of the year the total network of Delivery Channels of the Bank in Sri Lanka comprised of 107 fully fledged Branches, 6 CSPs, 9 MiniComs, 3 Service Points at Arpico Malls and 187 ATMs. Bank will continue to expand the number of Delivery Points and the ATMs further. The substantial increase in the number of transactions through the ATMs, which dispense on average Rs. 120.000 million each day, bears ample testimony to the ever-increasing popularity of our ATM network.

The seven Regional Offices immensely contributed to the excellent performance of the Personal Banking Division by decentralising and expediting the process of decision making relating to credit and operations of Branches. It is intended to establish a separate new Region to cover branches in the Northern and Eastern Provinces.

Issue of Credit Cards under franchise from Master Card International too comes under this Division. The Bank commenced the issue of Master Card Electronic permitting the Bank to lower the risk profiles of cardholders. Another major activity handled by the Card Centre is the issue of CAT Cards, which are issued with almost every new Current and Savings account opened.

The Priority Banking Centre continued to attract a number of high net-worth customers who are now issued with a specially designed Cheque Book and an Identity Card - the Priority Circle, which also serves as a high value Debit Card. This Centre offers a preferential and an expeditious service to its customers at this exclusive location in the Union Place branch building with an array of exclusive benefits and privileges, befitting the special status and standing of these customers.

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

	2004		2003	
	Rs. Mn.	%	Rs. Mn.	%
Profit before tax	1,123.819	44.88	1,060.883	54.27
Loans and Advances (Gross)	39,969.904	41.54	27,377.030	38.35
Deposits	67,676.095	68.55	52,852.598	70.30

Personal Banking Division channelled funds mobilised in excess of their lending requirements to the Corporate Banking Division and the Treasury, thus making low cost funds available to the Corporate Banking Division and the Treasury to be utilised for their lending and investments.

During the year, the Bank pioneered in abolishing the outstation commission on cheques drawn on us.

Treasure Hunt

There are few sensations in life that match the throwing open of a window and bathing yourself in light. It is symbolic of the move from darkness to light, from inertia to discovery. In some instances, it symbolizes the cleansing of the soul, the beginning of a new life, the launch of a fresh face.



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 movements and asset management
- Expertise on foreign currency related products development

Future Strategies

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

Treasury

The principal responsibilities of the Treasury included management of liquidity and exposure to market risks, mobilisation of resources from domestic as well as international institutions and banks. Further, the Treasury leveraged its strong relationships with financial sector players to provide a wide range of banking services in addition to Bank's liability products.

In 2004, the balance sheet management function within the Treasury, managed interest-rate sensitivity by adjusting the duration of the Government securities portfolio held for complying with the Statutory Liquidity Reserve Ratio.

The focus of trading operations was active, broad-based market-making in key markets including Government securities and foreign exchange markets. A focus area in year 2004 was the delivery of market solutions to corporate clients in various areas such as foreign exchange and fixed income securities. There was a significant increase in both the volumes and profits from foreign exchange transactions.

The Dealers took time to interact with customers to advise them on foreign currency exchange rate movements and on Money Market activities to help them reduce the adverse effects of cross currency movements and enhance their capacity to reap better profits on the Forex and Money market activities.

The contribution of the Treasury as a Profit Centre can be summarised as follows:

	2004		2003	
	Rs. Mn.	%	Rs. Mn.	%
Profit before Tax	211.446	8.44	204.014	10.44
Asset portfolio	30,131.595	21.75	31,779.799	28.82

The Treasury made this contribution while maintaining a substantially good transfer price to the branches and other business units.

Commercial Bank Primary Dealer Limited (CBPDL) continued its activities in the Government Securities Market taking part aggressively in the Secondary Market Trading. CBPDL continued to popularise the Government Securities among the masses through the Commercial Bank Branch network. CBPDL recorded a moderate profit of Rs. 2.797 million before tax and VAT and Rs. 1.637 million after tax for the year 2004. Trading Profits for the year was substantially reduced because of the capital losses incurred during the first half of 2004 where market interest rates for Treasury Bonds rose by about 300-400 basis points. Furthermore, the Company was subject to a retrospective taxation by the Department of Inland Revenue for capital gains earned during 2003.

During 2004, Sri Lankan economy experienced increasing inflationary pressures due to rise in crude oil prices and other commodity prices in the international markets, coupled with a drought in the island, which affected agricultural products and their prices. In this background, the CBSL maintained a somewhat tight Monetary Policy during the year 2004. The CBSL repo rates were increased by 50 basis points in November 2004. Overnight repo and reverse repo rates stood at 7.50% and 9% respectively as at December 31, 2004.

With the expectation of high inflation and interest rates, demand for Medium to Long-term Bonds was relatively low. However, Sri Lankan Government managed to maintain the budget deficit at around 8% of GDP in 2004, minimising the impact on interest rates by raising of funds from captive sources eventually helping market interest rates to stabilise towards the end of 2004.

The above factors coupled with balance of payment deficit, contributed to the fall in foreign reserves and caused the Sri Lanka Rupee to depreciate during the year. As at December 31, 2004, Rupee depreciated by 7.80% against the US Dollar and significantly depreciated against other major currencies such as Japanese Yen, GBP, Indian Rs. and Euro.

In 2004, the Treasury computerised its process for straight-through processing of all transactions linking the Front, the Middle and the Back Office operations and linking the Core Banking System on an on-line real time basis. A fully-fledged Middle Office will be set up in 2005 with the objective of upgrading the Treasury Risk Management System and to refine compliance and risk management.

Information Technology

Information Technology (IT) continued to play a major role in the Bank in the delivery of its services during 2004 too. The reach of the IT services provided by the main data centre of the Bank spread beyond the boundaries of Sri Lanka with the linking up of the Bangladesh Operations via satellite to Colombo. Migrating the systems at the Bangladesh Operations from its earlier legacy system to the one that is used by the Commercial Bank in Sri Lanka smoothly was a significant achievement for the Bank's IT Division during 2004.

The rolling out of the new front end software to the branches continued with 50 branches being converted during the year. The entire branch network is now upgraded to high speed, thus providing better response times at the branch counters.

A separate IT security division was set up within the IT Department to focus on implementing best industry practices.

During 2005, a "Hot Backup" solution would be implemented whereby a backup computer would seamlessly take over the processing of the entire network in case the main computer fails. The new front end software roll out would be continued to cover all the remaining branches. An IP Call Centre would be established within the year for the Card Centre and Electronic Banking Services help desks. A major ATM system upgrade would also be carried out.

We are also working on a mobile ATM solution using the wireless GPRS technology, whereby an "ATM on wheels" could be placed at strategic locations at peak times to serve the customer needs.

The Bank continues to maintain its position as the largest single computer network in Sri Lanka with a total of 125 branches and 187 ATMs as at end 2004.

System capability and controls of IT infrastructure of the Bank were reviewed by Consultants from M/s. Ernst & Young, Sri Lanka and M/s. Ernst & Young (Pvt.) Ltd., India in three stages. The final stage of the review was completed during 2004.

During the year, an assessment on the Information Security of the Bank's IT Systems was carried out by an expert attached to M/s. KPMG South Africa whose services were obtained through M/s. KPMG Ford, Rhodes, Thornton & Co., Sri Lanka. The assessment included an Information Security Review (a gap analysis), a full review of the firewall that was set up during 2004 and a review on Internet vulnerabilities. The purpose of this exercise was to bring and maintain the Bank's information security to a level that is in line with internationally accepted best practices.

Strategic Direction and the Challenges

The strategic direction of the Bank is critically reviewed annually by the Management Committee at the time of preparing the Corporate Plan and the Budget and by the Board of Directors at a special Board Meeting held to deliberate thereon. In keeping with the Vision and the Mission of the Bank, the strategic direction for the Bank has been clearly identified and laid down in the Corporate Plan and the Budget. The Corporate Plan and the Budget of the Bank, prepared each year on a rolling basis, spell out the goals and objectives for each major strategic business unit of the Bank such as Corporate Banking, Personal Banking, Treasury, etc. and the detailed action plans for the achievement thereof along with specific time frames. Undoubtedly, the Corporate Plan and the Budget has immensely contributed in building up the target driven culture across the Bank leading to superior performance and achieving its pre-eminent position.

Priorities identified in the Corporate Plan to be implemented in the medium term include expansion of our overseas operations in the other countries in the SAARC Region with special emphasis on India thereby further reducing the over dependence on the Sri Lankan economy, consolidation of the Bangladesh Operations, promoting remittance business by stationing Bank's staff in reputed exchange houses in the Middle East and by establishing Bank's own exchange houses under the brand name "Commex" in such countries as Canada, UK, Italy, Australia etc., promoting the Bank's subsidiary companies, expanding credit and support services to the SME sector specially in the wake of tsunami disaster, increasing the contribution from fee based operations, identifying the ways to maximise the synergies and the shareholder value by working in close association with the major shareholders, making the maximum use of the distribution network, growth through business acquisitions, etc.

The challenges that the Bank will have to face in pursuing the above strategic direction also have been identified, some of which are infusion of new capital/capital restructuring to facilitate expansion plans, containment of cost in the wake of inflationary pressures, pension reforms, managing exchange rate volatility and making the Bank Basel II compliant.

Sources and Distribution of Income

For the year ended December 31,	2004	2003	2002	2001	2000
	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.
Sources of Income					
Interest Income	9,584	7,931	6,613	6,510	4,796
Foreign Exchange Profit	874	397	464	563	421
Commission Income	1,377	1,051	824	636	505
Investment Income	217	401	179	55	41
Others	238	279	284	439	333
	12,290	10,059	8,364	8,203	6,096
Distribution of Income					
To Depositors/					
Debentureholders as Interest	4,878	4,218	3,747	4,174	2,776
To Employees as Emoluments	2,132	1,697	1,312	1,022	819
Depreciation set aside	260	222	200	181	162
Provision for possible Loan Losses	699	623	402	237	180
To Providers of Supplies & Services	1,373	1,069	920	726	640
To Governments as Taxation (Incl. Deferred Tax)	1,264	753	579	853	583
-Income Tax	819	477	321	315	214
-Turnover Tax	-	-	-	52	50
-National Security Levy	-	-	257	486	319
-Debits Tax	4	4	1	-	-
-Financial VAT on profits	441	272	-	-	-
To Shareholders as Dividends	648	538	327	221	157
To Reserves	1,036	939	877	789	779
	12,290	10,059	8,364	8,203	6,096



Replenishing our world

Replenishing the earth and returning to society more than we take out. This is the supreme human duty: to give unto others more than they gave unto you.

Providing cool water and nourishment, providing inspiration and succour to the next generation and creating children who can better their parents.

Corporate Genius Redefined

A few years ago, the Bank pioneered Triple Bottom Line reporting where we reported not just on our financial performance but on our performance with regard to the society and the environment.

Every year, we watch our financial performance grow, with considerable pride. But more than that we watch with a combination of pride and satisfaction, our social commitment grow. We have delivered solidly and impressively to our shareholders over the years. To our 'other stakeholder' - society - we continue to invest liberally to create better futures for us all, delivering profit and more.

The Bank believes that CSR does not mean just doling out largesse. Rather, it means the strategic use of money and other resources to empower communities and to help people help themselves. Self reliance, the capacity to exploit new opportunities, the ability to think out of the box and a competence to make best use of existing resources are some of the goals of our CSR philosophy.

We have made it a point to inculcate a deeper sense of responsibility and a stronger awareness among our staff on this issue. We have created a strong culture of corporate social responsibility at all levels and laboured the point that the Bank has a significant role to play as a leading corporate citizen.

Financials are not the only assessment of a company's performance. If a company can perform financially, enhance the environment, generate sustainable wealth, act equitably and fairly and empower the most disadvantaged in society that then is the true test of modern corporate genius.

As much as the Bank invests in training its human resources, upgrading its technology, boosting its infrastructure and fine tuning its governance arrangements, every year we also invest in a variety of other sectors that lie outside the pale of traditional banking activity.

This section contains a review of our performance outside the traditional financial statements. It deals with people and the initiatives the Bank has put in place to empower people and unleash new opportunities for different segments of the population.



Puffing Perfection

Climbing the steps of human achievement: the pinnacle of human endeavour. The climb towards better levels of perfection: a search for perfection that never ends.

Winning Hearts and Minds

The main objective of the Bank in regard to managing its Human Resources is to create and maintain a winning combination of well contented, highly motivated and exceptionally productive workforce, thus harmonising corporate business objectives with the aspirations of our employees. This means providing a working environment that not just maintains productivity levels but enables and empowers our employees to think out of the box and produce new and creative solutions for the future.

We also endeavour through our human resource policies, to create a work culture that promotes a sense of belonging among our staff, a sense of shared values, a healthy balance between a person's professional obligations and his or her personal commitments and a sense of co-ownership in both success and failure. 'One Bank One Family' policy has immensely helped in this regard. It is this team spirit that can raise the human mind and the corporate entity to even higher levels.

The current era is an era of rapid change. The technology and patterns of modern living are changing the employee attitudes. We need to harmonise the expectations of the organisation with those of the employees for mutual benefit. Unless the Bank as an institution and employees as stakeholders in the Bank adapt to these changes, we all will be left far behind. The capacity and the willingness to unlearn, learn and adapt

are vital in today's deeply competitive world.

In this respect, we pay strong attention to having mechanisms of support and guidance, processes for addressing grievances, and initiatives that promote relationships and comradeship among our staff.

Networking Relationships

During the past year, we strengthened our existing partnerships and forged new ones. Our training programmes with the Asian Institute of Technology (AIT) in Thailand continued and during the course of the year, we conducted two programmes in Bangkok, all of which were heavily oversubscribed.

During the past year, we initiated a partnership with the National University of Singapore (NUS), one of the leading academic institutions in the world. Here too, we hope to offer tailor-made world-class training programmes for Sri Lankan Corporate Managers/Executives at affordable cost and provide them the opportunity of interacting with some of world's leading resource persons in this region.

Our Bank entered into a landmark collaborative agreement with the Indian Institute of Banking and Finance (IIBF) in India to offer their customised certificated Banking Courses in Sri Lanka. IIBF has been involved in banking education in India for over 70 years and has affiliations with banking institutes and business schools in Europe and North America. Through this new partnership, we hope to offer

Indian Banking qualifications for those in the Sri Lankan banking industry. Using distance learning techniques, Sri Lankan students will in the first phase be able to access the Intermediate Certificate of Banking Studies and the Diploma in Banking Studies.

We have no doubt that developments in India, both in the banking industry and in the broader commercial world will have a huge impact on Sri Lanka. It is in anticipation of these developments that we thought it would be useful to expose Sri Lankan bankers to an Indian professional qualification.

Launching of our HR Company: X-Pertise Ltd.

In 2004, the Bank took a strategic decision to form a separate corporate entity in the name of "X-Pertise Ltd." to take over the operations of the Staff Development Centre, HRD arm of the Bank, and to extend its activities beyond the parameters of the Bank and to provide a wide range of HR Services which include Local and Overseas Training, Banking Education, Executive Search/Recruitment and Consultancy to other Corporates and external clients in all key result areas of Human Resource Management. The formation of this Company could be cited as the coming of age of HRD in the Bank and could be referred to as the culmination of a series of efforts undertaken by the Bank to develop its people as well as sharing of expertise with others in the industry and beyond.

Fostering Spirit of Community

A number of specific activities were carried out during 2004 to foster a spirit of community among our family of Bank employees. Some of the activities are the Inter-Branch and Department Quiz Competition held in October 2004 for the 4th successive year, recital of Poson Bhakthi Gee, Christmas Carols, annual Christmas party for the staff and their family members, staff sports tournaments on cricket, football, rugger, badminton and hockey.

In addition to these specific activities, our periodic publications 'Comlink', 'Comnews' and 'Cominfo' also help forge a spirit of community among our 'ComBank family', keep them all informed of events and activities within the Bank as well as ideas on leadership and personal development and provide a medium to display the talent and creativity of the staff members and their children.

Our 'Central Library' in Colombo now boasts of a collection of over 6,000 books on a wide range of topics. Apart from books, the library also subscribes to a variety of journals and periodicals. The Central Library is helping regional libraries develop their collection and our goal is to have well stocked libraries in these regional offices. Monthly video screenings are held in the Head Office Conference Room on a variety of topics relating to management and personal development.

In order to inculcate reading habits, among the staff members, periodic book exhibitions are arranged in collaboration with reputed book publishers in Sri Lanka.

Workplace Co-operation

The concept of "Workplace Co-operation" initiated by International Labour Organisation (ILO) encouraging the Management and the Employee Organisations (Trade Unions) to co-operate with each other through a process of dialogue is now firmly rooted in the Bank. Common issues are now resolved on this basis.

Continuation of Cordial Industrial Relations

During the year, industrial relations with the three Employee Organisations, i.e. Executive Officers Association, Staff Association, and Ceylon Bank Employees' Union, continued to be extremely cordial. Regular interactions and monthly meetings based on principles of Collective Bargaining have resulted in a greater degree of understanding and establishment of mutual trust amongst parties concerned.

Staff Loyalty and Productivity

With the aim of improving the staff loyalty and productivity further, the Bank has so far offered 10% of the share capital to its staff under two different Employee Share Ownership Plans. The first one was offered in 1997 by acquiring 5% of the Bank's issued ordinary voting share capital from the Standard Chartered Bank (SCB) through a share trust, when SCB decided to divest its historically owned 40% stake in the Bank. The second one was offered in 2003 by acquiring another 5% of the Bank's issued

ordinary voting share capital from the Sri Lanka Insurance Corporation Ltd. (SLIC) through a share trust, when SLIC decided to divest a 20% stake in the Bank, prior to its privatisation. In addition, in terms of an Employee Share Option Plan set up in 2002, employees in Executive Officer Grade III and above are offered share options for 5% of the issued ordinary voting share capital of the Bank in four equal tranches, provided certain pre-defined performance targets are met. The options under the first and second tranches for 1.25% each of the shares were offered in March 2003 and March 2004 respectively.

Developing our Regional Training Centres

As at December 31, 2004, we had two regional training offices. These centres located in Galle and Kandy, provide us with an opportunity of devising more flexible training opportunities for our regional staff and bringing training closer to them. We envisage a close collaboration between the Regional Offices and the Staff Development Centre managed by the X-Pertise Ltd. in designing relevant programmes. Our objective is to create a learning culture that encompasses every aspect of our institution.

Training our Staff

The Staff Development Centre conducted 198 in-house training programmes during 2004 to which 6,449 Staff members participated. In addition, 376 staff members were sent



01



02



03



04



05

1. Annual Inter branch/ Department Quiz competition in progress
2. At the Basel II Awareness Programme
3. A training programme at AIT Bangkok in progress
4. Annual Christmas Party
5. At the Inter-branch netball tournament

on locally held external programmes while 63 staff members were sent on overseas training. Our Bangladesh Operations too trained 75 of its staff members in in-house programmes, 15 in locally held external programmes and 11 in overseas programmes - mostly in Sri Lanka. In addition, the staff from Colombo were sent to Bangladesh for the installation of the ICBS in early part of 2004 and they trained the Bangladesh staff in the process.

Over the years we have progressively begun to outsource a number of functions. The rewards have been hugely satisfying. We carried out several tailor-made programmes for the development of our outsourced staff enabling them to take their skills and expertise to higher levels for mutual benefit. In addition, the Bank has regularly looked into their terms and conditions, and offered a better compensation package when compared with those offered in the market.

Commercial Bank sustains its HR Excellence

In 2002, the Bank was crowned with the glory of receiving National HRM Award at the first-ever National HRM Awards competition in Sri Lanka organised by The Institute of Personnel Management, Sri Lanka, Postgraduate Institute of Management and Association of HR Professionals. In 2004 too, the Bank proved its ability to sustain its high standards and excellence in respect of its HRM

Systems and processes when it was awarded the "Overall National HRM Award 2003 - Large Services Sector" at the recently concluded National HRM Awards competition.

Promoting Social Responsibility

The Bank being an active member of the Network of Differently Abled Persons initiated by The Employers' Federation of Ceylon continued to employ differently abled persons and also to provide suitable training to them. The Staff Development Centre also facilitated at the sessions on "Facing Interviews" for groups of differently-abled persons at programmes conducted by The Employers' Federation of Ceylon and Motivation Lanka.

The Staff Development Centre organised career guidance seminars for rural students and continued to provide a structured training which includes "On the Job Training" on Banking & Human Resources Management to undergraduates.

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, 2004.

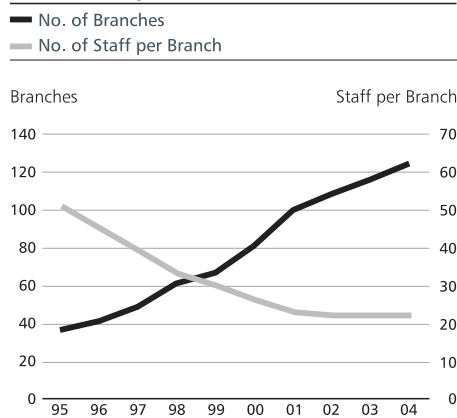
The Human Resource Valuation is based on the following assumptions:

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% - 10% p.a. on average.
4. Total future remuneration of all the employees for each year is discounted to the present value at 9.65%.

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

	2004	2003	2002	2001	2000
Employees per branch	22	22	22	23	26
Income per employee (Rs. '000)	4,293	3,799	3,486	3,631	2,949
Profit before tax per employee (Rs.'000)	875	739	636	587	556
Assets per employee (Rs. '000)	48,367	41,646	30,576	26,160	24,001

No. of Branches & No. of Staff per Branch



Value of Human Resource per Employee (Rs. '000)



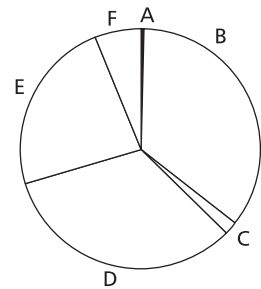
Year	No. of Employees	Total Value of Human Resource (Rs. '000)	Value of Human Resource per Employee (Rs. '000)
2004	2,863	27,014,491	9,432
2003	2,648	23,867,760	9,014
2002	2,399	18,098,299	7,544
2001	2,259	16,383,868	7,253
2000	2,067	13,849,053	6,700

Staff Strength

As at December 31,	2004	2003	2002	2001	2000
Corporate Management (CM)	15	14	14	14	15
Executive Officers* (EO)	1,001	918	787	715	564
Executive Assistants and Allied (EA)	53	62	23	30	89
Junior Executive Assistants and Allied (JEA)	942	798	813	905	1,017
Banking Trainees (BT)	677	672	574	402	183
Office Assistants and Others (OA)	175	184	188	193	199
Total	2,863	2,648	2,399	2,259	2,067

Staff Strength - 2004

A CM - 1% B E/O - 34%
 C EA - 2% D JEA - 33%
 E BT - 24% F O/A & Others - 6%

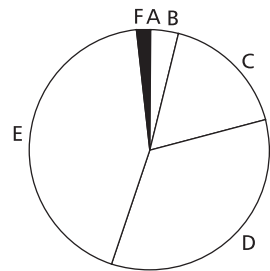


Age Analysis of the Staff as at December 31,

Age Group (Years)	Corporate Mgt.	*Executive Officers	Executive Assistants & Allied	Jr. Exe. Assistants & Allied	Banking Trainees	Office Asst. & Others	2004 Total	2003 Total
Above 60	-	4	-	-	-	-	4	3
51 - 60	10	68	2	7	-	23	110	120
41 - 50	5	274	22	101	-	80	482	494
31 - 40	-	520	20	383	-	59	982	999
21 - 30	-	135	9	451	626	13	1,234	1,031
20 & below	-	-	-	-	51	-	51	1
Total	15	1,001	53	942	677	175	2,863	2,648

Age Analysis (Years) - 2004

A Above 60 - 0.1% B 51-60 - 3.9%
 C 41-50 - 16.8% D 31-40 - 34.3%
 E 21-30 - 43.1% F 20 & below - 1.8%



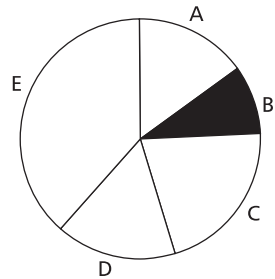
Average age of the employees as at December 31, 2004 was 33.3 years (2003 - 33.9 years)

Service Analysis of the Staff as at December 31,

Service Group (Years)	Corporate Mgt.	*Executive Officers	Executive Assistants & Allied	Jr. Exe. Assistants & Allied	Banking Trainees	Office Asst. & Others	2004 Total	2003 Total
Above 20	10	260	12	72	-	80	434	430
16 - 20	1	163	12	64	-	23	263	282
11 - 15	1	298	11	242	-	44	596	614
6 - 10	2	206	7	227	-	19	461	482
5 & below	1	74	11	337	677	9	1,109	840
Total	15	1,001	53	942	677	175	2,863	2,648

Service Analysis (Years) - 2004

A Above 20 - 15% B 16-20 - 9%
 C 11-15 - 21% D 6-10 - 16%
 E 5 & below - 39%



Average service of the employees as at December 31, 2004 was 10.1 years (2003 - 11.7 years)

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

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



No growth without equity

Growth is not just about getting bigger.

Size matters but it is not the only thing that matters. More than size is soul and sustainability. Those that endure are those that are chiseled from caring minds, from sensitive souls, from the belief that as much as we have rights we also have responsibilities. Prime among those responsibilities is the duty not to exploit, the obligation to erase human suffering and to let fly the human spirit.

We make decisions and we know that these decisions have effects of varying degrees on the economy, the society and the environment. We know what kind of a legacy we want to leave behind for the generations to come. As the Brundtland Report of the World Commission on Environment and Development, states the term sustainable development means “development that meets present needs without compromising the ability of future generations to meet their own needs”.

The Bank's policy has been to observe the highest levels of ethics and fairness in its relations with all of its stakeholders. 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. Holiday Banking and Supermarket Banking pioneered by the Bank have brought in new segments of customers and have 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 a

bigger group of customers than before. For the sheer convenience of the customer, some of the Bank's outlets are kept open for extended banking hours and some even on holidays. For example, the Holiday Banking Centre at the Colombo 7 Branch is open daily and outlets at Cargills Food City and Arpico Super Centres are open daily till 7.30 p.m. Saturday Banking Centres at selected locations are open on Saturdays as well.

Liquidity

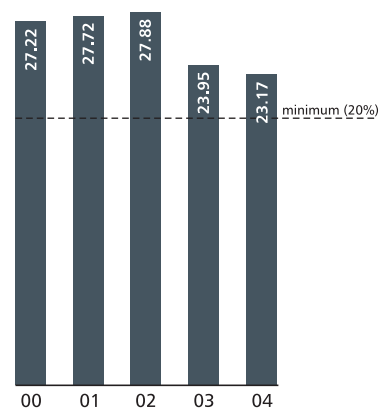
The liquidity policy of the Bank has always been to carry a positive mismatch in the interest earning assets and interest bearing liabilities in the 1 to 30 day category. Our liquidity remained at optimum levels during the year. The Liquid Assets Ratio stood at 23.17% in December 2004.

The Assets and Liabilities Committee (ALCO) of the Bank monitors the situation and maintains a satisfactory trade-off between liquidity and profitability.

Dividends

The dividend policy of the Bank has always been to pay a decent dividend to its shareholders while ploughing back sufficient profits to fund growth. 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.

Liquid Assets Ratio (%)



Considering the performance of the Bank over the past year, the Board has recommended a dividend of 60% for the year (of which 20% was paid in November 2004), which is an increase of 10% compared to last year.

Risk Management

A well-structured Risk Management System is in place within the Bank to address all types of risks: Market, Credit, Operations, Business Volumes and Reputational. The Assets and Liabilities Committee and the Credit Committee meet regularly 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 is involved in a bi-annual review of the Risk Management system.

Detailed risk management measures in place are given in the article on Risk Management on page 62 of this Report.

Resource Efficiency

Deposits and Shareholders' Funds represented the two biggest resources of funds for the Bank, accounting for 71.30% and 10.05% respectively of the total liabilities and shareholders' funds

as at December 31, 2004. Mobilising deposits from stable and low cost sources and the prudent investment of funds is imperative for improving the profitability of the Bank. In addition, the Bank mobilises funds from non-deposit sources such as Debentures, Syndicated Borrowings etc.

Through careful planning, a prudent dividend policy 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. 13,911.517 million, Rs. 5,521.431 million and Rs. 4,089.832 million respectively as at December 31, 2004.

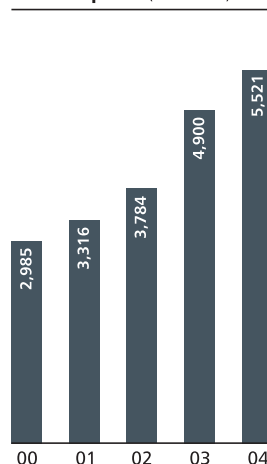
Capital Adequacy

Capital Adequacy symbolises the financial strength and stability of a bank. It limits the extent up to which banks can expand their business in terms of risk weighted assets.

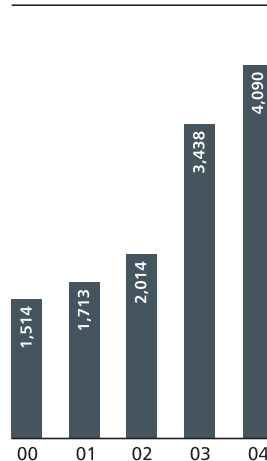
Like all commercial institutions, banks too constantly look at ways of expanding their operations by acquiring property, plant and equipment, opening branches, mobilising deposits, providing loans and investing in other assets.

Regulatory capital requirements are therefore necessary to prevent

Free Capital (Rs. Mn.)



Single Borrower Limit (Rs. Mn.)



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, leading to peace of mind of all the stakeholders. The Bank keeps a careful check on its Capital Adequacy Ratios.

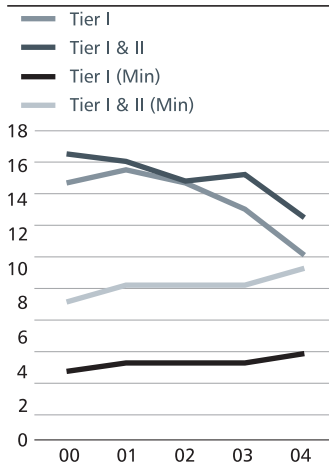
During the year 2004, Off-shore Banking Centres too were brought under Capital Adequacy requirement at the same rates that are applicable to the Domestic Banking Centres.

The Capital Adequacy Computation of the Group as at December 31, 2004 is given on page 46.

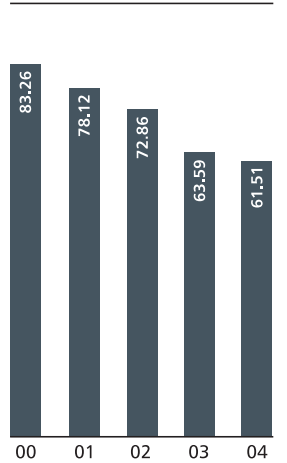


“Global Finance” magazine bestowed its award for the Best Bank in Sri Lanka - 2004, for the sixth consecutive year, to Commercial Bank. Mr. G.L.H. Premaratne, Deputy General Manager - Corporate Banking accepts the award.

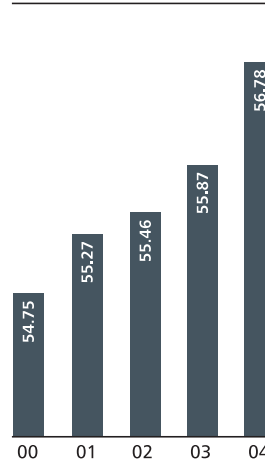
Capital Adequacy Ratio (%)



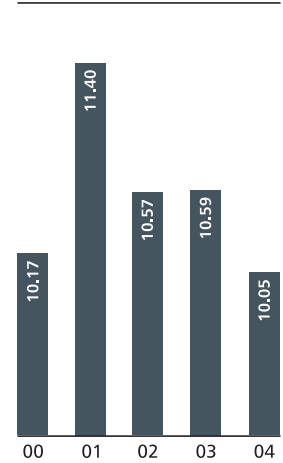
Profit Retention Ratio (%)



Cost/Income Ratio (%)



Shareholders' Funds/ Total Liabilities (%)



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

Assets	Balance		Risk-Weight Factor (%)	Risk-Weighted Balance	
	2004 Rs.'000	2003 Rs.'000		2004 Rs.'000	2003 Rs.'000
Cash, Statutory Deposit with Central Banks, Treasury Bills, Government and other Securities	20,293,225	19,830,312	-	-	-
Loans secured by Cash and guaranteed by Central Bank of Sri Lanka	10,060,394	8,086,963	-	-	-
Loans guaranteed by SLECI	5,128	17,801	50	2,564	8,901
Loans secured by Primary Mortgages over Residential Property	4,979,818	3,338,231	50	2,489,909	1,669,116
Other Loans and Advances	76,156,028	55,496,582	100	76,156,028	55,496,582
Credit Equivalent of Off-Balance Sheet Items (as shown below)	9,798,044	7,236,234	100	9,798,044	7,236,234
Due from Banks Abroad	9,049,451	6,766,676	20	1,809,890	1,353,335
Due from Local Banks including Development Financial Institutions	564,300	10,000	20	112,860	2,000
Due from Off-shore Banking Centre	-	-	10	-	-
Cash Items in the process of collection	45,910	27,711	20	9,182	5,542
Investments excluding Investments in Financial Associates	1,388,817	1,103,998	100	1,388,817	1,103,998
Property, Plant and Equipment	3,133,765	1,876,881	100	3,133,765	1,876,881
Other Assets	2,588,222	2,261,855	100	2,588,222	2,261,855
Total	138,063,102	106,053,244		97,489,281	71,014,444

Credit Equivalent of Off-Balance Sheet Items

Instruments	Balance		Credit Conversion Factor (%)	Risk-Weighted Balance	
	2004 Rs.'000	2003 Rs.'000		2004 Rs.'000	2003 Rs.'000
General Guarantees of Indebtedness (Credit Guarantees and Advance Payment Guarantees)	5,080,658	3,343,850	100	5,080,658	3,343,850
Performance Bonds, Bid Bonds and Warranties	3,672,612	1,854,904	50	1,836,306	927,452
Shipping Guarantees	1,261,650	5,665,226	20	252,330	1,133,045
Documentary Letters of Credit	10,043,603	6,272,812	20	2,008,721	1,254,562
Usance Bills	2,989,335	2,613,569	20	597,867	522,714
Bills for Collection	4,674,224	4,887,788	-	-	-
Foreign Exchange and Interest Rate related Contracts:					
Customers	17,071	55,615	50	8,536	27,808
Banks	68,130	134,014	20	13,626	26,803
Total	27,807,283	24,827,778		9,798,044	7,236,234

Computation of Capital

	2004	2003
	Rs.'000	Rs.'000
TIER I : Core Capital		
Paid-up Ordinary Shares	696,799	696,502
Share Premium	2,186,874	2,182,881
Statutory Reserve Fund	1,009,819	1,009,000
Published Retained Profit	132,358	204,494
General and other Reserves	6,470,789	5,433,789
Minority Interest	12,364	13,303
Less: Goodwill	-	-
Total Tier I Capital	10,509,003	9,539,969
TIER II : Supplementary Capital		
Revaluation Reserve (as approved by the Central Bank of Sri Lanka)	651,165	157,286
General Provisions	42,111	117,039
Approved Subordinated Term Debt	2,795,528	2,244,410
Total Tier II Capital	3,488,804	2,518,735
Total Capital	13,997,807	12,058,704
Deductions		
Investments in Banks and Financial Associates	1,169,747	1,078,726
Capital Base	12,828,060	10,979,978

Computation of Ratios

	2004	2003
	Rs.'000	Rs.'000
Total Tier I: Core capital	10,509,003	9,539,969
Capital Base	12,828,060	10,979,978
Total Risk Weighted Assets	97,489,281	71,014,444
	%	%
Core Capital Ratio - Tier I (Minimum required Ratio is 5%)		
Core Capital		
Risk-Weighted Assets	x 100	
	10.78	13.43
Total Risk Weighted Capital Ratio - Tier I & II (Minimum required Ratio is 10%)		
Capital Base		
Risk-Weighted Assets	x 100	
	13.16	15.46

Risk-Weighted Assets

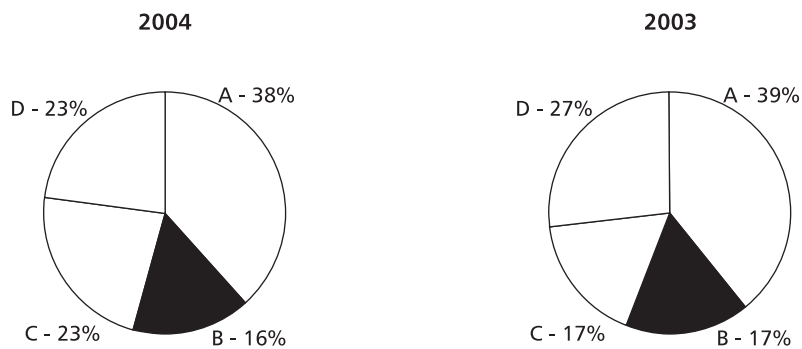
- Loans and Advances are net of specific provisions and interest in suspense.
- Total assets do not tally with the Balance Sheet mainly due to differences in treatment on securities sold under re-purchase agreements and investments in capital of other banks/financial institutions in the capital adequacy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

Value Addition

	2004		2003	
	Rs.'000	%	Rs.'000	%
Value Added				
Income from Banking Services	12,050,158		9,455,253	
Cost of Services	(6,013,310)		(5,099,512)	
Value Added by Banking Services	6,036,848		4,355,741	
Non-Banking Income	239,487		603,854	
Loan Losses and Provisions	(699,200)		(623,207)	
	5,577,135		4,336,388	
Distribution of Value Added				
To Employees				
Salaries and other benefits	2,131,902	38.23	1,697,451	39.14
To Providers of Capital				
Dividends to Shareholders	648,456		537,918	
Interest to Debentureholders	236,010		186,288	
	884,466	15.86	724,206	16.70
To Governments				
Income Tax	828,117		472,808	
Value Added Tax	441,116		272,480	
Debits Tax	3,829		3,569	
	1,273,062	22.83	748,857	17.27
To Expansion and Growth				
Retained profit	1,036,258		939,568	
Depreciation	260,347		222,006	
Deferred Taxation	(8,900)		4,300	
	1,287,705	23.08	1,165,874	26.89
	5,577,135	100.00	4,336,388	100.00

Distribution of Value Added

A To Employees B To Providers of Capital C To Government D To Expansion & Growth

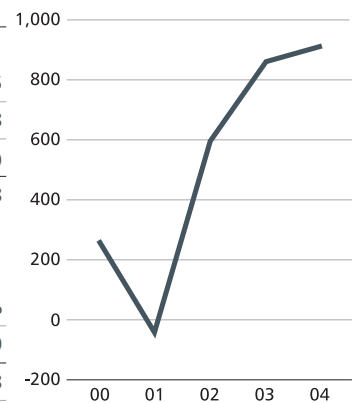


Economic Value Added

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

	2004	2003	2002	2001	2000
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Invested Equity					
Shareholders' Funds (excl. pref. shares)	12,004,962	9,777,402	6,848,102	5,838,326	5,047,529
Add: Cumulative Loan Loss Provision	2,053,828	1,668,752	1,099,155	765,681	596,234
	14,058,790	11,446,154	7,947,257	6,604,007	5,643,763
Earnings					
Profit after Taxation and after Dividends					
on Preference Shares	1,454,362	1,287,820	1,086,162	977,033	935,955
Add: Loan Losses and Provisions	699,200	623,207	401,972	236,677	180,178
Less: Loan Losses Written Off	(9,138)	(81,588)	(19,550)	(7,913)	(3,805)
	2,144,424	1,829,439	1,468,584	1,205,797	1,112,328
Cost of Equity based on the 12 months weighted average Treasury Bill rate plus 2% for the Risk Premium	9.65%	10.00%	12.00%	20.40%	16.25%
Cost of average equity	1,230,614	969,671	873,076	1,249,273	849,960
Economic Value Added	913,810	859,768	595,508	(43,476)	262,368

Economic Value Added (Rs. Mn.)



At Commercial Bank, we are deeply conscious of delivering value to all our stakeholders consistently. We still remain one of the very few companies in Sri Lanka that has embraced EVA as a measure of performance. In EVA terms, we have created Rs. 913.810 million during the year 2004 and over Rs. 2.500 billion over the past 5 years.

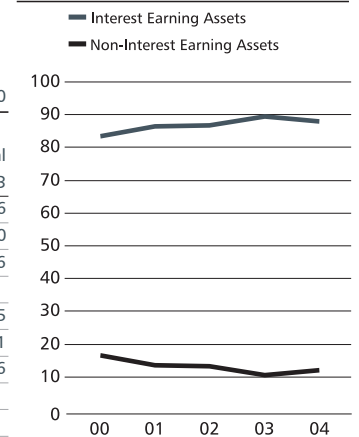
Maturity Analysis

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					Total 2004	Total 2003
	Up to 3 months	3 - 12 months	1 - 3 years	3 - 5 years	Over 5 years		
Interest Earning Assets	63,516,512	17,538,002	28,792,024	6,630,477	5,215,539	121,692,554	98,925,956
Non-Interest Earning Assets	10,621,610	997,619	208,475	54,105	4,899,022	16,780,831	11,353,970
Total Assets	74,138,122	18,535,621	29,000,499	6,684,582	10,114,561	138,473,385	110,279,926
Interest Bearing Liabilities	69,371,668	25,666,391	3,068,933	4,212,179	3,831,214	106,150,385	81,690,145
Non-Interest Bearing Liabilities	17,897,229	275,854	906,555	1,238,400	12,004,962	32,323,000	28,589,781
Total Liabilities	87,268,897	25,942,245	3,975,488	5,450,579	15,836,176	138,473,385	110,279,926
Maturity gap	(13,130,775)	(7,406,624)	25,025,011	1,234,003	(5,721,615)		
Cumulative gap	(13,130,775)	(20,537,399)	4,487,612	5,721,615	-		

Asset Mix (%)





Never a dull moment

Governance is never dull, never boring, never staid. The art of the possible in 'political governance' becomes the art of ... in corporate governance. Zig zagging through .. Keeping a pattern, making sense out of chaos, method out of madness. Let's start at the very beginning ...Starting at very beginning

The core principles of fairness, transparency, accountability and responsibility reflect the minimum standards of acceptable corporate behaviour today. They provide legitimacy to the corporates, reduce vulnerability to financial crisis and broaden and deepen access to capital.

At Commercial Bank, corporate governance in essence is the enhancement of shareholder value whilst being ethical, transparent, professional and accountable to the society and the environment. 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. The Board of Directors 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. The Board

of Directors continues to ensure that the Bank conducts itself as a model corporate citizen by specifying corporate values for the Bank and stipulating a code of conduct/ethics for the employees ensuring that the employees maintain their dignity and integrity, building customer confidence in the Bank.

Manner and extent to which the Bank adheres to good corporate governance principles are detailed in the table below:

Corporate Governance Principle	Manner and Extent of Adherence
Directors	
Board	
Composition of the Board	Eight Non-Executive Directors and one Executive Director who is the Chief Executive Officer.
Holding of regular Board meetings	Regular Board meetings are held monthly. In addition, special Board meetings are also held whenever necessary. There are several Board sub-committees, details of which are given on page 55.
Availability of formal schedule of matters specifically reserved to the decision making of the Board.	Board is responsible for: <ul style="list-style-type: none"> <input type="checkbox"/> Ensuring satisfactory performance as representatives of the shareholders <input type="checkbox"/> Formulation of strategies and monitoring successful implementation thereof <input type="checkbox"/> Appointment of the CEO and succession planning of Corporate Management <input type="checkbox"/> Ensuring the implementation of an effective internal control system <input type="checkbox"/> Ensuring compliance with highest ethical and legal standards <input type="checkbox"/> Ensuring that a proper risk management system is in place <input type="checkbox"/> Approval of credit facilities beyond the delegated authority of the Executive Credit Committee <input type="checkbox"/> Deciding on major capital investments on acquisitions and expansions <input type="checkbox"/> Approval of the budget and the corporate plan <input type="checkbox"/> Approval of annual and interim financial statements for publication
Procedure for the Directors to obtain independent professional advice	Board sub-committees advise the Board on various matters under their purview. In addition, the Board obtains independent professional advice from external sources whenever the Board deems it necessary.
Company Secretary	An Attorney-at-Law functions as the Secretary of the Board. She ensures that proper Board procedures are followed and that applicable rules and regulations are adhered to. She minutes all the proceedings at the Board meetings under the supervision of the Chairman who signs the minutes at the subsequent meetings.
Independent judgement	Directors 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 Bank, free from any undue influence or control of other parties.
Dedication of adequate time and effort to matters of the Board and the Company	Board dedicates adequate time to the matters of the Board and the Bank. In addition to attending the regular monthly Board as well as Board sub-committee meetings, matters are also referred to them by circulation.
Training for the Directors	Advice is sought from independent experts and presentations are made to the Board whenever major changes affecting the banking industry are announced.
Chairman and CEO	
Clear division of responsibilities in running the Board and executive responsibilities of running the Bank's business.	Positions of the Chairman and the CEO are separated, thereby preventing unfettered powers for decision making in one person. Chairman is a Non-Executive Director while the CEO is an Executive Director.
Presence of a strong and independent non-executive element on the Board	Majority of the Directors are Non-Executive independent Directors.

Corporate Governance Principle	Manner and Extent of Adherence
Chairman's Role	
Conducting Board proceedings in a proper manner.	Chairman conducts Board meetings ensuring effective participation of all the Directors, heeding to their concerns and maintaining the balance of power. The Board is in full control of the Bank's affairs.
Financial Acumen	
Financial acumen of the Board.	There are three senior Chartered Accountants and one Chartered Financial Analyst on the Board who offer guidance on matters relating to finance.
Board Balance	
Balance of the Board	Majority of the Directors are Non-Executive independent Directors. The Banking Act No. 30 of 1988 prior to the recent amendments in December 2004 had provisions restricting employees of a bank other than the CEO being appointed as Directors of that bank. Hence, only the CEO is on the Board as an Executive Director.
Supply of Information	
Availability of quality management information	A well-streamlined Management Information System is in place. Accurate and relevant information relating to matters referred to the members of the Board are made available to them well in advance. Whenever the Board finds that the information made available to them for a decision is insufficient, they call for additional information and the Chairman ensures that all Directors are properly briefed on the matters deliberated on at the meetings.
Appointments to the Board	
Availability of a Nomination Committee for making recommendations on all new Board appointments	The Bank does not have a Nomination Committee for making recommendations on appointments to the Board. The CEO is appointed by the Board. In terms of the Articles of Association, each shareholder holding a block of shares representing 12% of the Bank's issued voting share capital is entitled to appoint a Director, subject to a maximum of two Directors, provided that the shareholder has obtained the prior approval of the Monetary Board of the Central Bank for the shareholding and consent of the Board of Directors of the Bank for nominating rights, which may or may not be given at the sole discretion of the Board. Accordingly, two major shareholders viz. the DFCC Bank and the IFC have the right to appoint two Directors and one Director, respectively (nominee Directors). Appointment of any other new Director is made with the consent of all the Directors and such new Director retire by rotation at the first opportunity after his appointment and offer himself for re-election. The Board believes that the combined knowledge and experience of the Board matches the strategic demands facing the Bank.
Disclosure of details of new Directors to shareholders	Details of new Directors are made available to the shareholders on their appointment.
Re-election	
Re-election of Directors	Except for the CEO and the three nominee Directors, the Memorandum and Articles of Association provide for one-third of the remaining Directors to retire by rotation each year. They are however, eligible to be reappointed by the shareholders at the Annual General Meeting. Though the nominee Directors are not subject to retire by rotation, the Board is entitled to remove any such Director, if they are of the opinion that such removal is in the best interest of the Bank provided that the shareholder concerned is entitled to nominate another person as the nominee Director. The profiles of all the Directors are given on pages 14 and 15 of this Report.
Appraisal of Board Performance	
Appraisal of Board performance	<p>The Board has implemented a self-assessment exercise covering key functions under the following activities to assess the performance of the Board and carries out the evaluations annually.</p> <ul style="list-style-type: none"> <input type="checkbox"/> Discharge of statutory/regulatory duties and Board responsibilities <input type="checkbox"/> Corporate Governance and Risk Management monitoring <input type="checkbox"/> Seeking and contributing views and opinions on strategic decision making <input type="checkbox"/> Leveraging the skills, expertise, contacts of individual Board Members in furtherance of business <input type="checkbox"/> Understanding the compensation philosophy – "to retain and motivate staff in a manner appropriate for the business" <input type="checkbox"/> Understanding the succession plans to ensure comprehensive staff succession – "to ensure talent availability and address expectations of high potential and high quality staff" <input type="checkbox"/> Overall view of Management of the business by the Board of Management <p>Non-Audit Committee Board members assess the performance of the Board Audit Committee.</p>
Appraisal of the CEO	
Appraisal of the CEO	The Board sets financial and non-financial goals and objectives for the CEO in line with the short, medium and long term goals of the Bank and has delegated appropriate authority to the Management to implement strategic objectives of the Bank. The CEO is entrusted with the management of the Bank's operations and he is fully accountable to the Board. The main corporate goals and objectives emanating from the Bank's Corporate Plan and the Budget are incorporated as personal goals of the CEO, whose performance is assessed by the Chairman annually and the assessment is ratified by the Board.

Corporate Governance Principle	Manner and Extent of Adherence
Directors' Remuneration	
Remuneration Procedure	
Policy for Director Remuneration	Based on the performance appraisal, the remuneration package of the CEO is determined by the Board. The remuneration package of the other Directors is determined in accordance with the international practices.
Level and Make Up of Remuneration	
Determination of the level of remuneration of both Executive and Non-Executive Directors	A sufficiently attractive remuneration package is offered to both the CEO and the Non-Executive Directors in order to attract and retain them. The Bank has established an Employee Share Option Scheme in 2002 for the benefit of its senior executives, under which options are offered over a period of four years at the rate of 1.25% of the issued voting share capital. The CEO is entitled for options. The eligibility and the number of options allotted are based on the Bank's overall performance and the achievement of individual targets. The prices of the options are determined at the average market prices of the voting shares during the last three months of each year.
Disclosure of Remuneration	
Disclosure of remuneration to the Board as a whole and statement in the Annual Report on the policy adopted in remuneration	The remuneration of the CEO and the Non-Executive Directors is disclosed in this Report.
Relationships with Shareholders	
Constructive use of the General Meetings	
Building up relationships with shareholders	The Bank always welcomes active participation of the shareholders at the General Meetings and solicits their views at all times, thus promoting a healthy dialogue. Whenever possible, the Bank implements their suggestions.
Making available the Notice of Meeting, related documents and a summary of the procedures governing voting at the general meetings	21 days clean notice is given to the shareholders in terms of the provisions in the Companies Act and the Memorandum of Association of the Bank. A summary of the procedures governing voting at the general meetings is given in the Proxy Form.
Enhancing shareholder value	The current market capitalisation of the Bank's shares, the Bank's track record on dividends and scrip issues bear ample testimony to the Bank's concerted efforts at enhancing shareholder value.
Major Transactions	
Disclosure of major transactions and their impact on the consolidated net assets of the Company.	Done where relevant. During the year 2004, there were no such major transactions that materially affected the Bank's net assets base.
Disclosure to the shareholders if the value of a major transaction exceeds half the value of the Company's net assets or that of a subsidiary, which has a material impact on consolidated net assets of the Company, prior to committing for such transaction.	Done where relevant. However, the Bank has not engaged nor committed for such transactions in the recent history of the Bank.
Accountability and Audit	
Financial Reporting	
Disclosure of an assessment on the position and prospects of the Company	Bank attaches high priority to timely publication of quarterly and annual results with comprehensive details far in excess of the statutory requirements, enabling both existing and prospective shareholders to make a timely and fair assessment of the Bank's performance and prospects and informed decisions. Media of publication include printed materials, newspapers and the website of the Bank. The Bank strictly adheres to the reporting formats and other procedures laid down by the regulatory authorities such as the Central Bank and the Colombo Stock Exchange, in the submission of all periodic returns and other information. Price sensitive information is released to the regulators on a timely basis. The financial statements are prepared in accordance with the Sri Lanka Accounting Standards, which are based on the International Accounting Standards. Therefore, the Bank's financial statements comply with the International Accounting Standards in all material respects.
Annual Report should contain a declaration by the Directors	Report of the Directors is given on pages 70 to 74 of this Annual Report.

Corporate Governance Principle	Manner and Extent of Adherence
Presenting a statement setting out the responsibilities of the Directors for financial statements and a statement by the Auditors about their reporting responsibilities	The Statement of Directors' Responsibility for Financial Reporting is given on page 75 of this Annual Report. Auditors' Report on the financial statements of the Bank for the year ended December 31, 2004 is given on page 77. of this Annual Report.
Presenting a Management Report in the Annual Report	This is given under the Management Discussion and Analysis on pages 25 to 33 of this Annual Report.
Declaration by the Board whether the business is a going concern	This is given in the Report of the Directors on page 70 of this Annual Report.
Summoning an EGM to notify the shareholders if net assets fall below one half of the shareholders' funds.	There have not been such situations in the past. However, should they arise, an EGM will be called for and shareholders will be notified promptly.
Internal Controls	
Maintaining a sound system of internal controls covering financial, operational, compliance and risk management to safeguard shareholders' investments and the Company's assets	Directors have put in place effective internal control, risk management and compliance systems to ensure that no legal, banking, company, stock exchange and other regulations are violated. A summary of the risk management measures in place at the Bank are given on page 65 of this Report.
Reviewing of the effectiveness of internal controls periodically by the Directors and reporting thereon to the shareholders.	The effectiveness of the internal control systems is periodically reviewed by the Board Audit Committee and major observations are reported to the Board. It also ensures that effective internal and external audit procedures are in place and these functions are carried out by the Inspection Department, which is ably assisted by five firms of Chartered Accountants approved by the Central Bank of Sri Lanka. The Board reviews the reports arising from the internal and external audits and monitors the progress of the Bank by evaluating the results against the budget and the industry performance.
Audit Committee and Auditors	
Availability of an Audit Committee comprising of independent Non-Executive Directors and reporting thereon in the Annual Report	An active Board Audit Committee headed by the Deputy Chairman and represented by three other Non-Executive Directors is in place. The Managing Director attends the meetings by invitation. The Committee met five times during the year. The full report of this Committee including the terms of reference and specific tasks carried out during the year is given on page 76 of this Report.
Maintaining appropriate relationships with the External Auditors to ensure their objectivity and independence	Bank maintains appropriate relationships with the External Auditors, M/s. KPMG Ford, Rhodes, Thornton & Co. During the year, provision of non-audit services to the Bank by them was limited to tax consultancy work.
Corporate Governance	
Disclosure of good corporate governance practices adopted	<p>In order to further strengthen the good corporate governance practices already in place in the Bank by identifying the latest best practices around the world and implementing them wherever gaps were found, we evaluated our practices vis-à-vis the OECD Principles of Corporate Governance, which is acknowledged world over as an important initiative in this sphere, the Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka and the Code of Corporate Governance for Banks and Financial Institutions issued by the Central Bank of Sri Lanka.</p> <p>We are happy to note that the majority of the principles and practices recommended in these codes are already in place in the Bank. A few of the practices not found to be in place in the Bank have been identified and corrective actions are being taken. We also believe that the amendments proposed to the Companies Act and the Banking Act will improve the legal infrastructure and the regulatory framework relating to corporate governance of the banks.</p> <p>Extent to which the Bank has complied with the good corporate governance principles is given as above in this report.</p>

Board Sub-Committees			
Committee / Composition	No. of Meetings		Scope of the Sub-Committee/Principal Activities carried out during the year
	Held	Attendance	
Audit			
J S Mather *	5	5	Ensuring that a sound financial reporting system is in place in conformity with the rules, regulations and ethical guidelines. Full Report of this Committee detailing the activities undertaken during the year is given on page 76.
A L Gooneratne	5	5	
Dr. H S Wanasinghe	5	5	
B R L Fernando	5	3	
A N Fonseka	5	5	
Personnel & Remuneration			
M J C Amarasuriya *	2	2	Maintaining a market oriented remuneration policy for the Bank's staff, enabling the Bank to attract the best personnel in the market while maintaining a contended staff and making recommendations to the Board on appointments to the Corporate Management and their succession planning. Bank obtained the services of M/s. Ernst & Young to conduct a Salary Survey in order to ascertain the market levels of salaries and other remuneration which was taken into consideration in granting salary increases to the Executive staff.
A L Gooneratne	2	2	
Dr. H S Wanasinghe	2	2	
L J A Fernando	2	1	
(Appointed in late January 2004)			
Credit			
M J C Amarasuriya *			Formulating the Bank's Credit Policy and monitoring the Bank's Credit Risk. Approving the facilities referred to the Committee within its Delegated Authority. During the year, the Committee did not meet but approved the facility papers by circulation.
A L Gooneratne			
B R L Fernando			
Corporate Planning			
M J C Amarasuriya *			Ensuring that a proper planning procedure is in place and striving to promote a target driven culture within the Bank. All the members of the Board deliberated on the Corporate Plan and the Budget 2004 at a special Board meeting held in January 2004.
J S Mather			
A L Gooneratne			
A N Fonseka			
L J A Fernando			
Pension Refroms			
B R L Fernando *	1	1	Making recommendations to the Board on pension reforms with a view to eliminate/reduce the current funding gaps in the Pension Fund. During the year, the Committee evaluated several proposals put forward by the Management in this regard and also obtained advice from the Actuary.
A L Gooneratne	1	1	
A N Fonseka	1	1	

* Chairman of the Committee



Blow me over

Today we applaud seniority for their accomplishments and experience. Contemporary and secure today's seniors have shut tight the 'generation gap' of yore. Seniors are one of the fastest growing segments of the country's population and Sri Lankan society needs to re-envision and re-conceptualize its relationship with today's upwardly mobile senior senioras and signors.

Nurturing our Social Capital

A company is only as good as the community it grows up in. The Bank's policy is to constantly harness our social capital and provide opportunities for this to grow.

The Bank believes that CSR does not mean just doling out largesse. Rather it means the strategic use of money and other resources to empower communities and to help people help themselves. Self-reliance, the capacity to exploit new opportunities, the ability to think out of the box and a competence to make best use of existing resources are some of the goals of our CSR philosophy.

We have made it a point to inculcate a deeper sense of responsibility and a stronger awareness among our staff on this issue. We have created a strong culture of corporate social responsibility at all levels and laboured the point that the Bank has a significant role to play as a leading corporate citizen.

The Bank's Social Responsibility Trust

In 2004, we established the Commercial Bank Social Responsibility Trust. Rs. 25.000 million was provided by the Bank as seed capital. We are committed to providing up to one per cent of annual profits to the Trust every year.

The Bank has identified seven broad areas that we will concern ourselves in the first phase: education, the health sector, the environment, community services, the country's cultural heritage, water resources for consumption and irrigation and specifically the rehabilitation of tanks. The Trust will make sure that those communities who benefit, participate in the formulation of projects and have both a sense of responsibility and ownership. Empowerment of beneficiary communities will be an important part of the Bank's future CSR activities. The Bank's branches will help in identifying the needs that should be given priority.

Replenishing Village Lifestyles

Four tanks were rehabilitated by the Trust last year at a cost of Rs. 5.000 million. They are Udahinguru Weva in Anuradhapura District, Aliyameda Weva, Nugampola Weva and Lahu Weva in Kurunegala District. The objective was not just to reconstruct the tank and provide a perennial water supply but through the reconstruction of the tanks to help in reviving the economy of those regions and provide new opportunities for the local population.

In addition, launching of a Scholarship scheme that would benefit the needy university students too is under consideration of the Trust.



1. Mr. S. Renganathan handing over a donation to the Prime Minister of Bangladesh for flood relief
2. Launching of the "සෞඛ්‍ය මග වීරිතය" book
3. Opening of the pharmacy at the Reid Avenue Branch in Colombo 7
4. The Reid Avenue Branch, with an architecture sensitive to the needs of the differently-abled
5. Rehabilitation of a tank sponsored by the Bank, in progress
6. Annual Blood donation campaign at the Head Office
7. A donation to the Dalada Maligawa for the annual perahera
8. Extending a helping hand for the revival of "අංගම් කලා"

Helping Post-Tsunami Recovery

This year we have already pledged to rebuild 150 houses destroyed by the tsunami in those areas where the Bank has branches.

The Bank also hopes to open new branches in the affected areas where the Bank is not present to date with the approval of the Central Bank of Sri Lanka, to help in regional recovery.

For Better Health Care

A Blood Donation programme was organized on October 29, 2004 for the third consecutive year among the staff attached to the Head Office and Branches in close proximity to the Head Office, with the assistance of the National Blood Bank, Colombo. 60 staff members including the Employees of Service providers donated blood in this meritorious event. The Bank also contributed Rs. 250,000/- for setting up of a Dialysis Unit at the Nagoda Hospital.

In addition, the Bank donated equipment to the Lady Ridgeway Hospital and refurbished a ward at the Cancer Hospital.

Flood Relief in Bangladesh

We have taken our culture of social responsibility to the region as well and last year our Bangladesh Operations donated Bangladesh Taka 1.500 million (Rs. 2.350 million) towards the flood relief in that country.

Giving Pride to Seniority

As part of our efforts to nurture the country's social capital and to make best use of it, Reid Avenue Branch, in Colombo 7 was chosen as the venue of our dedicated Senior Citizens' Branch. The branch has a reading room, a lounge and a pharmacy at which senior citizens can purchase medicinal drugs at concessionary rates. Its architecture is sensitive to the needs of the differently-abled. This dedicated branch, coupled with special banking solutions such as "Udara", makes banking a stroll on the beach for this segment of the population.

Heritage Rediscovered

Two significant events marked our efforts to extract the country's heritage from the 'woodwork'. The first was the publication of "හෙල මග විසිතුරු" (Hela Maga Visithuru). The 262 page publication captures the country's mythology, rituals, traditions, customs, cures and beliefs that have been handed down from generation to generation and is aimed at keeping the rich tapestry of Sri Lankan folk wisdom alive.

The other was the support the Bank extended for the revival of a great traditional combat game of Sri Lanka "අංගම් කලා" (Angam Kala). The Bank sponsored an artist on the subject to a performance at the John De Silva Theatre in February 2004.



Nothing but fresh air

... is what we want to leave for tomorrow's child. Seeking harmony with Mother Earth, ensuring that we maintain nature's precious equilibrium, extracting from the environment, but also giving back all the time, replenishing and rejuvenating so that tomorrow's child may also savour what we savour today.

Beyond the Rhetoric

Sustainability Livelihoods

The Bank has operationalised conservation in all its activities. The 'green' policies of the Bank have tried to move beyond a mere articulation of the rhetoric to designing systems and procedures to make those policies work.

Our policies have started with creating greater awareness among staff. We are aiming to build a community of employees who do not pay lip service to conservation but live conservation at work, at home and at play. Sustainable livelihoods will be a myth unless we firmly believe in the concept and are able to internalise the values behind the concept.

Sustainability has meant reducing waste at office. Recycling where recycling is possible and trimming the excesses. It has also meant exploring alternative energy sources and alternative ways of running a modern corporate entity.

Sustainability is key to long term profitability. The Bank is not in business to make a 'quick buck' and run away. Rather we see our goal as long term profits, but profits made equitably and fairly and made in a way that provides sustainable livelihoods for all. It means investing in the community and creating cleaner and greener corporate and family neighbourhoods.

Conservation is also an important part of our lending activities. The Bank will not promote business activity that harms the natural environment. We encourage our customers to also do what we are doing: that is to put in place effective systems and procedures to not just protect but enrich and replenish the environment. All our projects are carefully assessed for their environmental impacts and no project is approved if we have doubts about its impact on the natural environment.

Sustainability of our physical environment is an important aspect of long term financial sustainability. Natural resources should be exploited, but they should be nourished and nursed, so that their riches can be shared by our children and theirs. The sustainability and preservation of the physical environment is an important aspect of any modern corporate entity's strategic plan. Thus projects are assessed not purely on a capacity to repay capital but on their social and environmental impacts. Building value means building cleaner and greener environments.

Last year we also commenced operating a waste paper management system. Prior to this the Bank had been destroying its paper by burning. We decided that this was not environmentally friendly and posed a

health hazard. We developed a partnership with the Paper Corporation in Valachchenai and Embilipitiya and delivered our waste paper as raw material for their products. Unfortunately operations have ceased at both these locations. Now we have linked up with a private organisation and all our waste paper is sent to this company which uses it to make certain stationary. This is just a start at operationalising our commitment to the environment. We are constantly looking at alternative ways of doing things, ways that are cleaner, greener and sustainable.



Picture Perfect

Finding the perfect mix between risk and reward is the quintessential challenge of banking. Taking risks ourselves, inspiring others to take risks, but beyond this, managing risks, planning for the unexpected. Mixing caution with cutting edge thinking, pioneering, but yet being prudent these are everyday challenges, seeking always the perfect picture: a vista of sustainable, equitable and socially responsible reward.

Risk and Return

“Higher the Risk - Higher the Return and Lower the Risk - Lower the Return”, so the saying goes. Risk is a fact of business life. Risk management is about the trade-off between a potential danger and an opportunity to enhance returns. Its ramifications for an organisation in the business of financial intermediation are very wide and deep. By the nature of their business, the Return On Assets (ROA) of banks hover around 2% on average whereas it can be as high as 10% to 15% for any other corporate. As a result, in order to report acceptable levels of Return On Equity (ROE), banks have to operate at high levels of gearing¹. Commercial Bank's ROA, level of gearing and ROE in 2004 and 2003 have been as follows:

	2004	2003
ROA (%)	1.35	1.61
Level of Gearing (Times)	9.95	9.44
ROE ² (%)	13.35	15.49

Due to the positive relationship between risk and return and the highly volatile political, economic, social and technological environment, high gearing invariably results in an increase in the risk profile of the banks.

Broad Risk Exposures

With the increasing levels of gearing, banks are exposed to a multitude of risks, which can broadly be classified into Credit, Market, Operational, Business Volume and Reputational risks. Banks face risks

that are common to any other corporate body as well as certain industry specific risks, as detailed below.

Credit Risk

Credit risk is most simply defined as the potential that a bank's borrower or counter party will fail to meet its obligations in accordance with agreed terms. This includes non-repayment of capital and/or interest within the agreed time frame, at the agreed rate of interest and in the agreed currency. The goal of credit risk management at the Commercial Bank is to maximise the Bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters.

Market Risk

Market risk is the risk of loss resulting from changes in interest rates, foreign currency exchange rates, equity prices and commodity prices. Commercial Bank's exposure to market risk is a function of its trading and asset and liability management activities and its role as a financial intermediary in customer-related transactions. The objective of market risk management is to minimise the impact of losses due to market risks on earnings and equity.

Operational Risk

Operational risk is defined as the potential loss arising from a breakdown in a bank's, systems and procedures, internal controls,

compliance requirements or corporate governance practices, that results in human 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.

Business Volume Risk

Business volume risk is defined as the volatility in revenue and profitability arising from adverse fluctuations in business volumes. Business volumes may adversely fluctuate due to competitor activities, new entrants, competition from substitute financial products and services, changes in banking preferences of the customers resulting in the importance of the process of financial intermediation being reduced, natural disasters, etc.

Reputational Risk

This is the potential damage to the reputation and image of the Bank, emanating from events such as drop in performance levels or service quality, compliance, corporate governance and management failures and deviations from business ethics, etc.

Managing Risk at Commercial Bank

Commercial Bank aims at the delivery of superior shareholder value by achieving the optimum trade-off

1. Total average Assets divided by average Shareholders' Funds

2. ROE = ROA x Level of Gearing

between risk and return. Our risk management strategy is based on a clear understanding of various risks taken, well-developed risk-assessment and measurement procedures, effective risk-preventing/minimising, measures and continuous monitoring of the entire process at the very top level. The policies and procedures established for this purpose are integrated into day-to-day decision making and corporate governance process and are being continuously improved to be in line with international best practices.

Design of the Risk Management System at Commercial Bank

The design of the risk management system at Commercial Bank is bank specific; dictated by its size, capital structure, 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. It also covers both on-balance sheet and off-balance sheet exposures. 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, profitability from various risks and the reputation. 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 and to maximise the return to all its stakeholders. In this regard, the Bank has recognised the fact that development of necessary skills and expertise among the relevant staff to handle these risks professionally is the most effective strategy and consequently, allocated sufficient resources for developing such skills. Furthermore, in order to realise this objective, the management has implemented proper systems, policies and procedures in all dimensions of operations within the broad guidelines and policies set by the Board and periodically reviews them to ensure that they are comprehensive enough and are being adhered to.

Assessment of Riskiness of the Bank’s Operations

We estimate our risk exposure based on our own assessment of the operations as well as the market perception to be as follows:

Risk	Rating
Credit Risk	Moderate
Market Risk	Low
Operational Risk	Low
Business Volume Risk	Moderate
Reputational Risk	Moderate

Reporting to the Board

Our Bank continues to maintain and update a wide-ranging list of possible banking and non-banking risks and has also formulated suitable

risk management measures against each identified risk. All sectional heads are required to periodically assess 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 and the rules and regulations. In addition, they are expected to identify new risks, if any, that may arise due to changing circumstances. A report covering all these aspects is submitted to the Board through the Board Audit Committee as at June 30 and December 31, each year.

To ensure the effectiveness of the Bank’s risk management measures, strict audits are conducted by the Inspection Department as at March 31 and September 30 each year, whose autonomy is assured by the Bank’s organisation structure.

Developments during the year - Credit Monitoring Unit

A Credit Monitoring Unit was set up in 2004. In order to avoid conflicts of interests and ensure independence from those responsible for lending, this Unit has been brought under the Finance & Planning Division of the Bank. At present, the Unit monitors the rescheduling of facilities and classification of overdrafts with a view to ensuring strict compliance with the directions of the Central Bank on the subjects.

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

Major forms of Risks faced by the Commercial Bank	Broad implications to the Bank arising from these risks	Important Risk Management measures in place at Commercial Bank to address these risks
Credit Risk		
<ul style="list-style-type: none"> <input type="checkbox"/> Default risk <input type="checkbox"/> Security risk <input type="checkbox"/> Sectoral exposure risk <input type="checkbox"/> Legal risk <input type="checkbox"/> Related party risk <input type="checkbox"/> Counter party risk <input type="checkbox"/> Political risk <input type="checkbox"/> Cross-border risk <input type="checkbox"/> Sovereign risk 	<p>Loans and advances is the single biggest asset of the Bank accounting for approximately 66% of the total assets. Hence, credit risk may result in loss of principal and interest and adverse implications on profits arising from suspension of interest and the need to provide for/write off non-performing advances. Increasing non-performing loans may lead to a downgrading of the credit rating which may in turn damage the reputation of the Bank. Violation of rules and regulations may result in imposition of penalties/repremanding by regulators. Finally, it may lead to deterioration in the quality of assets</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Setting up of an independent Credit Risk Management Unit <input type="checkbox"/> Formation of a Credit Monitoring Unit to monitor rescheduling of facilities and classification of overdrafts <input type="checkbox"/> Establishing suitable exposure limits for borrowers, lending officers & sectors and monitoring the limits regularly <input type="checkbox"/> Risk mitigation steps such as collaterals securitisation <input type="checkbox"/> Setting counter party limits based on financial strength <input type="checkbox"/> Training of lending and legal officers on documentation and obtaining professional valuations <input type="checkbox"/> Develop skills and expertise in lending officers to scientifically assess project viability and customer integrity. <input type="checkbox"/> Educating the staff on provisions in the Banking Act and other relevant statutes and the regulatory guidelines of the CBSL <input type="checkbox"/> Seeking external legal opinion <input type="checkbox"/> Prompt action on early warning signals given by the IT system <input type="checkbox"/> Strict adherence to the Single Borrower Limit and the regulatory guidelines of the Central Bank on loan classification, interest suspension and provisioning <input type="checkbox"/> Maintaining neutrality in politics and arm's length approach in related party lending <input type="checkbox"/> Regular review of country situations and country exposures <input type="checkbox"/> Overseas expansion to reduce dependance on the Sri Lankan economy <input type="checkbox"/> Constant post sanction monitoring with MIS support from the Computer System
Market Risk		
<ul style="list-style-type: none"> <input type="checkbox"/> Interest rate risk <input type="checkbox"/> Liquidity risk <input type="checkbox"/> Exchange rate risk <input type="checkbox"/> Investment risk <input type="checkbox"/> Group financial risk <input type="checkbox"/> Share prices falling risk <input type="checkbox"/> Country risk 	<p>88% of the assets and 77% of the liabilities are subject to either fixed or variable interest rates. 32% of the assets and 34% of the liabilities are denominated in foreign currencies. Hence, financial/opportunity losses may arise from unexpected movements in market forces. Inability to honour obligations to depositors and other stakeholders on time, may result in breach of contractual obligations, rules and imposition of penalties/repremanding by regulators. Furthermore, loss of market share, downgrading the credit rating, damages to the reputation and image, loss of employee morale/shareholder confidence, erosion of public confidence, withdrawing or curtailing credit limits by foreign correspondents may occur.</p>	<ul style="list-style-type: none"> <input type="checkbox"/> An active Assets & Liabilities Committee (ALCO) that meets fortnightly <input type="checkbox"/> ALCO playing an active role in setting policies and monitoring compliance <input type="checkbox"/> ALCO decisions are reviewed by the Board <input type="checkbox"/> Carrying out gap analysis, timely re-pricing of products and hedging of exposures <input type="checkbox"/> Entering into forward contracts, swapping and currency options <input type="checkbox"/> Formulating a Liquidity Management Policy <input type="checkbox"/> Daily monitoring of Advances to Deposits Ratio <input type="checkbox"/> Maintaining the Liquid Assets Ratio with a contingency buffer <input type="checkbox"/> Close monitoring and projecting the trends in the share market <input type="checkbox"/> Dealer, broker, counter party, transaction, product and currency-wise exposure limits, which are constantly reviewed <input type="checkbox"/> Suitable cut-loss limits on different exposures <input type="checkbox"/> Regular monitoring of competitor behaviour and building competitor intelligence <input type="checkbox"/> Maintaining strong relationships with the correspondents <input type="checkbox"/> Enhancing the fee based income to minimise dependency on fund based income <input type="checkbox"/> Timely recognition of market losses through mark to market and exchange revaluation mechanism <input type="checkbox"/> Non-engaging in large scale transactions on speculative basis <input type="checkbox"/> Non-engaging in large scale derivative transactions <input type="checkbox"/> Maintaining open forex positions within 7% of capital funds <input type="checkbox"/> Strong access to money markets and credit lines through good reputation, strong earnings, financial strength, credit rating and backing of major shareholders <input type="checkbox"/> Segregation of front, mid and back offices at the treasury <input type="checkbox"/> Developing necessary skills and expertise for all areas of the treasury and setting up IT backed processing systems

Major forms of Risks faced by the Commercial Bank	Broad implications to the Bank arising from these risks	Important Risk Management measures in place at Commercial Bank to address these risks
Operational Risk		
<ul style="list-style-type: none"> <input type="checkbox"/> Employee behavioural risks such as omission, fraud, judgemental errors, negligence, etc. <input type="checkbox"/> Disaster related risks <input type="checkbox"/> Trained staff turnover <input type="checkbox"/> Insider dealing risk <input type="checkbox"/> Sensitive information leakage risk <input type="checkbox"/> Lack of creativity and innovativeness <input type="checkbox"/> Risk of MIS <input type="checkbox"/> IT related risks <input type="checkbox"/> Planning & Budget related risks <input type="checkbox"/> Shortcomings in the organisational structure <input type="checkbox"/> Credit rating falling risk <input type="checkbox"/> Money laundering <input type="checkbox"/> Changes to statutory requirements <input type="checkbox"/> Risk of technological obsolescence 	<p>Financial losses and damages to reputation arising from breakdowns in systems/procedures and internal controls and disruptions to smooth functioning of the Bank. Resulting deterioration in the quality of customer services. Imposition of penalties/reprimanding by regulators. Loss of competencies over competitors. Judgemental errors in decision making. Counter actions by the competitors to undermine the Bank's strategic advantages. Hindrances to expansion. Difficulties in maintaining the statutory ratios and sustaining profitability</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Setting up of suitable Delegated Authority levels <input type="checkbox"/> Formulation of a succession plan <input type="checkbox"/> Creating a conducive working environment for the staff <input type="checkbox"/> Training a second layer of staff and signing training bonds <input type="checkbox"/> Effective internal audit function <input type="checkbox"/> Issuing of circular instructions and protection of sensitive information <input type="checkbox"/> Quarterly assessment of the extent of compliance with the statutory requirements and reporting to the Board Audit Committee <input type="checkbox"/> Obtaining oath of secrecy and certificate of propriety <input type="checkbox"/> Building up sustainable competencies <input type="checkbox"/> Implementation of computer based MIS System <input type="checkbox"/> Implementation of "Hot Back Up" system <input type="checkbox"/> Preventive maintenance of equipment through maintenance contracts with the vendors <input type="checkbox"/> Creating awareness on "Know Your Customer" policy <input type="checkbox"/> Building up of contingency buffer in the form of reserves <input type="checkbox"/> Implementation of a well planned and sustainable expansion programme <input type="checkbox"/> Regular upgrading of hardware and software to keep it "state-of-the-art" <input type="checkbox"/> Inculcating organisational values and ethics in employees <input type="checkbox"/> Maintaining a Skills Inventory <input type="checkbox"/> Risk transfer measures such as insurance
Business Volume Risks		
<ul style="list-style-type: none"> <input type="checkbox"/> Risk of falling business volumes and market share <input type="checkbox"/> Risk of being overtaken and losing the leadership position <input type="checkbox"/> Risk of financial disintermediation <input type="checkbox"/> Overtrading risk 	<p>Financial losses as a result of volatile revenues and reduced profitability. Probability of credit rating being downgraded and the resulting damage to the reputation. Loss of competitiveness and diseconomies of scale may lead to insolvency and ultimately threaten the going concern nature of the business. On the other hand, overtrading may lead to insufficient capital</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Innovative and convenient products and services <input type="checkbox"/> Offering extended banking hours to customers for their convenience <input type="checkbox"/> Regular assessment of the levels of customer satisfaction <input type="checkbox"/> Taking prompt action on customer complaints <input type="checkbox"/> Periodical review of business strategy, Vision and Mission of the Bank <input type="checkbox"/> Regular assessment of the levels of staff satisfaction <input type="checkbox"/> Practising the concept of Management By Objectives through the preparation of a Corporate Plan and an ambitious budget <input type="checkbox"/> Monthly review of performance against the budgeted targets <input type="checkbox"/> Measuring risk/inflation adjusted performance measures <input type="checkbox"/> Establishment of a target driven culture and performance based rewards <input type="checkbox"/> Benchmarking with competitor performance <input type="checkbox"/> Maintaining a database on competitor intelligence <input type="checkbox"/> Promote customer loyalty <input type="checkbox"/> Constant reminders to the staff of the importance of delighting the customer

Plans for 2005 and onwards

Formation of a Risk Management Department

Arrangements are already underway to set up a fully-fledged Risk Management Department to centrally monitor the risk management system of the Bank in a more formalised

manner, with the help of a Consultant on the subject. This Department once set up will have the overall responsibility of further developing guidelines and policies on the Bank's philosophy towards financial risks, extent up to which the Bank is prepared to take risks given the level

of capitalisation, functional diversification, business targets and risk culture and will monitor various risk exposures and advise the Board and the Corporate Management on the subject, etc. This will ensure that the process of measuring, monitoring, controlling and reporting risk

exposures is managed separately from those who take business decisions that bring about risks.

Developing a Business Recovery Plan

The Bank already has an IT Disaster Recovery Plan. In the light of various developments and experiences since the preparation of this plan, need has arisen to develop this Disaster Recovery Plan into a comprehensive Business Recovery Plan. Management has already addressed this need and preliminary arrangements have already been made to identify and train suitable staff on the subject of business recovery.

Preparing for Basel II

Basel II, once implemented will integrate the internal risk management systems and regulatory capital adequacy requirements of banks. Though the time frame for its implementation in Sri Lanka is far from clear, in preparation for this eventually inevitable exercise, the Bank has already taken certain pro-active steps such as creating awareness among the senior management of the Bank and exploring the opportunities it will bring about. Risk Management Department, once set up, will be entrusted with the task of designing and implementing the systems and procedures required to make the Bank Basel II compliant.

Setting up of Treasury Mid-Office

Treasury will set up a designated middle office with independent reporting lines for the specific purpose of managing the treasury related risks with a better focus. This unit will perform certain specific activities, which include some tasks that are now carried out at different levels and extent. The initial objectives of the treasury middle office will broadly cover setting up of risk management policies and guidelines, documenting the risk management procedures to be carried out by the treasury and establishment of required limits and monitoring. The middle office will also monitor the liquidity position of the Bank. All treasury related regulatory and management reporting will be brought under the Middle office.

Software Support for Risk Management

With the growth of the Bank, it has become necessary to have more and more software support in its efforts in managing risks. Accordingly, the Bank is currently evaluating software from several vendors in the fields of Asset & Liability Management, Funds Transfer Pricing, Customer Profitability, Product Profitability, Organisational Profitability, Anti-money Laundering, Credit Scoring, Computer Aided Auditing Techniques, etc. Acquisition

and successful implementation of suitable software and the resulting analyses and availability of relevant information will undoubtedly improve the Bank's ability to manage risks profitably.

Internal Rating System

Bank is planning to update the existing internal rating system. For the most part, internal risk grades remain designed to measure the probability of default of obligors. These obligor ratings most frequently have a one-year fixed time horizon. The internal rating scales currently in effect contain nine grades with the last two grades considered as having a high probability of default. The Bank adopts a dual rating system for its corporate and retail clients. The possibility of obtaining expertise from independent third parties to validate the internal rating systems is also being looked at. Systems and procedures are also being introduced to capture historical performance data available internally. Responsibility for reviewing internal ratings is shifting to the Credit Risk Management Unit from the Credit Department.

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Financial Reports

Financial Calendar - 2004/05

Final Dividend for 2003 paid on March 26, 2004

Interim Dividend for 2004 paid on November 29, 2004

Annual Report and Accounts for 2004 signed on February 18, 2005

Thirty-Sixth Annual General Meeting to be held on March 30, 2005

Final Dividend for 2004 proposed to be paid on March 30, 2005

Interim Financial Statements in terms of Rule 8.3 of the Colombo Stock Exchange

For the three months ended March 31, 2004 (unaudited) May 6, 2004

For the six months ended June 30, 2004 (unaudited) August 4, 2004

For the nine months ended September 30, 2004 (unaudited) November 23, 2004

Annual Report and Accounts for 2004 (audited) February 18, 2005

Proposed Financial Calendar - 2005/06

Interim Dividend for 2005 in November 2005

Annual Report and Accounts for 2005 to be signed in February 2006

Thirty-Seventh Annual General Meeting to be held in March 2006

Final Dividend for 2005 in March 2006

Interim Financial Statements in terms of Rule 8.3 of the Colombo Stock Exchange

For the three months ending March 31, 2005 (unaudited) in May 2005

For the six months ending June 30, 2005 (unaudited) in August 2005

For the nine months ending September 30, 2005 (unaudited) in November 2005

Annual Report and Accounts for 2005 (audited) in February 2006

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, 2004.

These were approved by the Directors on February 18, 2005.

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, export and domestic factoring etc.

Subsidiaries

The principal activities of Commercial Development Co. Ltd., Commercial Bank Primary Dealer Ltd., and ONEzero Co. Ltd. are property development, dealing in Government securities as a Primary Dealer, and providing IT related services.

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 Review on page 6 and the Managing Director's Report on page 16 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 6 Branches, a MiniCom and 2 service points in Sri Lanka. Bank intends to expand its branch network further both in Sri Lanka and in Bangladesh.

System of Internal Controls

The Board of Directors has instituted an effective and comprehensive system of Internal Controls covering financial operations and compliance control and risk management 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 50 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 37.

Audit Committee

The following non-executive Directors of the Board served as members of the Board Audit Committee:

Mr. J.S. Mather (Chairman)

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 76 of this Report.

Directors' Report

Vision, Mission and Corporate Conduct

The Bank's Vision and Mission are given in inner front cover and on page 1 respectively 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 62 of this Report.

Income

The Income of the Group for 2004 was Rs. 12,436.752 million (Rs. 9,749.463 million in 2003).

Profit

The profit before tax of the Group and the Bank were up by 27.24% and 28.10% respectively (19.67% and 28.17% in 2003) and the profit after tax were up by 17.71% and 14.03% respectively (11.78% and 22.71% in 2003).

Details of profit relating to the Bank are given below:

	2004 Rs.	2003 Rs.
Profit for the year after payment of all expenses of management and providing for depreciation, possible loan losses, Financial VAT and contingencies	2,503,930,903	1,954,595,108
Provision for taxation	819,217,232	477,107,755
Net profit after taxation	1,684,713,671	1,477,487,353
Unappropriated profit brought forward from previous year	853,453	777,956
Profit available for appropriation	1,685,567,124	1,478,265,309
Appropriations		
Dividend paid on 13% & 11.25% Cumulative Redeemable Preference Shares	230,352,150	189,667,218
20% Interim Dividend paid*	139,359,998	125,370,414
40% Final Dividend proposed*	278,743,996	222,880,736
Transfer to General Reserve	1,037,000,000	939,493,488
Unappropriated profit to be carried forward	110,980	853,453

* Interim and final dividends for 2003 were 18% and 32% respectively.

Dividends

The Directors recommend the payment of 40% final dividend for the year 2004 (32% in 2003). An interim dividend of 20% was paid in November 2004 (18% in 2003).

Interim dividend was paid partly out of exempt dividends received and that part was exempt from the withholding tax. Final dividend will be paid out of the taxable profits of the Bank and hence in its entirety will be liable to the withholding tax.

Provision for Taxation

Provision for taxation has been computed at the rates given in Note 8.1 to the Financial Statements.

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. 28,562,439 (Rs. 3,777,120 in 2003) in terms of the resolutions passed at the last Annual General Meeting and at an Extra-ordinary General Meeting held in September 2004. The donations made to Government approved charities from the above amounted to Rs. 3,514,734 (Rs. 3,535,150 in 2003).

Property, Plant and Equipment

Capital expenditure on Property, Plant and Equipment and Capital Work-in-Progress amounted to Rs. 432.040 million (Rs. 348.159 million in 2003), details of which are given in Note 20 to the Financial Statements. Capital expenditure approved and contracted for after the year-end is given in Note 31 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, freehold and leasehold land and buildings of the Bank were revalued by professionally qualified independent valuers as at December 31, 2004. The Directors are of the opinion that this value is not in excess of the current market value of such properties.

Reserves

The total reserves of the Group stood at Rs. 11,501.155 million as at December 31, 2004 (Rs. 9,233.249 million as at December 31, 2003) details of which are given in Notes 27 and 28 to the Financial Statements.

Share Capital

The total issued and paid up capital as at December 31, 2004 was Rs. 696.799 million consisting of 65,029,769 ordinary voting shares of Rs. 10/- each and 4,650,230 ordinary non-voting shares of Rs. 10/- each. The details of share capital are given in Note 26 to the Financial Statements.

In addition, the Company has Rs. 906.555 million worth 13% and Rs. 1,000.000 million worth 11.25% Cumulative Redeemable Preference Shares of Rs. 10/- each in issue. The funds raised therefrom 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 5 of this Report. Information on share trading is given on page 130 of this Report.

Shareholdings

There were 5,713 registered shareholders holding ordinary voting shares and 1,412 registered shareholders holding ordinary non-voting shares of the Bank as at December 31, 2004. The distribution of shareholding is given on page 126 of this Report.

Equitable Treatment to Shareholders

Bank has made all endeavours to ensure equitable treatment to all shareholders.

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 14 and 15.

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. A.N. Fonseka

Mr. L.J.A. Fernando

Mr. D. Tsitsiragos (Resigned on November 1, 2004)

Mr. Iyad M. Malas (Appointed on November 23, 2004)

Mr. S.K.G. Senanayake (Appointed on November 23, 2004 as alternate Director to Mr. Iyad M. Malas)

Mr. M.L. Mack who passed away on January 26, 2005, was also a Director during the year.

Resignations and Appointments

Resignations

Mr. D. Tsitsiragos - November 1, 2004

Appointments

Mr. Iyad M. Malas - November 23, 2004 (*Director*)

Mr. S.K.G. Senanayake - November 23, 2004
(*Alternate Director*)

In accordance with Articles 85 & 86 of the Articles of Association of the Company, Mr. M.J.C. Amarasuriya and Mr. B.R.L. Fernando retire by rotation and being eligible for re-election are recommended for re-election.

Directors' Report

Mr. Iyad M. Malas was appointed to the Board on November 23, 2004 in terms of Article 74 of the Articles of Association of the Company.

Mr. S.K.G. Senanayake was appointed to the Board on November 23, 2004 as the alternate Director to Mr. Iyad M. Malas in terms of Article 105 of the Articles of Association of the Company.

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of Financial Statements of the Bank to reflect a true and fair view of the state of its affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 17 of 1982, the Banking Act No. 30 of 1988 and the Listing Rules of the Colombo Stock Exchange.

Directors' Interests in Ordinary Shares

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

	As at 31.12.04	As at 01.01.04
Mr. M.J.C. Amarasuriya	153,932	151,932
	50,466	48,466
	(non-voting)	(non-voting)
Mr. J.S. Mather	-	-
Mr. A.L. Gooneratne	138,703	138,703
	8,662	8,662
	(non-voting)	(non-voting)
Dr. H.S. Wanasinghe	-	-
Mr. B.R.L. Fernando	2,389	2,389
	(non-voting)	(non-voting)
Mr. M.L. Mack	-	-
Mr. A.N. Fonseka	311	311
	(non-voting)	(non-voting)
Mr. L.J.A. Fernando	-	-
Mr. Iyad M. Malas	-	-
Mr. S.K.G. Senanayake	-	-

Except for the purchase of 1,000 ordinary voting shares and 2,000 ordinary non-voting shares by Mr. M.J.C. Amarasuriya on January 5 & 6, 2005, Directors' shareholdings have not changed subsequent from the date of the Balance Sheet up to January 18, 2005 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 26 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 33 to the Financial Statements. These interests have been declared at Directors' Meetings. Directors have refrained from voting on matters in which they were materially interested. Directors have no direct or indirect interest in any other contract or proposed contract with the Company.

Compliance with Laws and Regulations

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

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 60 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 35 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 Sixth Annual General Meeting is given on page 138.

By Order of the Board,



Mrs. R.R. Dunuwille

Company Secretary

February 18, 2005

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 76 of this Report. The Financial Statements for the year 2004 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 78 to 119 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 77 of this Report.

By Order of the Board,


Mrs. R.R. Dunuwille
Company Secretary

February 18, 2005
Colombo.

Audit Committee Report

The Audit Committee comprises of four Non-Executive Directors of the Bank, with the Managing Director attending the Meetings by invitation. The Bank's Assistant General Manager - Inspection, functions as the Secretary of the Committee.

The Committee is empowered, amongst other things, to examine any matter relating to the financial and other connected affairs of the Bank, to review all internal and external audit and inspection programmes, internal control systems and procedures, accounting policies, adherence to compliance requirements etc., thus ensuring that a sound financial reporting system is in place, which is well managed, providing accurate, appropriate and timely information to the Board of Directors, Management, Regulatory Authorities and Shareholders. Thereby, the Audit Committee ensures that the Bank's operations conform to rules, regulations and accepted ethical guidelines to meet the Bank's policies.

During the year under review, the Committee met five times and carried out the following tasks:

1. Reviewed over 180 Audit and Inspection Reports on Branches and Head Office Departments and followed up where operational deficiencies had been observed. Members of the Committee also visited some of the Branches.
2. Met the External Auditors before commencement and at the conclusion of the Annual Audit and reviewed the Auditors' Management Letter, together with the Management's response thereto. The Annual Financial Statements were also reviewed with the External Auditors.
3. Regularly monitored the effectiveness of the internal financial controls and procedures established for identifying, effectively assessing and managing risks. The Corporate Management was invited to make presentations on "Risk Management measures adopted in their areas of responsibility".
4. Reviewed quarterly the Bank's compliance with mandatory banking and other statutory requirements and bi-annually, the Bank's adherence to the risk management measures approved by the Board.

5. Reviewed major decisions taken by the "Assets and Liabilities Committee" and "Credit Policy and Portfolio Review Committee" of the Bank.
6. 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.
7. Initiated the preparation of a new "Code of Ethics" for the staff, with a view to developing and maintaining a high ethical culture in the Bank. This was adopted by the Board.
8. Ensured that the Annual evaluation process on the effectiveness of the Audit Committee was carried out. This evaluation was done by the Non-Audit Committee Members of the Board of Directors. The overall outcome was satisfactory. The Committee will address itself to the areas that require strengthening as highlighted by this assessment.

The proceedings of the Audit Committee Meetings are regularly reported to the Board of Directors.

The Committee is of the view that adequate controls and procedures are in place to provide reasonable assurance that the financial position of the Bank is well monitored.

The Audit Committee has recommended to the Board of Directors that Messrs KPMG Ford, Rhodes, Thornton & Company be re-appointed as Auditors for the financial year ending December 31, 2005 at the next Annual General Meeting.

J S Mather
Chairman - Audit Committee

February 22, 2005

Auditors' Report



KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
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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, 2004, 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 78 to 119 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, 2004, 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, 2004, 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, 2004, 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, 2004, except as stated in Note 33 to these financial statements.


Chartered Accountants

Colombo.
February 18, 2005

Income Statement

For the year ended December 31,	Bank			Group			
	2004	2003	Change	2004	2003	Change	
	Note	Rs.'000	Rs.'000	%	Rs.'000 (Restated)	Rs.'000	%
Income		12,289,645	10,059,107	22.17	12,436,752	9,749,463	27.56
Interest income	1	9,583,803	7,931,460	20.83	9,777,556	7,629,963	28.15
Less: Interest expenses	2	4,878,125	4,218,016	15.65	5,039,397	3,879,452	29.90
Net interest income		4,705,678	3,713,444	26.72	4,738,159	3,750,511	26.33
Foreign exchange profit		873,561	396,961	120.06	873,561	396,961	120.06
Fee and commission income		1,377,069	1,051,205	31.00	1,377,023	1,051,074	31.01
Other income	3	455,212	679,481	(33.01)	408,612	671,465	(39.15)
		7,411,520	5,841,091	26.89	7,397,355	5,870,011	26.02
Less: Operating expenses	4						
Personnel costs		1,806,162	1,386,318	30.28	1,820,124	1,398,203	30.18
Premises, equipment and establishment expenses		1,040,544	860,618	20.91	1,018,796	832,891	22.32
Provision for staff retirement benefits	5	325,740	311,133	4.69	325,740	311,133	4.69
Loan losses & provisions	6	699,200	623,207	12.19	699,200	623,207	12.19
Other overhead expenses		1,035,943	705,220	46.90	1,015,380	708,149	43.39
		4,907,589	3,886,496	26.27	4,879,240	3,873,583	25.96
Profit from operations		2,503,931	1,954,595	28.10	2,518,115	1,996,428	26.13
Add: Share of profit before tax of Associate Companies	7	–	–	–	76,356	42,653	79.02
Profit before taxation		2,503,931	1,954,595	28.10	2,594,471	2,039,081	27.24
Less: Provision for taxation	8	819,217	477,108	71.70	867,370	571,874	51.67
Profit after taxation		1,684,714	1,477,487	14.03	1,727,101	1,467,207	17.71
Less: Minority interest		–	–	–	1,742	1,715	1.57
Net Profit for the year		1,684,714	1,477,487	14.03	1,725,359	1,465,492	17.73
Basic Earnings per Ordinary Share	9	Rs. 20.87	Rs. 18.48	12.93	Rs. 21.46	Rs. 18.31	17.20
Diluted Earnings per Ordinary Share	9	Rs. 20.45	Rs. 18.11	12.92	Rs. 21.02	Rs. 17.94	17.17
Dividend per Ordinary Share		Rs. 6.00	Rs. 5.00	20.00	Rs. 6.00	Rs. 5.00	20.00

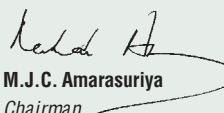
The Significant Accounting Policies and the Notes from pages 83 to 119 form an integral part of these Financial Statements.


Balance Sheet

As at December 31,	Note	Bank			Group		
		2004 Rs.'000	2003 Rs.'000	Change %	2004 Rs.'000	2003 Rs.'000	Change %
ASSETS							
Cash and short-term funds	12	12,135,607	9,001,891	34.81	12,135,716	9,001,991	34.81
Balances with Central Banks	13	6,319,680	5,232,814	20.77	6,319,680	5,232,814	20.77
Government Treasury Bills and Bonds		5,521,750	15,929,715	(65.34)	6,646,721	20,747,916	(67.96)
Commercial paper		559,689	546,360	2.44	559,689	546,360	2.44
Securities purchased under re-sale agreements		399,152	6,183,596	(93.54)	2,087,420	3,971,034	(47.43)
Dealing securities	14	109,560	-	-	109,560	-	-
Investment securities	15	2,940,326	2,605,523	12.85	2,940,426	2,605,623	12.85
Treasury Bonds maturing after one year		13,778,182	-	-	14,378,898	-	-
Bills of Exchange	16.1	2,798,872	2,494,806	12.19	2,798,872	2,494,806	12.19
Loans & advances	16.2	82,604,512	60,584,675	36.35	82,604,512	60,584,675	36.35
Lease receivable within one year	16.3	2,019,755	1,290,733	56.48	2,003,595	1,276,860	56.92
Lease receivable from one to five years	16.4	3,297,033	2,073,672	58.99	3,242,691	2,050,070	58.17
		132,484,118	105,943,785	25.05	135,827,780	108,512,149	25.17
Investments in Associate Companies	17	108,581	78,331	38.62	242,718	171,356	41.65
Investments in Subsidiary Companies	18	429,393	429,393	-	-	-	-
Interest and fees receivable		1,097,115	389,738	181.50	1,143,316	389,738	193.36
Other assets	19	1,458,507	1,777,719	(17.96)	1,444,906	1,872,115	(22.82)
Property, Plant & Equipment	20	2,895,671	1,660,960	74.34	3,133,765	1,876,881	66.97
Total Assets		138,473,385	110,279,926	25.57	141,792,485	112,822,239	25.68
FINANCED BY:							
LIABILITIES							
Deposits from customers	21	98,729,841	75,184,547	31.32	98,621,515	75,097,022	31.33
Dividends payable		230,352	189,667	21.45	232,320	189,667	22.49
Borrowings	22	9,089,740	5,405,635	68.15	9,089,740	5,405,635	68.15
Securities sold under re-purchase agreements		9,049,893	10,580,202	(14.46)	12,261,452	12,950,519	(5.32)
Other liabilities	23	3,495,805	4,596,283	(23.94)	3,491,196	4,595,589	(24.03)
Tax payable		483,427	147,924	226.81	484,187	231,011	109.59
Deferred taxation	24	238,400	247,300	(3.60)	250,792	258,778	(3.09)
Debentures	25	3,244,410	2,244,410	44.56	3,244,410	2,244,410	44.56
		124,561,868	98,595,968	26.34	127,675,612	100,972,631	26.45
MINORITY INTEREST		-	-	-	12,364	13,303	(7.06)
SHAREHOLDERS' FUNDS							
Share capital	26	2,603,354	2,603,056	0.01	2,603,354	2,603,056	0.01
Statutory Reserve Fund	27	1,009,000	1,009,000	-	1,009,819	1,009,000	0.08
Reserves	28	10,299,163	8,071,902	27.59	10,491,336	8,224,249	27.57
Shareholders' funds		13,911,517	11,683,958	19.07	14,104,509	11,836,305	19.16
Total liabilities, minority interest and shareholders' funds		138,473,385	110,279,926	25.57	141,792,485	112,822,239	25.68
Commitments and contingencies	30	43,941,880	38,158,395	15.16	43,941,880	38,158,395	15.16

The Significant Accounting Policies and the Notes from pages 83 to 119 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 18, 2005
Colombo

Cash Flow Statement

<i>For the year ended December 31,</i>	Bank		Group	
	2004	2003	2004	2003
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cash Flows from Operating Activities				
Interest and commission receipts	10,909,379	8,915,324	11,101,662	8,609,726
Interest payments	(4,878,125)	(4,218,016)	(5,039,397)	(3,879,452)
Recoveries on loans previously provided/written-off	215,725	75,627	215,725	75,627
Foreign exchange profit and other receipts	904,190	513,600	906,385	515,964
Cash payments to employees and suppliers	(3,948,042)	(3,041,283)	(3,895,283)	(3,008,626)
Operating profit before changes in operating assets	3,203,127	2,245,252	3,289,092	2,313,239
(Increase)/Decrease in operating assets:				
Balances with Central Banks	(1,086,866)	2,160,587	(1,086,866)	2,160,587
Funds advanced to customers	(24,971,085)	(8,612,489)	(24,938,058)	(8,600,918)
Increase/(Decrease) in operating liabilities:				
Deposits from customers	24,038,952	8,449,375	24,018,151	8,466,063
Negotiable certificates of deposit	(493,658)	(496,859)	(493,658)	(496,859)
Net cash from operating activities before income tax	690,470	3,745,866	788,661	3,842,112
Income tax paid	(441,121)	(513,816)	(545,595)	(543,524)
Net cash inflow/(outflow) from operating activities	249,349	3,232,050	243,066	3,298,588
Cash Flows from Investing Activities				
Dividends received	107,103	337,707	54,355	40,156
Interest received	99,661	63,292	99,661	63,292
Government Treasury Bills and Bonds	10,339,288	(3,996,187)	14,025,095	(1,324,078)
Securities purchased under re-sale agreements	5,784,444	(5,272,892)	1,883,614	(2,156,950)
Securities sold under re-purchase agreements	(1,530,309)	8,641,956	(689,067)	3,028,540
Commercial paper	(13,329)	533,140	(13,329)	533,140
Treasury Bonds maturing after one year	(13,778,182)	-	(14,378,898)	-
Disposal/(Additions) of Dealing Securities	(109,560)	200,000	(109,560)	200,000
Additions to investments	(555,535)	(1,948,848)	(555,535)	(1,943,848)
Income from Associate Companies	-	-	11,575	10,317
Proceeds from matured investments	92,089	50,000	92,089	50,000
Proceeds from sale of investment securities	168,812	-	168,812	-
Purchase consideration on acquisition of				
Bangladesh operations	-	(1,933,765)	-	(1,933,765)
Purchase of Property, Plant & Equipment	(432,040)	(348,156)	(483,701)	(376,473)
Proceeds from sale of Property, Plant & Equipment	68,481	30,384	84,935	30,384
Net cash inflow/(outflow) from investing activities	240,923	(3,643,369)	190,046	(3,779,285)
Cash Flows from Financing Activities				
Dividends paid to Minority shareholders	-	-	(2,681)	(1,242)
Proceeds from issue of Preference Shares	-	1,000,000	-	1,000,000
Proceeds from Rights issue of Ordinary Shares	-	1,908,354	-	1,908,354
Proceeds from issue of Debentures	1,000,000	2,244,410	1,000,000	2,244,410
Redemption of Debentures	-	(500,000)	-	(500,000)
Share issue expenses incurred	(110)	(7,775)	(110)	(7,775)
Net increase in other borrowings	2,195,462	729,647	2,253,344	801,801
Dividends paid to shareholders	(551,908)	(376,950)	(549,940)	(380,281)
Net cash inflow/(outflow) from financing activities	2,643,444	4,997,686	2,700,613	5,065,267

Cash Flow Statement

For the year ended December 31,	Bank		Group	
	2004 Rs.'000	2003 Rs.'000	2004 Rs.'000	2003 Rs.'000
Net increase in cash and cash equivalents	3,133,716	4,586,367	3,133,725	4,584,570
Cash and cash equivalent at beginning of the year	9,001,891	1,835,141	9,001,991	1,837,038
Cash and cash equivalents at end of the year (Refer to Note 12)	12,135,607	6,421,508	12,135,716	6,421,608
Cash and cash equivalents at end of the year Cash balances in Bangladesh branches as at date of Acquisition	12,135,607	9,001,891	12,135,716	9,001,991
	–	(2,580,383)	–	(2,580,383)
	12,135,607	6,421,508	12,135,716	6,421,608
Reconciliation of Operating Profit				
Profit before taxation	2,503,931	1,954,595	2,594,471	2,039,081
Add/(Less):				
Investment income	(216,881)	(400,999)	(175,708)	(113,765)
Share of profit of Associate Companies	–	–	(76,356)	(42,653)
Notional tax credit on interest on Treasury Bills and Bonds	(51,493)	(67,341)	(52,917)	(71,311)
Profit on sale of Shares	(60,302)	–	(60,302)	–
Profit on sale of Property, Plant & Equipment	(352)	(361)	(11,728)	(361)
Depreciation	260,347	222,006	284,757	241,750
Loan losses & provisions	699,200	623,207	699,200	623,207
Negative goodwill on acquisition of Bangladesh operations	–	(7,447)	–	(7,447)
(Gain)/Loss on Mark to Market Valuation	68,677	(78,408)	76,100	(365,579)
Dividends received from Associate Companies	–	–	11,575	10,317
Operating profit before changes in operating assets	3,203,127	2,245,252	3,289,092	2,313,239
Acquisition of the operations of Credit Agricole Indosuez in Bangladesh				
During the year 2003, the Bank acquired the operations of Credit Agricole Indosuez in Bangladesh. The fair value of assets acquired and liabilities assumed were as follows:				
		2003 Rs. '000		
Monetary items		1,922,156		
Non-monetary items		19,056		
Negative goodwill		(7,447)		
Total purchase consideration		1,933,765		
Less: Cash balances in Bangladesh branches as at date of acquisition		2,580,383		
Cash flow on acquisition net of cash acquired		(646,618)		

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Statement of Changes in Equity

For the year ended December 31,	Note	Share Capital			Reserve Fund	Reserves				Total
		Ordinary Voting Shares Rs.'000	Ordinary Non-voting Shares Rs.'000	Cum. Red. Preference Shares Rs.'000		Share Premium	Revaluation Reserve	General Reserve	Income Statement	
BANK										
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
Final dividend for 2002		-	-	-	-	-	-	-	(133,728)	(133,728)
Issue of Preference Shares		-	-	1,000,000	-	-	-	-	-	1,000,000
Bonus issue of Ordinary Shares		130,000	9,300	-	-	(139,300)	-	-	-	-
Rights issue of Ordinary Shares		130,000	9,300	-	-	1,769,054	-	-	-	1,908,354
Share issue expenses written-off		-	-	-	-	(7,775)	-	-	-	(7,775)
Net profit for the year 2003		-	-	-	-	-	-	-	1,477,487	1,477,487
Transfer during the year 2003		-	-	-	-	-	-	939,493	(939,493)	-
Dividends for 2003	10	-	-	-	-	-	-	-	(315,037)	(315,037)
Balance as at 31.12.2003		650,000	46,501	1,906,555	1,009,000	2,182,881	157,286	5,508,000	223,735	11,683,958
Final Dividend for 2003		-	-	-	-	-	-	-	(222,881)	(222,881)
Issue of Ordinary Shares under										
Employee Share Option Plan		298	-	-	-	4,103	-	-	-	4,401
Share issue expenses written-off		-	-	-	-	(110)	-	-	-	(110)
Surplus on Revaluation of property		-	-	-	-	-	1,131,147	-	-	1,131,147
Net profit for the year 2004		-	-	-	-	-	-	-	1,684,714	1,684,714
Transfer during the year 2004		-	-	-	-	-	-	1,037,000	(1,037,000)	-
Dividends for 2004	10	-	-	-	-	-	-	-	(369,712)	(369,712)
Balance as at 31.12.2004		650,298	46,501	1,906,555	1,009,000	2,186,874	1,288,433	6,545,000	278,856	13,911,517
GROUP										
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
Final dividend for 2002		-	-	-	-	-	-	-	(133,728)	(133,728)
Issue of Preference Shares		-	-	1,000,000	-	-	-	-	-	1,000,000
Bonus issue of Ordinary Shares		130,000	9,300	-	-	(139,300)	-	-	-	-
Rights issue of Ordinary Shares		130,000	9,300	-	-	1,769,054	-	-	-	1,908,354
Share issue expenses written-off		-	-	-	-	(7,775)	-	-	-	(7,775)
Net profit for the year 2003		-	-	-	-	-	-	-	1,535,600	1,535,600
Prior year adjustment on income tax (Note 8.3)		-	-	-	-	-	-	-	(70,108)	(70,108)
Net profit for the year 2003 (restated)		-	-	-	-	-	-	-	1,465,492	1,465,492
Transfer during the year 2003		-	-	-	-	-	-	939,493	(939,493)	-
Dividends for 2003	10	-	-	-	-	-	-	-	(315,037)	(315,037)
Balance as at 31.12.2003 (restated)		650,000	46,501	1,906,555	1,009,000	2,182,881	157,286	5,508,000	376,082	11,836,305
Balance as at 31.12.2003		650,000	46,501	1,906,555	1,009,000	2,182,881	157,286	5,508,000	446,190	11,906,413
Prior year adjustment on income tax (Note 8.3)		-	-	-	-	-	-	-	(70,108)	(70,108)
Balance as at 31.12.2003 (restated)		650,000	46,501	1,906,555	1,009,000	2,182,881	157,286	5,508,000	376,082	11,836,305
Final dividend for 2003		-	-	-	-	-	-	-	(222,881)	(222,881)
Issue of Ordinary Shares under										
Employee Share Option Plan		298	-	-	-	4,103	-	-	-	4,401
Share issue expenses written-off		-	-	-	-	(110)	-	-	-	(110)
Surplus on Revaluation of property		-	-	-	-	-	1,131,147	-	-	1,131,147
Net profit for the year 2004		-	-	-	-	-	-	-	1,725,359	1,725,359
Transfer to Statutory Reserve Fund		-	-	-	819	-	-	-	(819)	-
Transfer during the year 2004		-	-	-	-	-	-	1,037,000	(1,037,000)	-
Dividends for 2004	10	-	-	-	-	-	-	-	(369,712)	(369,712)
Balance as at 31.12.2004		650,298	46,501	1,906,555	1,009,819	2,186,874	1,288,433	6,545,000	471,029	14,104,509

Composition of the unappropriated profit/(loss) carried forward is given in Note 11 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, 2004 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 18, 2005.

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, export and domestic factoring, etc.

Subsidiaries

The principal activities of the Bank's Subsidiaries, namely, Commercial Development Co. Ltd., Commercial Bank Primary Dealer Ltd. and ONEzero Company Ltd. are property development, dealing in Government Securities as a Primary Dealer and providing IT related services 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 Government securities, certain dealing securities, investment securities, and land and buildings are stated at valuation as explained in Notes 14, 15 and 20 to the Financial Statements. Assets and liabilities are grouped by nature and listed in an order that reflects their relative liquidity. These Financial Statements are prepared in Sri 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 Bank's Financial Statements comprise the consolidation of the Financial Statements of the Domestic Banking Unit, the Off-shore Banking Centre and the foreign operations that are integral to the operations of the Bank. 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 No. 18 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.17 to the Financial Statements.

1.4.3 Goodwill/Negative Goodwill on acquisition of Subsidiaries and Associates

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 Goodwill/Negative Goodwill on acquisition of Foreign operations that are integral to the operations of the Bank

Goodwill represents the excess of the cost of acquisition over the fair value of the net identifiable assets acquired. Acquired goodwill is written off in full in the year of acquisition, since the Bank is not permitted to pay dividends otherwise as per the Section 22 of the Banking Act No. 30 of 1988.

Negative Goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition. Negative goodwill is used to reduce proportionately the value of non-monetary assets acquired until such excess is completely eliminated.

1.4.5 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 full in preparing the Consolidated Financial Statements. Unrealised gains resulting from transactions with Associates are eliminated to the extent of the Group's interest in the Associates. Unrealised losses are eliminated in the same way as unrealised gains unless there is evidence of impairment in value.

Significant Accounting Policies

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 items denominated in foreign currencies at the Balance Sheet date are translated to Sri Lanka Rupees at the middle rate of exchange ruling at that date. Foreign exchange differences arising on the settlement or reporting of the Bank's monetary items at rates different from those which were initially recorded are dealt in the Income Statement. Non-monetary Items denominated in foreign currencies that are stated at fair value are translated to Sri Lankan Rupees at foreign exchange rates ruling at the dates the values were determined.

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.

1.5.3 Transactions of the Off-shore Banking Centre and the overseas branches have been recorded in accordance with the paragraph 1.5.1 above except for the application of yearly average rate for 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 and the amendments thereto at the rates specified in Note No. 8.1 to the Financial Statements. Provision for taxation on the overseas branches is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with the provisions of the relevant statutes.

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 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.

Significant Accounting Policies

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:

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

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

2.2 Foreclosed Properties

Foreclosed properties acquired in full or partial satisfaction of debts, are accounted for at the lower of cost or market value on an individual property basis. The shortfall between the prevailing market value of the foreclosed asset and the related loan outstanding is recognised as a provision for loan losses in the Income Statement in the year of taking over the foreclosed properties in satisfaction of the debt. Foreclosed properties are marked to market at least once during the financial year. Any shortfall is taken to the Income Statement.

Subsequent gains and losses on the disposal of the foreclosed assets are treated as provisions written back or charged to Income Statement respectively.

2.3 Finance Leases

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

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.

2.3.1 Provision for Lease Receivable

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

In addition, a general provision for possible losses on Lease Receivable is made at 0.5% of the total Lease Receivable, in conformity with the industry practice, as against 3% hitherto adopted. The impact of this change is given in Note 16.4 to the Financial Statements.

2.4 Credit Card Receivable

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

2.4.1 Provision for Credit Card Receivable

100% specific provision is made on Credit Card Receivable outstanding for 6 months and over.

In addition, a general provision is made at 3% on the capital included in Credit Card Receivable up to 6 months.

2.5 Government of Sri Lanka Treasury Bills and Bonds

2.5.1 Investments in Treasury Bills and Treasury Bonds

Investment in Treasury Bills and Treasury Bonds in the trading portfolio are marked to market and carried at that value in the Balance Sheet. Gains and losses on mark to market valuation are dealt with through the Income Statement.

Significant Accounting Policies

2.5.2 Investments in Treasury Bills and Bonds held to Maturity

Investments in Treasury Bills and Bonds held to maturity are reflected at the value of the Bills/Bonds purchased and the discount/premium accrued thereon. Discount received/premium paid is taken to the Income Statement based on a pattern reflecting a constant periodic rate of return. The change was effected in accordance with the Sri Lanka Accounting Standard No. 22 and Rs. 34.168 million was charged to the Income Statement as at the date of changing the accounting policy. The policy change resulted in the improvement of income by Rs. 41.107 million for the period. The policy change was done due to the Treasury Bills and Bonds portfolio of the Bank being held for statutory liquidity purposes and therefore no trading activities are being carried out.

2.5.3 Securities Purchased under Re-sale Agreements

These are advances collateralised by purchase of treasury bills and treasury bonds from the public subject to a commitment to re-sale them at a predetermined price. Such securities remain on the Balance Sheet of the Bank and the asset is recorded in respect of the consideration paid and interest accrued thereon.

2.6 Investments

2.6.1 Dealing Securities

These are marketable securities acquired and held with the intention of resale over a short period of time. Such securities are marked to market at the Balance Sheet date.

2.6.2 Investment Securities

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

2.6.3 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.

2.6.4 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.

2.7 Property, Plant and Equipment

2.7.1 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 2.7.2 below.

2.7.2 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
Interior decorations	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.

Significant Accounting Policies

2.7.3 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 for the year is provided on the assets purchased and used during the year. Depreciation is not provided on the assets disposed of during the year.

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

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. Only the employees who joined the Bank on or before December 31, 2001 are in pensionable service of the Bank.

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 April 30, 2004 by M/s. Actuarial & Management Consultants (Pvt.) Ltd. The valuation has been carried out based on the Projected Unit Credit method, the benchmark treatment recommended by the Sri Lanka Accounting Standard No. 16 on Retirement Benefits Costs.

Significant Accounting Policies

3.2.1.4 Principal Actuarial Assumptions

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

Long-term Rate of interest	9.00% per annum
Salary increases	10% - 12% per annum

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

3.2.1.5 Unfunded Pension Liability

The results revealed that the actuarial present value of the promised retirement benefits is Rs. 3,163.468 million and that the fair value of the fund assets is Rs. 1,965.210 million resulting in a past service deficit totalling to Rs. 1,198.258 million (Rs. 888.911 million in 2003) in the Pension Fund and the Widows' & Orphans' Pension Scheme due to the changes in actuarial assumptions (i.e. interest rate, salary increases, etc.) that took place since the previous actuarial valuation as at December 31, 2003. In addition to the monthly contributions, the Bank provided a further Rs. 100.000 million (Rs. 200.000 million in 2003) to the Pension Fund, resulting in the past service deficit being reduced to Rs. 1,098.258 million as at December 31, 2004 (Rs. 688.911 million in 2003).

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 May 2004, 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 has not been made in these Financial Statements for gratuity payable under the Payment of Gratuity Act No. 12 of 1983 to those employees who joined the Bank on or before December 31, 2001, as they are in pensionable service of the Bank and that the Bank has its own non-contributory retirement pension scheme in force. However, if any of these employees who is eligible for gratuity resigns before retirement the Bank is liable to pay gratuity to such employees.

Provision has been made in these Financial Statements for retirement gratuities from the first year of service for all the employees who joined the Bank on or after January 1, 2002, as they are not in pensionable service of the Bank, in conformity with the Sri Lanka Accounting Standard No.16 on Retirement Benefits Costs. However, under the Payment of Gratuity Act No.12 of 1983, the liability to an employee arises only on completion of 5 years of continued service. Gratuity is unfunded and an actuarial valuation has not been carried out.

3.3 **Defined Contribution Plans**

Contributions to the following 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.

Significant Accounting Policies

3.3.2 Employees' Trust Fund

The Bank contributes to the Employees' Trust Fund at 3%.

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 and interest accrued thereon.

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, in accordance with the Sri Lanka Accounting Standard No. 36 on Provisions, Contingent Liabilities and Contingent Assets.

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 on Revenue Recognition and Disclosures in the Financial Statements of Banks, the interest receivable is recognised on accrual basis. Interest ceases to be taken into revenue when the recovery of interest or principal is in arrears for three months or more. Interest receivable 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 on 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 are 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 and approved.

Significant Accounting Policies

4.1.6 Interest Income on Investments in Debentures and Trust Certificates

Interest income on investments in Debentures and Trust Certificates is recognised on accrual basis.

4.1.7 Rental Income

Rental income is recognised on accrual basis.

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, Dealing Securities and Investment Securities

Gains and losses resulting from the disposal of Property, Plant and Equipment, Dealing Securities, Investment Securities and Foreclosed Properties have been accounted for on 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 on Revenue Recognition and Disclosures in the Financial Statements of Banks, the interest and other expenses payable are recognised on accrual basis in the Income Statement.

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 on 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 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 on 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 on Segment Reporting, segmental information is presented in respect of the Group. 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 75 for the Statement of Directors' Responsibility for Financial Reporting.

Notes to the Accounts

1. Interest Income

	Bank		Group	
	2004 Rs. '000	2003 Rs. '000	2004 Rs. '000	2003 Rs. '000
Customer advances	7,769,074	6,246,573	7,761,166	6,240,325
Treasury Bills, Treasury Bonds, Placements with other Banks and other Money Market instruments	1,814,729	1,684,887	2,016,390	1,389,638
	9,583,803	7,931,460	9,777,556	7,629,963

Since April 1, 2002, net interest income from Treasury Bills and Treasury Bonds has been grossed up by adding the notional tax credit, consequent to the interest income on Treasury Bills and Treasury Bonds being subjected to withholding tax as detailed in Note 8.1.

2. Interest Expenses

Customer deposits	3,575,199	3,256,406	3,570,988	3,252,909
Debentures	236,010	186,288	236,010	186,288
Short-term borrowings and refinance	995,009	746,567	1,160,492	411,500
Other interest expenses	71,907	28,755	71,907	28,755
	4,878,125	4,218,016	5,039,397	3,879,452

3. Other Income

Income from investment securities (quoted)	49,789	36,793	49,789	36,793
Income from investment securities (unquoted)	106,066	57,068	106,759	57,735
Income from investments in Associates (quoted)	11,575	8,716	11,575	8,716
Income from investments in Associates (unquoted)	–	1,601	–	1,601
Income from investments in Subsidiaries (quoted)	41,866	19,401	–	–
Income from investments in Subsidiaries (unquoted)	–	268,500	–	–
Income from Unit Trust	7,585	8,920	7,585	8,920
Bad debts recovered (including recovery of debts written-off)	215,725	75,627	215,725	75,627
Profit on sale of Property, Plant & Equipment	352	361	11,728	361
Rental and other income	30,629	116,639	32,824	119,003
Profit on sale of Shares	60,302	–	60,302	–
Gain/(Loss) on Mark to Market Valuation/ Realised Capital Gains/(Losses)	(68,677)	78,408	(76,100)	365,579
Negative Goodwill on acquisition of Bangladesh operations	–	7,447	–	7,447
	455,212	679,481	420,187	681,782
Less: Dividends received from Associate Companies transferred to the investments in Associate Companies Account	–	–	11,575	10,317
	455,212	679,481	408,612	671,465

Notes to the Accounts

4. Operating Expenses

	Bank		Group	
	2004	2003	2004	2003
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Operating expenses include the following:				
Executive Director's emoluments	17,773	13,467	17,773	13,467
Directors' emoluments	5,614	3,795	5,722	3,921
Auditors' remuneration	2,808	2,699	3,029	2,781
Non-Audit fees	1,386	2,839	1,515	3,142
Terminal benefits	30,141	25,392	30,994	25,730
Pensions paid to past Directors	1,712	1,712	1,712	1,712
Depreciation/amortisation	260,347	222,006	284,757	241,750
Professional and legal expenses	42,121	30,456	42,140	30,857
Donations	3,562	3,777	3,562	3,782
Donation to CSR Trust	25,000	-	25,000	-
Employer's contribution to Employees' Provident Fund	102,683	83,718	103,199	84,125
Employer's contribution to Employees' Trust Fund	24,278	20,248	24,407	20,350
Gratuity provision/paid	11,241	1,609	12,137	1,947
Financial VAT on profits	441,116	272,479	442,276	287,688

5. Provision for Staff Retirement Benefits

A sum of Rs. 325.740 million (Rs. 311.133 million in 2003) has been charged against profits being the total contributions for the year to the approved Pension Fund and Widows' & Orphans' Pension Scheme.

6. Loan Losses and Provisions

	Bank		Group	
	2004	2003	2004	2003
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Provision for bad & doubtful debts:				
Specific provision on Bills of Exchange	5,516	4,340	5,516	4,340
Specific provision on loans and advances	734,698	476,551	734,698	476,551
General provision on credit card receivables	2,747	1,163	2,747	1,163
Specific provision on credit card receivables	(336)	5,659	(336)	5,659
General provision on lease receivable (Note 16.4)	7,200	44,750	7,200	44,750
Specific provision on lease receivable (Note 16.4)	25,110	9,156	25,110	9,156
Total provisions made during the year	774,935	541,619	774,935	541,619
Reversal of general provision on Lease receivable	(84,873)	-	(84,873)	-
Direct write-offs	9,138	81,588	9,138	81,588
	699,200	623,207	699,200	623,207

7. Share of Profit before tax of Associate Companies

Commercial Leasing Co. Ltd.	-	-	70,965	36,951
Equity Investments Lanka Ltd.	-	-	2,155	1,932
Commercial Fund Management (Pvt) Ltd.	-	-	3,236	3,770
	-	-	76,356	42,653

Notes to the Accounts

	Bank		Group	
	2004 Rs.'000	2003 Rs.'000	2004 Rs.'000	2003 Rs.'000
8. Provision for Taxation				
8.1 Charge to taxation is as follows:				
Bank				
Income tax on profits for the year	867,543	503,525	867,543	503,525
Over provision for taxation in previous years	(39,426)	(30,717)	(39,426)	(30,717)
Transfer/(Reversal) to deferred taxation	(8,900)	4,300	(8,900)	4,300
	819,217	477,108	819,217	477,108
Subsidiary Companies				
Income tax on profits of Commercial Development Co. Ltd.	-	-	19,833	15,229
Income tax on profits of Commercial Bank Primary Dealer Ltd.	-	-	-	75,731
Income tax on profits of ONEzero Co. Ltd.	-	-	-	-
Associate Companies				
Income tax on profits of Commercial Leasing Co. Ltd.	-	-	21,425	551
Income tax on profits of Equity Investments Lanka Ltd.	-	-	19	(3)
Income tax on profits of Commercial Fund Management (Pvt) Ltd.	-	-	1,014	95
WHT deducted on Dividend Payments by Subsidiary and Associate Companies	-	-	5,862	3,163
	819,217	477,108	867,370	571,874

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

	2004	2003
Domestic operations of the Bank	30.00%	30.00%
On-shore banking operations of the Off-shore Banking Centre of the Bank (from January 1, 2003 to June 30, 2003)	30.00%	15.00%
On-shore banking operations of the Off-shore Banking Centre of the Bank (from July 1, 2003 to December 31, 2003)	30.00%	30.00%
Off-shore banking operations of the Off-shore Banking Centre of the Bank (from April 1, 2004)	20.00%	-
Operations of the Bangladesh branches	45.00%	45.00%
Commercial Development Co. Ltd.	32.50%	32.50%
Commercial Bank Primary Dealer Ltd.	32.50%	32.50%
ONEzero Co. Ltd.	-	-

Notional tax credit for withholding tax on Government Securities on Secondary Market Transactions

The Inland Revenue (Amendment) Act No. 19 of 2003, provides that a company which derives interest income from the secondary market transactions in Government Securities (on or after April 1, 2002) would be entitled to a notional tax credit (being one ninth of the net interest income) provided such interest income forms part of the statutory income of the Company for that year of assessment.

Accordingly, the net interest income earned by the Bank and Commercial Bank Primary Dealer Ltd. from the secondary market transactions in Government Securities for the year, has been grossed up in the Financial Statements and the resulting notional tax credit amounts to Rs. 51.493 million (Rs. 67.341 million in 2003) and Rs. 1.424 million (Rs. 3.982 million in 2003) respectively.

8.2 Reconciliation of Accounting Profit and Taxable Income:

	Bank	
	2004 Rs.'000	2003 Rs.'000
Net profit as per the Income Statement	2,503,931	1,954,595
Add: Disallowable expenses	874,054	721,378
	3,377,985	2,675,973
Less: Allowable expenses	1,452,980	731,313
Assessable income	1,925,005	1,944,660
Less: Exempt Dividends and Interest income	330,394	551,418
	1,594,611	1,393,242
Less: Qualifying payments	25,965	3,535
Taxable income	1,568,646	1,389,707

Notes to the Accounts

	Bank	
	2004	2003
	Rs.'000	Rs.'000
Income tax provision for the year is made up as follows:		
Income tax on profit of the Domestic Banking Unit	562,061	280,182
Income tax on profit of the Off-shore Banking Centre	97,232	48,691
Income tax on profit of the operations of Bangladesh branches	208,250	174,652
Over provision for taxation in previous years	(39,426)	(30,717)
Provision for/(Reversal of) deferred tax	(8,900)	4,300
	819,217	477,108
Effective tax rate (excluding deferred tax)	33.07%	24.19%

- 8.3** An amount of Rs. 70.108 million on account additional income tax paid by the Commercial Bank Primary Dealer Ltd. as a result of retrospective legislation enacted by the Government on taxing the capital gains on Government Securities, was accounted as a prior year adjustment.

9. Earnings per Ordinary Share

Earnings per ordinary share has been calculated by dividing the profit after taxation attributable to the ordinary shareholders by the average number of ordinary shares in issue (both voting and non-voting) during the year determined by weighting the shares in issue on a time basis as required by the Sri Lanka Accounting Standard No. 34 on Earnings per Share. The corresponding figures for the previous years have been adjusted accordingly.

	Bank		Group	
	2004	2003	2004	2003
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Profit after taxation and Minority interest	1,684,714	1,477,487	1,725,359	1,465,492
Less: Dividends on Cumulative Redeemable Preference Shares	230,352	189,667	230,352	189,667
Profit attributable to Ordinary Shareholders	1,454,362	1,287,820	1,495,007	1,275,825
Number of Ordinary Shares used as Denominator	69,679,999	69,679,999	69,679,999	69,679,999
Basic Earnings per Ordinary Share (Rs.)	20.87	18.48	21.46	18.31
Number of Ordinary Shares including Dilutive Ordinary Shares used as Denominator	71,112,730	71,112,730	71,112,730	71,112,730
Diluted Earnings per Ordinary Share (Rs.)	20.45	18.11	21.02	17.94

10. Dividends

	Bank		Group	
	2004	2003	2004	2003
	Interim 20% (paid on Nov. 29, '04) Rs.'000	Interim 18% (paid on Dec. 23, '03) Rs.'000	Interim 20% (paid on Nov. 29, '04) Rs.'000	Interim 18% (paid on Dec. 23, '03) Rs.'000
On Ordinary Shares				
Net dividend paid to the Shareholders	133,951	125,370	133,951	125,370
Withholding tax deducted at source	5,409	-	5,409	-
Gross dividend	139,360	125,370	139,360	125,370
On Preference Shares				
Dividend payable on Cumulative Redeemable Preference Shares of Rs. 10/- each for the year/period				
Net dividend payable/paid	207,317	170,700	207,317	170,700
Withholding tax to be deducted/deducted at source	23,035	18,967	23,035	18,967
Gross dividend	230,352	189,667	230,352	189,667
Total dividend	369,712	315,037	369,712	315,037

Notes to the Accounts

20% interim dividend paid in November 2004 to the Ordinary Shareholders was partly paid out of the exempt dividends received by the Bank. The effective interim dividend rate was 20% for the year (the effective interim dividend for 2003 was 20%).

Directors have recommended the payment of a final dividend of 40% for the year ended December 31, 2004 (32% in 2003), which will be declared at the Annual General Meeting to be held on March 30, 2005. In accordance with the Sri Lanka Accounting Standard No. 12 (Revised) on Events After the Balance Sheet Date, this proposed final dividends have not been recognised as a liability as at the year end.

11. Unappropriated Profit/(Loss) carried forward

	Bank		Group	
	2004	2003	2004	2003
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Commercial Bank of Ceylon Ltd.	278,856	223,735	204,645	149,524
Subsidiary Companies				
Commercial Development Co. Ltd.	-	-	14,312	30,604
Commercial Bank Primary Dealer Ltd.	-	-	117,667	102,645
ONEzero Co. Ltd.	-	-	268	284
Associate Companies				
Commercial Leasing Co. Ltd.	-	-	134,118	97,363
Equity Investments Lanka Ltd.	-	-	(3,596)	(5,732)
Commercial Fund Management (Pvt) Ltd.	-	-	3,615	1,394
	278,856	223,735	471,029	376,082

12. Cash and Short-Term Funds

Coins and notes held in local currency	1,600,255	1,110,090	1,600,264	1,110,090
Coins and notes held in foreign currency	921,601	239,823	921,601	239,823
Current Account with Central Bank of Sri Lanka	-	-	100	100
Placements/balances with foreign banks	9,049,451	7,641,978	9,049,451	7,641,978
Loans at call and short notice	564,300	10,000	564,300	10,000
	12,135,607	9,001,891	12,135,716	9,001,991

13. Balances with Central Banks

Bank's Current Account with Central Bank of Sri Lanka	4,953,124	3,737,993	4,953,124	3,737,993
Bank's Current Account with Bangladesh Bank	1,366,556	1,494,821	1,366,556	1,494,821
	6,319,680	5,232,814	6,319,680	5,232,814

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, 2004 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.

Notes to the Accounts

14. Dealing Securities

	Bank						Group	
	As at 31.12.04		As at 31.12.03		As at 31.12.04		As at 31.12.03	
	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
Quoted SHARES								
Hatton National Bank Ltd. (52,400 Ordinary Shares of Rs. 10/- each)	3,798	2,987 (@ Rs. 57.00)	-	-	3,798	2,987 (@ Rs. 57.00)	-	-
National Development Bank (68,900 Ordinary Shares of Rs. 10/- each)	10,406	11,024 (@ Rs. 159.75)	-	-	10,406	11,024 (@ Rs. 159.75)	-	-
Central Finance (22,700 Ordinary Shares of Rs. 10/- each)	5,635	6,129 (@ Rs. 270.00)	-	-	5,635	6,129 (@ Rs. 270.00)	-	-
Union Assurance (75,000 Ordinary Shares of Rs.10/- each)	4,078	3,375 (@ Rs. 45.00)	-	-	4,078	3,375 (@ Rs. 45.00)	-	-
Distilleries (325,000 Ordinary Shares of Rs.1/- each)	9,722	9,263 (@ Rs. 28.50)	-	-	9,722	9,263 (@ Rs. 28.50)	-	-
Lion Brewery (84,700 Ordinary Shares of Rs.10/- each)	5,391	5,167 (@ Rs. 61.00)	-	-	5,391	5,167 (@ Rs. 61.00)	-	-
Haycarb (50,000 Ordinary Shares of Rs.10/- each)	2,025	2,125 (@ Rs. 42.50)	-	-	2,025	2,125 (@ Rs. 42.50)	-	-
Colombo Dockyard (118,700 Ordinary Shares of Rs.10/- each)	2,907	2,671 (@ Rs. 22.50)	-	-	2,907	2,671 (@ Rs. 22.50)	-	-
Hayleys (61,500 Ordinary Shares of Rs.10/- each)	7,524	7,764 (@ Rs. 126.25)	-	-	7,524	7,764 (@ Rs. 126.25)	-	-
Hemas Holdings (26,300 Ordinary Shares of Rs.10/- each)	2,230	2,538 (@ Rs. 96.50)	-	-	2,230	2,538 (@ Rs. 96.50)	-	-
John Keells Holdings (60,000 Ordinary Shares of Rs.10/- each)	6,546	6,600 (@ Rs. 110.00)	-	-	6,546	6,600 (@ Rs. 110.00)	-	-
Aitken Spence Hotel Holdings (23,200 Ordinary Shares of Rs.10/- each)	2,109	2,129 (@ Rs. 91.75)	-	-	2,109	2,129 (@ Rs. 91.75)	-	-
AHOT Properties (250,000 Ordinary Shares of Rs.10/- each)	7,223	7,375 (@ Rs. 29.50)	-	-	7,223	7,375 (@ Rs. 29.50)	-	-
Confifi Hotel Holdings (59,600 Ordinary Shares of Rs.10/- each)	3,927	3,159 (@ Rs. 53.00)	-	-	3,927	3,159 (@ Rs. 53.00)	-	-
Connaissance (175,000 Ordinary Shares of Rs.10/- each)	8,344	7,569 (@ Rs. 43.25)	-	-	8,344	7,569 (@ Rs. 43.25)	-	-
Galadari (20,000 Ordinary Shares of Rs.10/- each)	302	320 (@ Rs. 16.00)	-	-	302	320 (@ Rs. 16.00)	-	-
Eden Hotel Lanka (100,000 Ordinary Shares of Rs.10/- each)	2,273	1,750 (@ Rs. 17.50)	-	-	2,273	1,750 (@ Rs. 17.50)	-	-
Riverina Hotel (51,500 Ordinary Shares of Rs.10/- each)	2,327	2,060 (@ Rs. 40.00)	-	-	2,327	2,060 (@ Rs. 40.00)	-	-
Taj Lanka (155,400 Ordinary Shares of Rs.10/- each)	3,411	3,030 (@ Rs. 19.50)	-	-	3,411	3,030 (@ Rs. 19.50)	-	-
Colombo Land (300,000 Ordinary Shares of Rs.1/- each)	2,187	1,275 (@ Rs. 4.25)	-	-	2,187	1,275 (@ Rs. 4.25)	-	-
Colombo Land - Option (120,000 Ordinary Shares of Rs.1/- each)	120	120 (@ Rs. 1.00)	-	-	120	120 (@ Rs. 1.00)	-	-
Dipped Products (31,500 Ordinary Shares of Rs.10/- each)	3,209	3,497 (@ Rs. 111.00)	-	-	3,209	3,497 (@ Rs. 111.00)	-	-
Richard Pieris (46,500 Ordinary Shares of Rs.10/- each)	4,502	5,580 (@ Rs. 120.00)	-	-	4,502	5,580 (@ Rs. 120.00)	-	-
Kelani Valley (60,000 Ordinary Shares of Rs.10/- each)	1,052	1,050 (@ Rs. 17.50)	-	-	1,052	1,050 (@ Rs. 17.50)	-	-
Lanka IOC (120,000 Ordinary Shares of Rs.10/- each)	4,988	5,190 (@ Rs. 43.25)	-	-	4,988	5,190 (@ Rs. 43.25)	-	-
Sri Lanka Telecom (375,000 Ordinary Shares of Rs.10/- each)	7,171	5,813 (@ Rs. 15.50)	-	-	7,171	5,813 (@ Rs. 15.50)	-	-
	113,407	109,560	-	-	113,407	109,560	-	-
Diminution in Value	(3,847)				(3,847)			
	109,560				109,560			

Notes to the Accounts

15. Investment Securities

	Bank				Group			
	As at 31.12.04		As at 31.12.03		As at 31.12.04		As at 31.12.03	
	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	
Quoted SHARES								
Hatton National Bank Ltd. (3,850 Ordinary Shares of Rs. 10/- each) (2,750 Ordinary Shares of Rs.10/- each as at December 31, 2003)	315	219 (@ Rs. 57.00)	254	191 (@ Rs. 69.50)	315	219 (@ Rs. 57.00)	254	191 (@ Rs. 69.50)
Sampath Bank Ltd. (1,554 Ordinary Shares of Rs. 10/- each) (1,000 Ordinary Shares of Rs.10/- each as at December 31, 2003)	72	98 (@ Rs. 62.75)	49	84 (@ Rs. 83.50)	72	98 (@ Rs. 62.75)	49	84 (@ Rs. 83.50)
Seylan Bank Ltd. (1,000 Ordinary Shares of Rs. 10/- each)	24	30 (@ Rs. 30.00)	24	47 (@ Rs. 47.00)	24	30 (@ Rs. 30.00)	24	47 (@ Rs. 47.00)
National Development Bank (1,500 Ordinary Shares of Rs. 10/- each)	198	240 (@ Rs. 159.75)	198	213 (@ Rs. 142.25)	198	240 (@ Rs. 159.75)	198	213 (@ Rs. 142.25)
DFCC Bank (7,770,278 Ordinary Shares of Rs. 10/- each) (5,905,259 Ordinary Shares of Rs. 10/- each as at December 31, 2003)	1,146,107	1,600,677 (@ Rs. 206.00)	1,052,170	1,594,420 (@ Rs. 270.00)	1,146,107	1,600,677 (@ Rs. 206.00)	1,052,170	1,594,420 (@ Rs. 270.00)
Mercantile Leasing Ltd. (325,000 Ordinary Shares of Rs. 10/- each as at December 31, 2003)	-	-	6,500	7,638 (@ Rs. 23.50)	-	-	6,500	7,638 (@ Rs. 23.50)
Nations Trust Bank (1,000 Ordinary Shares of Rs. 10/- each)	14	18 (@ Rs. 18.00)	14	29 (@ Rs. 28.50)	14	18 (@ Rs. 18.00)	14	29 (@ Rs. 28.50)
NDB Bank (1,725 Ordinary Shares of Rs. 10/- each)	17	45 (@ Rs. 26.00)	17	35 (@ Rs. 20.00)	17	45 (@ Rs. 26.00)	17	35 (@ Rs. 20.00)
DEBENTURES								
National Development Bank (12.5% - 2004) (10,000 Debentures of Rs. 1,000/- each as at December 31, 2003)	-	-	10,000	10,200 (@ Rs. 1,020.00)	-	-	10,000	10,200 (@ Rs. 1,020.00)
Sri Lanka Telecom Ltd. (13% - 2005) (2,500 Debentures of Rs. 1,000/- each) (5,000 Debentures of Rs. 1,000/- each as at December 31, 2003)	2,500	625 (@ Rs. 250.00)	5,000	2,625 (@ Rs. 525.00)	2,500	625 (@ Rs. 250.00)	5,000	2,625 (@ Rs. 525.00)
Aitken Spence & Company Ltd. (15.25% - 2004) (237,718 Debentures of Rs. 100/- each as at December 31, 2003)	-	-	23,772	23,772 (@ Rs. 100.00)	-	-	23,772	23,772 (@ Rs. 100.00)
Hatton National Bank Ltd. (12% - 2007) (60,000 Debentures of Rs. 100/- each)	6,000	6,000 (@ Rs. 100.00)	6,000	6,210 (@ Rs. 103.50)	6,000	6,000 (@ Rs. 100.00)	6,000	6,210 (@ Rs. 103.50)
Hatton National Bank Ltd. (10% - 2008) (100,000 Debentures of Rs.100/- each)	10,000	8,500 (@ Rs. 85.00)	10,000	10,000 (@ Rs. 100.00)	10,000	8,500 (@ Rs. 85.00)	10,000	10,000 (@ Rs. 100.00)
Sampath Bank Ltd. (9% - 2009) (70,000 Debentures of Rs.100/- each)	7,000	7,000 (@ Rs. 100.00)	-	-	7,000	7,000 (@ Rs. 100.00)	-	-
UNITS								
Comtrust Equity Fund (25,281,998 Units of Rs.10/- each)	132,730 *	233,606 (@ Rs. 9.24)	132,730 *	205,290 (@ Rs. 8.12)	132,730 *	233,606 (@ Rs. 9.24)	132,730 *	205,290 (@ Rs. 8.12)
	1,304,977	1,857,058	1,246,728	1,860,754	1,304,977	1,857,058	1,246,728	1,860,754

* At written down value

Notes to the Accounts

	Bank				Group			
	As at 31.12.04		As at 31.12.03		As at 31.12.04		As at 31.12.03	
	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	
Unquoted								
SHARES								
Credit Information Bureau of Sri Lanka (4,400 Ordinary Shares of Rs. 100/- each)	440	440 (@ Rs. 100.00)	440	440 (@ Rs. 100.00)	440	440 (@ Rs. 100.00)	440	440 (@ Rs. 100.00)
Fitch Ratings Lanka Ltd. (62,500 Ordinary Shares of Rs. 10/- each)	625	625 (@ Rs. 10.00)	625	625 (@ Rs. 10.00)	625	625 (@ Rs. 10.00)	625	625 (@ Rs. 10.00)
Lanka Clear (Pvt) Ltd. (1,000,000 Ordinary Shares of Rs.10/- each)	10,000	10,000 (@ Rs. 10.00)	10,000	10,000 (@ Rs. 10.00)	10,000	10,000 (@ Rs. 10.00)	10,000	10,000 (@ Rs. 10.00)
Central Depository of Bangladesh Ltd. (6 shares of Bangladesh Taka 1.000 Mn each. Converted at Rs. 1.66515 per Taka)	9,991	9,991	2,976	2,976	9,991	9,991	2,976	2,976
Commercial Insurance Brokers (Pvt) Ltd. (120,000 Ordinary Shares of Rs. 10/- each)	-	-	-	-	100	1,200 (@ Rs. 10.00)	100	1,200 (@ Rs. 10.00)
DEBENTURES								
Singer Sri Lanka Ltd. (12% to 17% - 2005) (250,000 Debentures of Rs. 100/- each)	25,000	25,000 (@ Rs. 100.00)	25,000	25,000 (@ Rs. 100.00)	25,000	25,000 (@ Rs. 100.00)	25,000	25,000 (@ Rs. 100.00)
The Finance Company Ltd. (637 Debentures of Rs.100,000/- each)	63,700	63,700 (@ Rs. 100,000.00)	-	-	63,700	63,700 (@ Rs. 100,000.00)	-	-
The Finance Company Ltd. (Rs.100,000,000/- worth of Debentures)	90,500	90,500	-	-	90,500	90,500	-	-
TRUST CERTIFICATES/BONDS								
Housing Development Finance Corporation of Sri Lanka	49,193	49,193	105,916	105,916	49,193	49,193	105,916	105,916
Peoples Leasing Co. Ltd.	362,284	362,284	175,619	175,619	362,284	362,284	175,619	175,619
Commercial Leasing Co. Ltd.	123,200	123,200	134,465	134,465	123,200	123,200	134,465	134,465
Lanka Orix Leasing Co. Ltd.	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Government Bond o/a CWE	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000
Government of Bangladesh Prize Bonds	416	416	3,754	3,754	416	416	3,754	3,754
	1,635,349	1,635,349	1,358,795	1,358,795	1,635,449	1,636,549	1,358,895	1,359,995
	2,940,326	3,492,407	2,605,523	3,219,549	2,940,426	3,493,607	2,605,623	3,220,749

16. Loans & Advances

	Bank		Group	
	2004	2003	2004	2003
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
16.1 Bills of Exchange				
Export bills	2,409,794	2,137,774	2,409,794	2,137,774
Import bills	459,919	428,481	459,919	428,481
	2,869,713	2,566,255	2,869,713	2,566,255
Less: Loan loss provision [Note 16.1 (a)]	70,841	71,449	70,841	71,449
Interest in suspense	-	-	-	-
	2,798,872	2,494,806	2,798,872	2,494,806

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

Specific

Opening balance	71,449	68,982	71,449	68,982
Amount provided	5,516	4,340	5,516	4,340
Amount reversed	(6,124)	(1,873)	(6,124)	(1,873)
Closing balance	70,841	71,449	70,841	71,449

Notes to the Accounts

	Bank		Group	
	2004	2003	2004	2003
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
16.2 Loans & Advances				
Sri Lanka Rupee and Foreign Currency loans & advances [Note 16.2 (a)]	87,969,456	65,331,173	87,969,456	65,331,173
Less: Loan loss provision [Note 16.2 (b)]	1,916,357	1,466,464	1,916,357	1,466,464
Interest in suspense [Note 16.2 (c)]	3,448,587	3,280,034	3,448,587	3,280,034
	82,604,512	60,584,675	82,604,512	60,584,675
16.2 (a) Sri Lanka Rupee and Foreign Currency Loans & Advances				
Sri Lanka Rupee loans & advances				
Overdrafts	18,429,972	13,637,480	18,429,972	13,637,480
Loans	40,160,444	30,853,912	40,160,444	30,853,912
Packing credit	361,324	321,634	361,324	321,634
Staff loans	1,684,231	1,453,876	1,684,231	1,453,876
Foreclosed Properties (Note 16.6)	102,525	117,522	102,525	117,522
Other accounts	2,295,862	2,017,598	2,295,862	2,017,598
	63,034,358	48,402,022	63,034,358	48,402,022
Foreign Currency loans & advances				
Overdrafts	4,237,749	2,769,018	4,237,749	2,769,018
Loans	15,343,760	8,910,398	15,343,760	8,910,398
Packing credit	5,205,688	5,108,240	5,205,688	5,108,240
Other accounts	147,901	141,495	147,901	141,495
	24,935,098	16,929,151	24,935,098	16,929,151
Total	87,969,456	65,331,173	87,969,456	65,331,173
16.2 (b) Movement in the provision for bad & doubtful loans & advances				
Specific				
Opening balance	1,454,244	938,207	1,454,244	938,207
Balance as at date of acquisition of				
Bangladesh operations	-	120,096	-	120,096
Amount provided	640,988	482,211	640,988	482,211
Exchange rate variance on				
foreign currency provisions	30,342	2,010	30,342	2,010
Amount reversed	(232,684)	(88,280)	(232,684)	(88,280)
Closing balance	1,892,890	1,454,244	1,892,890	1,454,244
General				
Opening balance	12,220	11,057	12,220	11,057
Amount provided	11,247	1,163	11,247	1,163
Amount made specific	-	-	-	-
Closing balance	23,467	12,220	23,467	12,220
Total provision	1,916,357	1,466,464	1,916,357	1,466,464

Notes to the Accounts

	Bank		Group	
	2004	2003	2004	2003
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
16.2 (c) Movement in the Interest in Suspense Account				
Opening balance	3,280,034	2,751,930	3,280,034	2,751,930
Balance as at date of acquisition of Bangladesh operations	–	2,592	–	2,592
Interest suspended during the year	575,125	835,825	575,125	835,825
Amount recovered during the year	(406,572)	(310,313)	(406,572)	(310,313)
Closing balance	3,448,587	3,280,034	3,448,587	3,280,034
16.3 Lease receivable within one year				
Total lease rentals receivable	7,574,693	4,741,560	7,504,191	4,692,233
Less: Lease rentals receivable from one to five years from Balance Sheet date	4,697,200	2,922,490	4,642,858	2,891,583
Lease rentals receivable within one year from Balance Sheet date	2,877,493	1,819,070	2,861,333	1,800,650
Less: Unearned lease income	430,380	314,221	430,380	310,981
VAT recoverable	402,047	163,921	402,047	162,614
Loan loss provision	25,311	50,195	25,311	50,195
	2,019,755	1,290,733	2,003,595	1,276,860
16.4 Lease receivable from one to five years				
Lease rentals receivable from one to five years from Balance Sheet date	4,697,200	2,922,490	4,642,858	2,891,583
Less: Unearned lease income	702,550	504,822	702,550	499,617
VAT recoverable	656,299	263,353	656,299	261,253
Loan loss provision	41,318	80,643	41,318	80,643
	3,297,033	2,073,672	3,242,691	2,050,070
There were no lease rentals receivable beyond 5 years.				
Movement in the provision for bad & doubtful lease receivable				
Specific				
Opening balance	26,021	20,842	26,021	20,842
Amount provided	25,110	9,156	25,110	9,156
Amount reversed	(11,646)	(3,977)	(11,646)	(3,977)
Closing balance	39,485	26,021	39,485	26,021
General				
Opening balance	104,817	60,067	104,817	60,067
Amount provided	7,200	44,750	7,200	44,750
Amount reversed	(84,873)	–	(84,873)	–
Closing balance	27,144	104,817	27,144	104,817
Total provision	66,629	130,838	66,629	130,838

The impact of the change if the rate of general provision on lease receivables remained at 3% is an increase in provisions by Rs. 135.720 million.

The maturity analysis of Loans and Advances is given in Note 29.

Notes to the Accounts

16.5 Non-Performing Bills of Exchange, Loans & Advances and Lease Receivable

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

	2004		Bank 2003		2004		Group 2003	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Bills of Exchange	86,518		127,584		86,518		127,584	
Loans and Advances	4,809,165		5,056,987		4,809,165		5,056,987	
Lease Receivable	107,702		87,625		107,702		87,625	
Non-performing loans & advances*	5,003,385	5.34	5,272,196	7.63	5,003,385	5.34	5,272,196	7.63
Less: Interest in suspense included in overdrafts **	896,106		974,063		896,106		974,063	
Net non-performing loans & advances	4,107,279	4.43	4,298,133	6.31	4,107,279	4.43	4,298,133	6.31
Less: Provision for bad & doubtful debts [Note 16.5 (a)]	2,053,828		1,668,752		2,053,828		1,668,752	
Net exposure	2,053,451	2.26	2,629,381	3.96	2,053,451	2.26	2,629,381	3.96

* This includes Foreclosed Properties, the details of which are given in Note 16.6 below. 2003 figures too were re-classified.

** This does not tally with the total interest in suspense included in Note 16.2 (c) above due to the interest receivable on non-performing loans not being included.

Net exposure of Rs. 2,053.451 million (Rs. 2,629.381 million as at December 31, 2003) is covered by securities valued at Rs. 2,053.451 million (Rs. 2,629.381 million as at December 31, 2003) excluding machinery and stocks.

As per the "Hair Cut Rule" of the Central Bank of Sri Lanka, the extent up to which securities can be discounted for provisioning purposes is 75% at the time of first provisioning, 60% for non-performing loans between 1-2 years in the loss category, 50% for those between 2-3 years in the loss category and 40% for those between 3 to 4 years in the loss category. It will be at the discretion of the management for cases over 4 years in the loss category.

All loans & 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 & advances for the first three months too is transferred to interest in suspense.

16.5 (a) Provision for bad & doubtful debts - Summary

	2004		Bank 2003	
	Rs.'000		Rs.'000	
Opening balance	1,668,752		1,099,155	
Balance as at date of acquisition of Bangladesh operations	-		120,096	
Provision made during the year	690,062		541,619	
Exchange rate variance on foreign currency provisions	30,342		2,010	
Recoveries/Reversals during the year	(335,328)		(94,128)	
Closing balance	2,053,828		1,668,752	

16.6 Foreclosed Properties

The Foreclosed Properties included under loans and advances as at December 31, include the following:

	Extent			2004		Bank 2003	
	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	81,613	125,000	81,613	125,000
2. Land at Thaladena, Pamunugama	11	1	5.60	13,500	13,500	20,717	27,168
3. Land at Colombo Road, Kurunegala	0	0	30.00	3,409	3,400	3,409	3,400
4. Land and Building at Old Airport Road, Ratmalana	0	1	26.00	4,003	8,250	7,500	7,500
5. Land at Katuwapitiya Road, Negombo	1	0	5.00	-	-	4,283	4,884
Total as above				102,525	150,150	117,522	167,952

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.

Notes to the Accounts

16.7 Concentration of Credit Risk

Sectorwise analysis of the loans & advances portfolio reflecting the exposure to credit risk in the various sectors is given below:

	Bank				Group			
	2004		2003		2004		2003	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Exports	13,958,832	14.51	13,011,386	18.23	13,958,832	14.52	13,011,386	18.23
Tourism & allied	2,830,235	2.94	1,760,707	2.47	2,830,235	2.94	1,760,707	2.47
Industrial	16,343,740	16.99	13,313,807	18.65	16,273,239	16.92	13,313,807	18.66
Agriculture & fishing	1,396,091	1.45	1,633,301	2.29	1,396,091	1.45	1,633,301	2.29
Commercial trading	7,697,980	8.00	5,155,825	7.22	7,697,980	8.01	5,155,825	7.23
Imports	15,191,305	15.79	9,999,562	14.01	15,191,305	15.80	9,999,562	14.01
Consumption	2,847,086	2.96	2,196,238	3.08	2,847,086	2.96	2,196,238	3.08
Services	11,771,722	12.23	9,168,029	12.84	11,771,722	12.24	9,130,554	12.80
Housing & construction	4,459,860	4.63	3,436,383	4.81	4,459,860	4.64	3,436,383	4.82
Others	19,725,734	20.50	11,717,433	16.40	19,725,734	20.52	11,717,433	16.41
Gross loans & advances	96,222,585	100.00	71,392,671	100.00	96,152,084	100.00	71,355,196	100.00

17. Investments in Associate Companies

	%	Bank				Group			
		31.12.04		31.12.03		31.12.04		31.12.03	
		Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000		
Quoted									
Commercial Leasing Co. Ltd. (incorporated in Sri Lanka) (3,630,001 Ordinary Shares of Rs. 10/- each fully paid) (2,420,001 Ordinary Shares of Rs. 10/- each fully paid as at Dec. 31, 2003)	30.00	50,250	342,128	20,000	194,205	50,250	342,128	20,000	194,205
		(@ Rs. 94.25)		(@ Rs. 80.25)		(@ Rs. 94.25)		(@ Rs. 80.25)	
Add: Share Premium held by the Bank	-	-	-	-	26,146	-	26,146	-	-
Less: Capitalisation of Share Premium	-	-	-	-	-	-	-	-	-
Add: Bank's share of Bonus Issue	-	-	-	-	-	-	-	-	-
					26,146		26,146		
Add: Share of profit/(loss) applicable to the Bank:									
Balance at the beginning of the year	-	-	-	-	71,217	-	44,495	-	-
Current year's share of profit/(loss) after tax	-	-	-	-	48,330	-	35,438	-	-
Less: Dividend received during the year	-	-	-	-	(11,575)	-	(8,716)	-	-
Current year's retained profit/(loss)	-	-	-	-	36,755	-	26,722	-	-
	-	-	-	-	107,972	-	71,217	-	-
Balance at the end of the year		50,250	342,128	20,000	194,205	184,368	342,128	117,363	194,205
Unquoted									
Equity Investments Lanka Ltd. (incorporated in Sri Lanka) (4,110,938 Ordinary Shares of Rs.10/- each fully paid)	22.92	44,331	40,735	44,331	38,599	44,331	40,735	44,331	38,599
Add: Share of profit/(loss) applicable to the Bank:									
Balance at the beginning of the year	-	-	-	-	(5,732)	-	(6,022)	-	-
Current year's share of profit/(loss) after tax	-	-	-	-	2,136	-	1,891	-	-
Less: Dividend received during the year	-	-	-	-	-	-	(1,601)	-	-
Current year's retained profit/(loss)	-	-	-	-	2,136	-	290	-	-
	-	-	-	-	(3,596)	-	(5,732)	-	-
Balance at the end of the year		44,331	40,735	44,331	38,599	40,735	40,735	38,599	38,599

Notes to the Accounts

	% Holding	Bank				Group			
		31.12.04		31.12.03		31.12.04		31.12.03	
		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 16,115 12,500 13,894 12,500 16,115 12,500 13,894 (15,000 Preference Shares of Rs.100/- each) 1,500 1,500 1,500 1,500 1,500 1,500 1,500 1,500									
Add: Share of profit/(loss) applicable to the Bank:									
Balance at the beginning of the year				–		1,394		(2,282)	
Current year's share of profit/(loss) after tax				–		2,221		3,676	
Less: Dividend received during the year				–		–		–	
Current year's retained profit/(loss)				–		2,221		3,676	
				–		3,615		1,394	
Balance at the end of the year		14,000	17,615	14,000	15,394	17,615	17,615	15,394	15,394
		58,331	58,350	58,331	53,993	58,350	58,350	53,993	53,993
Total Value of Investments in Quoted & Unquoted Associate Companies 108,581 78,331 242,718 171,356									
Total Market Value/Directors' Valuation of Investments in Associate Companies 400,478 248,198 400,478 248,198									

18. 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** **340,371** 274,393 249,606 – – – –

(@ Rs. 30.00) (@ Rs. 22.00)

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. 10.00) (@ Rs. 10.00)

ONEzero Company Ltd.

(Incorporated in Sri Lanka)

(500,000 Ordinary Shares of

Rs.10/- each fully paid) **100.00** **5,000** **5,000** 5,000 5,000 – – – –

(@ Rs. 10.00) (@ Rs. 10.00)

429,393**495,371**

429,393

404,606

–

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–

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19. Other Assets

	Bank		Group	
	2004 Rs.'000	2003 Rs.'000	2004 Rs.'000	2003 Rs.'000
Deposits & prepayments	146,516	127,802	148,869	115,379
Clearing account balance	611,460	664,655	611,460	664,655
Others	700,531	985,262	684,577	1,092,081
	1,458,507	1,777,719	1,444,906	1,872,115

Notes to the Accounts

20. 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	31.12.04 Total Rs.'000	31.12.03 Total Rs.'000
Bank									
Cost/Valuation									
as at beginning of the year	212,787	659,502	23,425	1,472,266	40,299	879,583	34,662	3,322,524	2,899,788
Balance as at date of acquisition of Bangladesh operations	-	-	-	-	-	-	-	-	118,520
Additions for the year	25,509	55,704	-	184,882	539	127,049	38,357	432,040	348,159
Revaluation adjustment on accumulated depreciation	-	(137,295)	(3,248)	-	-	-	-	(140,543)	-
Surplus on revaluation	668,315	398,170	64,662	-	-	-	-	1,131,147	-
Disposals for the year	-	-	-	(8,341)	(2,494)	(9,008)	-	(19,843)	(14,523)
Transfers/Adjustments	493	(494)	-	2,557	-	5,659	(72,641)	(64,426)	(29,420)
As at end of the year	<u>907,104</u>	<u>975,587</u>	<u>84,839</u>	<u>1,651,364</u>	<u>38,344</u>	<u>1,003,283</u>	<u>378</u>	<u>4,660,899</u>	<u>3,322,524</u>
Accumulated depreciation									
as at beginning of the year	-	123,608	3,028	930,206	34,602	570,120	-	1,661,564	1,354,011
Balance as at date of acquisition of Bangladesh operations	-	-	-	-	-	-	-	-	99,467
Charge for the year	-	18,130	220	149,598	3,174	89,225	-	260,347	222,006
Revaluation adjustment on accumulated depreciation	-	(137,295)	(3,248)	-	-	-	-	(140,543)	-
Disposals	-	-	-	(5,760)	(2,494)	(7,492)	-	(15,746)	(12,686)
Transfers/Adjustments	-	-	-	3	(2)	(395)	-	(394)	(1,234)
As at end of the year	<u>-</u>	<u>4,443</u>	<u>-</u>	<u>1,074,047</u>	<u>35,280</u>	<u>651,458</u>	<u>-</u>	<u>1,765,228</u>	<u>1,661,564</u>
Net book value as at 31.12.04	<u>907,104</u>	<u>971,144</u>	<u>84,839</u>	<u>577,317</u>	<u>3,064</u>	<u>351,825</u>	<u>378</u>	<u>2,895,671</u>	
Net book value as at 31.12.03	<u>212,787</u>	<u>535,894</u>	<u>20,397</u>	<u>542,060</u>	<u>5,697</u>	<u>309,463</u>	<u>34,662</u>		<u>1,660,960</u>
Group									
Cost / Valuation									
as at beginning of the year	212,787	836,139	67,285	1,472,695	98,341	922,318	34,662	3,644,227	3,195,881
Balance as at date of acquisition of Bangladesh operations	-	-	-	-	-	-	-	-	118,520
Additions for the year	25,509	55,704	-	184,882	51,948	127,301	38,357	483,701	376,476
Revaluation adjustment on accumulated depreciation	-	(137,295)	(3,248)	-	-	-	-	(140,543)	-
Surplus on revaluation	668,315	398,170	64,662	-	-	-	-	1,131,147	-
Disposals for the year	-	-	-	(8,341)	(30,628)	(9,008)	-	(47,977)	(17,230)
Transfers/Adjustments	493	(494)	-	2,557	-	5,659	(72,641)	(64,426)	(29,420)
As at end of the year	<u>907,104</u>	<u>1,152,224</u>	<u>128,699</u>	<u>1,651,793</u>	<u>119,661</u>	<u>1,046,270</u>	<u>378</u>	<u>5,006,129</u>	<u>3,644,227</u>
Accumulated depreciation									
as at beginning of the year	-	166,947	7,826	930,495	67,737	594,341	-	1,767,346	1,442,756
Balance as at date of acquisition of Bangladesh operations	-	-	-	-	-	-	-	-	99,467
Charge for the year	-	22,546	730	149,649	19,437	92,395	-	284,757	241,750
Revaluation adjustment on accumulated depreciation	-	(137,295)	(3,248)	-	-	-	-	(140,543)	-
Disposals	-	-	-	(5,760)	(25,550)	(7,492)	-	(38,802)	(15,393)
Transfers/Adjustments	-	-	-	3	(2)	(395)	-	(394)	(1,234)
As at end of the year	<u>-</u>	<u>52,198</u>	<u>5,308</u>	<u>1,074,387</u>	<u>61,622</u>	<u>678,849</u>	<u>-</u>	<u>1,872,364</u>	<u>1,767,346</u>
Net book value as at 31.12.04	<u>907,104</u>	<u>1,100,026</u>	<u>123,391</u>	<u>577,406</u>	<u>58,039</u>	<u>367,421</u>	<u>378</u>	<u>3,133,765</u>	
Net book value as at 31.12.03	<u>212,787</u>	<u>669,192</u>	<u>59,459</u>	<u>542,200</u>	<u>30,604</u>	<u>327,977</u>	<u>34,662</u>		<u>1,876,881</u>

With the permission of the Monetary Board of the Central Bank of Sri Lanka, freehold and leasehold land & buildings of the Bank were revalued by professionally qualified independent valuers as at December 31, 2004. The surplus on the revaluation amounting to Rs. 1,131.147 million has been credited to the Revaluation Reserve Account.

Notes to the Accounts

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

	2004			2003		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Land	220,357	–	220,357	23,374	–	23,374
Buildings	685,687	140,543	545,144	94,639	44,844	49,795
Total	906,044	140,543	765,501	118,013	44,844	73,169

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 2004 in Group accounts would have been lower by Rs. 0.970 million (in 2003, profit would have been higher by Rs. 1.693 million).

21. Deposits from Customers

	Bank		Group	
	2004 Rs. '000	2003 Rs. '000	2004 Rs. '000	2003 Rs. '000
Local Currency Deposits				
Current account deposits	9,378,790	6,777,540	9,361,291	6,690,015
Savings deposits	29,954,238	21,329,527	29,863,411	21,329,527
Time deposits	19,377,554	16,860,904	19,377,554	16,860,904
Certificates of deposit	3,318,862	3,812,520	3,318,862	3,812,520
	62,029,444	48,780,491	61,921,118	48,692,966
Foreign Currency Deposits				
Current account deposits	3,413,784	2,741,535	3,413,784	2,741,535
Savings deposits	11,876,944	8,162,810	11,876,944	8,162,810
Time deposits	21,409,669	15,499,711	21,409,669	15,499,711
	36,700,397	26,404,056	36,700,397	26,404,056
Total Deposits	98,729,841	75,184,547	98,621,515	75,097,022
21 (a) Analysis of Deposits				
Deposits from Banks	53,674	41,418	53,674	41,418
Deposits from Finance Companies	153,702	18,634	153,702	18,634
Deposits from other Customers	98,522,465	75,124,495	98,414,139	75,036,970
	98,729,841	75,184,547	98,621,515	75,097,022

The maturity analysis of deposits is given in Note 29.

22. Borrowings

Foreign bank balances	6,473,980	3,469,418	6,473,980	3,469,418
Refinance borrowings	2,615,760	1,936,217	2,615,760	1,936,217
	9,089,740	5,405,635	9,089,740	5,405,635

The maturity analysis of borrowings is given in Note 29.

23. Other Liabilities

Accrued expenditure and interest	2,218,294	2,136,560	2,220,738	2,128,976
Provision for Gratuity	2,095	1,609	5,387	4,027
Others	1,275,416	2,458,114	1,265,071	2,462,586
	3,495,805	4,596,283	3,491,196	4,595,589

Notes to the Accounts

24. Deferred Taxation

	Bank				Group			
	As at 31.12.04		As at 31.12.03		As at 31.12.04		As at 31.12.03	
	Timing Difference	Tax Effect	Timing Difference	Tax Effect	Timing Difference	Tax Effect	Timing Difference	Tax Effect
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
As at beginning of the year	824,333	247,300	810,000	243,000	862,593	258,778	842,990	252,897
Amount originating/(reversing) during the year	(29,666)	(8,900)	14,333	4,300	(26,620)	(7,986)	19,603	5,881
As at end of the year	794,667	238,400	824,333	247,300	835,973	250,792	862,593	258,778

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

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

	Bank				Group			
	As at 31.12.04		As at 31.12.03		As at 31.12.04		As at 31.12.03	
	Timing Difference	Tax Effect	Timing Difference	Tax Effect	Timing Difference	Tax Effect	Timing Difference	Tax Effect
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
As at beginning of the year	2,473,931	742,180	1,248,109	374,433	2,473,931	742,180	1,248,109	374,433
Amount originating/(reversing) during the year	2,028,050	608,415	1,225,822	367,747	2,028,050	608,415	1,225,822	367,747
As at end of the year	4,501,981	1,350,595	2,473,931	742,180	4,501,981	1,350,595	2,473,931	742,180

25. Debentures

As at December 31, 2004, Debentures consisted of 3,244,410 Unsecured Subordinated Redeemable 5-year debentures of Rs. 1,000/- each issued by the Bank in 2003 and in 2004. As at December 31, 2003, 2,244,410 Unsecured Subordinated Redeemable 5-year debentures of Rs. 1,000/- each had been issued by the Bank in 2003.

No. of Debentures	2004 Value Rs.'000	2003 Value Rs.'000	Allotment Date	Maturity Date	Rate of Interest
115,890	115,890*	115,890*	12.05.2003	12.05.2008	Fixed - 10% p.a. payable quarterly (Effective Annual Yield 10.38% p.a.)
2,128,520	2,128,520*	2,128,520*	12.05.2003	12.05.2008	Floating Interest Rate equivalent to the three months Treasury Bill after 10% Withholding Tax Rate as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period plus 2% p.a. payable quarterly. (Effective Annual Yield 9.79%)
1,000,000	1,000,000	—	01.10.2004	01.10.2009	Floating Interest Rate equivalent to the three months Treasury Bill after 10% Withholding Tax Rate as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period plus 2% p.a. payable quarterly. (Effective Annual Yield 9.79%)
3,244,410	3,244,410	2,244,410			

* These debentures are quoted on the Colombo Stock Exchange and the market prices are given on pages 128 and 129.

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

26. Share Capital

	Bank		Group	
	2004 Rs.'000	2003 Rs.'000	2004 Rs.'000	2003 Rs.'000
Authorised				
250,000,000 Ordinary Voting Shares of Rs. 10/- each	2,500,000	2,500,000	2,500,000	2,500,000
50,000,000 Ordinary Non-voting Shares of Rs. 10/- each	500,000	500,000	500,000	500,000
200,000,000 Cumulative Redeemable Preference Shares of Rs. 10/- each	2,000,000	2,000,000	2,000,000	2,000,000
	5,000,000	5,000,000	5,000,000	5,000,000
Issued & Fully Paid				
Ordinary Shares - Voting				
Opening balance - 65,000,000 shares of Rs. 10/- each (39,000,000 shares in 2003)	650,000	390,000	650,000	390,000
Bonus issue of 13,000,000 shares of Rs. 10/- each	-	130,000	-	130,000
Rights issue of 13,000,000 shares of Rs. 10/- each	-	130,000	-	130,000
Issue of 29,769 shares of Rs. 10/- each under Employee Share Option Plan	298	-	298	-
Closing balance - 65,029,769 shares of Rs. 10/- each (65,000,000 shares in 2003)	650,298	650,000	650,298	650,000
Ordinary Shares - Non-voting				
Opening balance - 4,650,230 shares of Rs. 10/- each (2,790,138 Shares in 2003)	46,501	27,901	46,501	27,901
Bonus issue of 930,046 shares of Rs. 10/- each	-	9,300	-	9,300
Rights issue of 930,046 shares of Rs. 10/- each	-	9,300	-	9,300
Closing balance - 4,650,230 shares of Rs. 10/- each (4,650,230 Shares in 2003)	46,501	46,501	46,501	46,501
13% Cumulative Redeemable Preference Shares				
Opening balance - 90,655,500 shares of Rs. 10/- each	906,555	906,555	906,555	906,555
Issued during the year	-	-	-	-
Closing balance - 90,655,500 shares of Rs. 10/- each	906,555	906,555	906,555	906,555
11.25% Cumulative Redeemable Preference Shares				
Opening balance - 100,000,000 shares of Rs. 10/- each (2003 - Nil)	1,000,000	-	1,000,000	-
Issue of 100,000,000 shares of Rs. 10/- each	-	1,000,000	-	1,000,000
Closing balance - 100,000,000 shares of Rs. 10/- each	1,000,000	1,000,000	1,000,000	1,000,000
Total	2,603,354	2,603,056	2,603,354	2,603,056

These shares are quoted on the Colombo Stock Exchange.

The 13% Cumulative Redeemable Preference Shares were allotted on September 21, 2001 and will be redeemed on September 20, 2006.

The 11.25% Cumulative Redeemable Preference Shares were allotted on May 13, 2003 and will be redeemed on May 12, 2008.

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

Notes to the Accounts

Tranche	No. of Options (*)	Date given/ to be given	Price (Rs.) (**)	Exercisable between
I	650,000	March 31, 2003	147.84	April 01, 2004 to March 31, 2008
II	812,500	March 31, 2004	168.00	April 01, 2005 to March 31, 2009
III	To be determined at 1.25% of the issued voting share capital as of March 31, 2005	March 31, 2005	163.00	April 01, 2006 to March 31, 2010
IV	To be determined at 1.25% of the issued voting share capital as of March 31, 2006	March 31, 2006	To be determined based on the weighted average share price between October 01, 2005 and December 31, 2005	April 01, 2007 to March 31, 2011

(*) Giving options under each tranche is based on the overall performance of the Bank for each year and the individual performance of the eligible employees.

(**) Determined / To be determined on the basis of the weighted average price of the voting shares of the Bank between October 1st and December 31st of each year, for which options are given to eligible employees.

The number of options given to the Managing Director under tranches I & II are 25,623 and 30,753 respectively.

27. Statutory Reserve Fund

	Bank		Group	
	2004 Rs. '000	2003 Rs. '000	2004 Rs. '000	2003 Rs. '000
Opening balance	1,009,000	1,009,000	1,009,000	1,009,000
Add: Transfer during the year	-	-	819	-
Closing balance	1,009,000	1,009,000	1,009,819	1,009,000

Since the balance in the Statutory Reserve Fund is far in excess of the paid up ordinary share capital of the Bank, no further appropriations were made to it by the Bank. However, 50% of the profit after tax of the Commercial Bank Primary Dealer Ltd. was transferred to a Special Reserve Fund as per a direction from the Central Bank of Sri Lanka.

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.

28. Reserves

	Bank		Group	
	2004 Rs. '000	2003 Rs. '000	2004 Rs. '000	2003 Rs. '000
Capital Reserves				
Share Premium Account [Refer Note 28 (a)]	2,186,874	2,182,881	2,186,874	2,182,881
Revaluation Reserve [Refer Notes 20 and 28 (b)]	1,288,433	157,286	1,288,433	157,286
	3,475,307	2,340,167	3,475,307	2,340,167
Revenue Reserves				
General Reserve [Refer Note 28 (c)]	6,545,000	5,508,000	6,545,000	5,508,000
Unappropriated profit/(Loss) carried forward [Refer Note 11]	278,856	223,735	471,029	376,082
	6,823,856	5,731,735	7,016,029	5,884,082
Total	10,299,163	8,071,902	10,491,336	8,224,249

Notes to the Accounts

	Bank		Group	
	2004 Rs.'000	2003 Rs.'000	2004 Rs.'000	2003 Rs.'000
28 (a) Share Premium Account				
Opening balance	2,182,881	560,902	2,182,881	560,902
Proceeds of rights issue of shares	–	1,769,054	–	1,769,054
Proceeds from issue of shares under Employee Share Option Plan	4,103	–	4,103	–
Utilised for the bonus issue of shares	–	(139,300)	–	(139,300)
Writing-off of share issue expenses	(110)	(7,775)	(110)	(7,775)
Closing balance	<u>2,186,874</u>	<u>2,182,881</u>	<u>2,186,874</u>	<u>2,182,881</u>

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

28 (b) Revaluation Reserve

The Revaluation Reserve relates to revaluation of freehold and leasehold Land & Buildings and represents the increase in the fair value of the Land & Buildings at the date of revaluation.

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

28 (c) General Reserve

	Bank		Group	
	2004 Rs.'000	2003 Rs.'000	2004 Rs.'000	2003 Rs.'000
Opening balance	5,508,000	4,568,507	5,508,000	4,568,507
Add: Transfer from the Income Statement	1,037,000	939,493	1,037,000	939,493
Closing balance	<u>6,545,000</u>	<u>5,508,000</u>	<u>6,545,000</u>	<u>5,508,000</u>

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

29. Maturity Analysis**29 (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 31.12.04 Rs.'000	Total as at 31.12.03 Rs.'000
Interest earning assets							
Cash and short-term funds	8,777,034	–	–	–	–	8,777,034	7,205,185
Balances with Central Banks	195,104	77,205	3,417	–	–	275,726	1,217,689
Government Treasury Bills and Bonds	3,937,894	1,579,974	–	3,882	–	5,521,750	15,929,715
Commercial paper	470,535	89,154	–	–	–	559,689	546,360
Securities purchased under re-sale agreements	399,030	122	–	–	–	399,152	6,183,596
Investment securities	117,246	247,246	611,000	74,292	611,065	1,660,849	1,399,525
Treasury Bonds maturing after one year	–	–	13,266,510	511,672	–	13,778,182	–
Loans & advances	49,619,669	15,544,301	14,911,097	6,040,631	4,604,474	90,720,172	66,443,886
	<u>63,516,512</u>	<u>17,538,002</u>	<u>28,792,024</u>	<u>6,630,477</u>	<u>5,215,539</u>	<u>121,692,554</u>	<u>98,925,956</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 31.12.04 Rs.'000	Total as at 31.12.03 Rs.'000
Non-interest earning assets							
Cash and short-term funds	3,358,573	–	–	–	–	3,358,573	1,796,706
Balances with Central Banks	4,597,855	997,619	208,475	54,105	185,900	6,043,954	4,015,125
Dealing securities	109,560	–	–	–	–	109,560	–
Investment securities	–	–	–	–	1,279,477	1,279,477	1,205,998
Investments in Associate Companies	–	–	–	–	108,581	108,581	78,331
Investments in Subsidiary Companies	–	–	–	–	429,393	429,393	429,393
Interest and fees receivable	1,097,115	–	–	–	–	1,097,115	389,738
Other assets	1,458,507	–	–	–	–	1,458,507	1,777,719
Property, Plant & Equipment	–	–	–	–	2,895,671	2,895,671	1,660,960
	<u>10,621,610</u>	<u>997,619</u>	<u>208,475</u>	<u>54,105</u>	<u>4,899,022</u>	<u>16,780,831</u>	<u>11,353,970</u>
Total Assets	74,138,122	18,535,621	29,000,499	6,684,582	10,114,561	138,473,385	110,279,926
Percentage - 31.12.04	53.54	13.39	20.94	4.83	7.30	100.00	
Percentage - 31.12.03	56.57	17.02	12.87	6.78	6.76		100.00
 (ii) An analysis of the total liabilities and shareholders' funds of the Bank as at December 31, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:							
	Up to 3 months Rs.'000	3 to 12 months Rs.'000	1 to 3 years Rs.'000	3 to 5 years Rs.'000	More than 5 years Rs.'000	Total as at 31.12.04 Rs.'000	Total as at 31.12.03 Rs.'000
Interest bearing liabilities							
Deposits from customers	60,055,477	19,181,141	2,746,745	733,303	3,220,601	85,937,267	64,396,406
Borrowings	1,905,634	4,845,914	322,188	234,466	610,613	7,918,815	4,469,127
Securities sold under re-purchase agreements	7,410,557	1,639,336	–	–	–	9,049,893	10,580,202
Debentures	–	–	–	3,244,410	–	3,244,410	2,244,410
	<u>69,371,668</u>	<u>25,666,391</u>	<u>3,068,933</u>	<u>4,212,179</u>	<u>3,831,214</u>	<u>106,150,385</u>	<u>81,690,145</u>
Non-interest bearing liabilities							
Deposits from customers	12,792,574	–	–	–	–	12,792,574	10,788,141
Dividends payable	230,352	–	–	–	–	230,352	189,667
Borrowings	1,170,925	–	–	–	–	1,170,925	936,508
Other liabilities	3,495,805	–	–	–	–	3,495,805	4,596,283
Tax payable	207,573	275,854	–	–	–	483,427	147,924
Deferred taxation	–	–	–	238,400	–	238,400	247,300
Minority Interest	–	–	–	–	–	–	–
Share capital	–	–	906,555	1,000,000	696,799	2,603,354	2,603,056
Statutory Reserve Fund	–	–	–	–	1,009,000	1,009,000	1,009,000
Reserves	–	–	–	–	10,299,163	10,299,163	8,071,902
	<u>17,897,229</u>	<u>275,854</u>	<u>906,555</u>	<u>1,238,400</u>	<u>12,004,962</u>	<u>32,323,000</u>	<u>28,589,781</u>
Total Liabilities	87,268,897	25,942,245	3,975,488	5,450,579	15,836,176	138,473,385	110,279,926
Percentage - 31.12.04	63.02	18.73	2.87	3.94	11.44	100.00	
Percentage - 31.12.03	64.96	15.53	3.79	4.62	11.10		100.00

Notes to the Accounts

29 (b) Group

(i) An analysis of the total assets employed of the Group as at December 31, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 months Rs.'000	3 to 12 months Rs.'000	1 to 3 years Rs.'000	3 to 5 years Rs.'000	More than 5 years Rs.'000	Total as at 31.12.04 Rs.'000	Total as at 31.12.03 Rs.'000
Interest earning assets							
Cash and short-term funds	8,777,034	–	–	–	–	8,777,034	7,205,185
Balances with Central Banks	195,104	77,205	3,417	–	–	275,726	1,217,689
Government Treasury Bills and Bonds	4,072,555	1,999,934	570,350	3,882	–	6,646,721	20,747,916
Commercial paper	470,535	89,154	–	–	–	559,689	546,360
Securities purchased under re-sale agreements	2,087,298	122	–	–	–	2,087,420	3,971,034
Investment securities	117,246	247,246	611,000	74,292	611,065	1,660,849	1,399,525
Treasury Bonds maturing after one year	–	–	13,641,123	731,997	5,778	14,378,898	–
Loans & advances	49,619,669	15,528,141	14,856,755	6,040,631	4,604,474	90,649,670	66,406,411
	<u>65,339,441</u>	<u>17,941,802</u>	<u>29,682,645</u>	<u>6,850,802</u>	<u>5,221,317</u>	125,036,007	101,494,120
Non-interest earning assets							
Cash and short-term funds	3,358,682	–	–	–	–	3,358,682	1,796,806
Balances with Central Banks	4,597,855	997,619	208,475	54,105	185,900	6,043,954	4,015,125
Dealing securities	109,560	–	–	–	–	109,560	–
Investment securities	–	–	–	–	1,279,577	1,279,577	1,206,098
Investments in Associate Companies	–	–	–	–	242,718	242,718	171,356
Interest and fees receivable	1,143,316	–	–	–	–	1,143,316	389,738
Other assets	1,444,906	–	–	–	–	1,444,906	1,872,115
Property, Plant & Equipment	–	–	–	–	3,133,765	3,133,765	1,876,881
	<u>10,654,319</u>	<u>997,619</u>	<u>208,475</u>	<u>54,105</u>	<u>4,841,960</u>	16,756,478	11,328,119
Total Assets	<u>75,993,760</u>	<u>18,939,421</u>	<u>29,891,120</u>	<u>6,904,907</u>	<u>10,063,277</u>	141,792,485	112,822,239
Percentage - 31.12.04	53.59	13.36	21.08	4.87	7.10	100.00	
Percentage - 31.12.03	54.24	17.73	13.85	7.41	6.77		100.00

Notes to the Accounts

(ii) An analysis of the total liabilities and shareholders' funds of the Group as at December 31, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 months Rs.'000	3 to 12 months Rs.'000	1 to 3 years Rs.'000	3 to 5 years Rs.'000	More than 5 years Rs.'000	Total as at 31.12.04 Rs.'000	Total as at 31.12.03 Rs.'000
Interest bearing liabilities							
Deposits from customers	60,055,478	19,181,141	2,746,745	733,303	3,220,601	85,937,268	64,308,881
Borrowings	1,905,634	4,845,914	322,188	234,466	610,613	7,918,815	4,469,127
Securities sold under re-purchase agreements	10,465,912	1,762,447	27,395	5,698	–	12,261,452	12,950,519
Debentures	–	–	–	3,244,410	–	3,244,410	2,244,410
	<u>72,427,024</u>	<u>25,789,502</u>	<u>3,096,328</u>	<u>4,217,877</u>	<u>3,831,214</u>	109,361,945	<u>83,972,937</u>
Non-interest bearing liabilities							
Deposits from customers	12,684,247	–	–	–	–	12,684,247	10,788,141
Dividends payable	232,320	–	–	–	–	232,320	189,667
Borrowings	1,170,925	–	–	–	–	1,170,925	936,508
Other liabilities	3,491,196	–	–	–	–	3,491,196	4,595,589
Tax payable	208,333	275,854	–	–	–	484,187	231,011
Deferred taxation	–	–	–	250,792	–	250,792	258,778
Minority Interest	–	–	–	–	12,364	12,364	13,303
Share capital	–	–	906,555	1,000,000	696,799	2,603,354	2,603,056
Statutory Reserve Fund	–	–	–	–	1,009,819	1,009,819	1,009,000
Reserves	–	–	–	–	10,491,336	10,491,336	8,224,249
	<u>17,787,021</u>	<u>275,854</u>	<u>906,555</u>	<u>1,250,792</u>	<u>12,210,318</u>	32,430,540	<u>28,849,302</u>
Total Liabilities	<u>90,214,045</u>	<u>26,065,356</u>	<u>4,002,883</u>	<u>5,468,669</u>	<u>16,041,532</u>	141,792,485	<u>112,822,239</u>
Percentage - 31.12.04	63.62	18.38	2.82	3.86	11.32	100.00	
Percentage - 31.12.03	65.41	15.24	3.77	4.53	11.05		100.00

Notes (i) Loans & advances are shown net of interest in suspense and provision for bad & doubtful debts.

(ii) Balances with Central Banks have been apportioned into the maturity groups based on the maturity pattern of the deposits liable for Statutory Reserve Requirements.

(iii) Demand and savings deposits have been classified into the up to 3 months category. However, the major part of these deposits represents core retail deposits with longer term maturity.

(iv) Shareholders' funds excluding Cumulative Redeemable Preference Shares are classified into the more than 5 years category since no contractual date of maturity can be identified. However, these funds are available and have in fact been used for financing assets with lesser maturity periods.

30. Commitments and Contingencies

30 (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	
	2004 Rs.'000	2003 Rs.'000	2004 Rs.'000	2003 Rs.'000
Commitments				
Commitments for unutilised facilities (direct advances)	10,248,106	10,947,437	10,248,106	10,947,437
Contingent Liabilities				
Acceptances	2,989,335	2,613,569	2,989,335	2,613,569
Documentary credits	10,043,603	6,272,812	10,043,603	6,272,812
Guarantees	13,258,607	11,657,109	13,258,607	11,657,109
Bills for collection	4,674,224	4,887,788	4,674,224	4,887,788
	30,965,769	25,431,278	30,965,769	25,431,278
Forward exchange contracts (net)	2,728,005	1,779,680	2,728,005	1,779,680
	33,693,774	27,210,958	33,693,774	27,210,958
Total commitments and contingencies	43,941,880	38,158,395	43,941,880	38,158,395

Notes to the Accounts

30 (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) Five Labour Tribunal cases filed by five ex-employees on termination of employment are pending against the Bank. In addition, the Bank has appealed against the order of the Labour Tribunal in another case.
- (iv) Court action has been initiated by a customer in proceedings Number 25831/MR to claim a sum of Rs. 2.880 million together with interest o/a an interest refund claimed on a Current Account.
- (v) 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.
- (vi) Court action has been initiated by a customer in proceedings Number 282/2002(1) restraining the Bank from paying a sum of Rs. 13.350 million on a bank guarantee. The case has been referred to Commercial High Court and is yet to be called up. The Bank has obtained a counter guarantee from an insurance company.
- (vii) 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. Bank is defending the action.
- (viii) 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.
- (ix) 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.
- (x) Court action has been initiated by a customer in proceedings Number 36542/MR to recover a sum of Rs. 0.400 million and interest thereon and a further sum of Rs. 1.000 million from the Bank on an alleged breach of contract. Legal opinion has been obtained by the Bank and the Bank is defending the action.
- (xi) Court action has been initiated by a customer in proceedings Number 1336/M to claim a sum of Rs. 0.200 million and interest thereon relating to a dispute over the alleged non-payment by the Bank of two cheques when instructions were given to honour them and alleged payment by the Bank of another cheque when instructions were given not to do so. The Bank is defending the action.
- (xii) Court action has been initiated by a customer in proceedings Number 40762/MR to claim a sum of Rs. 300.000 million relating to a dispute over the alleged non-payment by the Bank of a cheque amounting to Rs. 0.015 million. The Bank is defending the action.

Notes to the Accounts

31. 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	
	2004 Rs. '000	2003 Rs. '000	2004 Rs. '000	2003 Rs. '000
Approved and contracted for	74,991	10,301	74,991	10,301
Approved but not contracted for	14,500	19,500	14,500	19,500
	89,491	29,801	89,491	29,801

32. Financial Reporting by Segment as per the provisions of Sri Lanka Accounting Standard No. 28 - Group**32 (a) Business Segments**

	Banking		Leasing		Dealing		Property/ Investments		Eliminations/ Unallocated		Total	
	2004 Rs. '000	2003 Rs. '000	2004 Rs. '000	2003 Rs. '000	2004 Rs. '000	2003 Rs. '000	2004 Rs. '000	2003 Rs. '000	2004 Rs. '000	2003 Rs. '000	2004 Rs. '000	2003 Rs. '000
Revenue from external customers												
Interest Income	7,139,577	4,085,694	-	-	2,016,390	3,106,238	-	-	-	-	9,155,967	7,191,932
Exchange profit	602,926	190,849	-	-	270,635	206,112	-	-	-	-	873,561	396,961
Lease income	-	-	621,589	438,031	-	-	-	-	-	-	621,589	438,031
Commissions	1,376,568	1,038,411	-	-	455	12,663	-	-	-	-	1,377,023	1,051,074
Other income	221,679	81,622	-	-	(76,100)	365,579	212,808	208,663	50,225	15,601	408,612	671,465
Total revenue from external customers	9,340,750	5,396,576	621,589	438,031	2,211,380	3,690,592	212,808	208,663	50,225	15,601	12,436,752	9,749,463
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	-
Total revenue	9,340,750	5,396,576	621,589	438,031	2,211,380	3,690,592	212,808	208,663	50,225	15,601	12,436,752	9,749,463
Segment result	2,992,251	2,479,083	394,934	228,418	238,418	224,674	212,808	208,663	50,225	15,601	3,888,636	3,156,439
Unallocated expenses											(1,370,521)	(1,160,011)
Profit from operations											2,518,115	1,996,428
Net financing costs											-	-
Income from Associates											76,356	42,653
Income tax expense											(867,370)	(571,874)
Minority interests											(1,742)	(1,715)
Extraordinary items											-	-
Net profit for the year											1,725,359	1,465,492
Segment assets	94,120,914	70,237,223	5,246,286	3,326,930	33,410,594	32,239,851	3,049,986	2,708,145	5,721,987	4,138,734	141,549,767	112,650,883
Investments in Associates	-	-	-	-	-	-	242,718	171,356	-	-	242,718	171,356
Unallocated assets	-	-	-	-	-	-	-	-	-	-	-	-
Total assets											141,792,485	112,822,239
Segment liabilities	81,512,217	57,556,796	5,246,286	3,326,930	33,410,594	32,239,851	3,292,704	2,776,979	4,226,175	5,085,378	127,687,976	100,985,934
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities											127,687,976	100,985,934
Cash flows from operating activities	1,633,544	4,040,063	(1,524,422)	(3,097,028)	238,418	2,385,261	-	-	(104,474)	(29,708)	243,066	3,298,588
Cash flows from investing activities	253,747	(1,903,381)	-	-	827,415	80,652	(407,415)	(1,580,083)	-	-	673,747	(3,402,812)
Cash flows from financing activities	(755,619)	266,245	-	-	3,004,562	535,556	-	-	451,670	4,263,466	2,700,613	5,065,267
Capital expenditure	(402,488)	(359,703)	-	-	-	-	(81,213)	(16,770)	-	-	(483,701)	(376,473)

Notes to the Accounts

	32 (b) Geographical Segments							
					Bank		Group	
	2004		2003		2004		2003	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Assets								
Domestic operations	109,510,842	79.08	88,200,476	79.97	112,829,942	79.58	90,742,789	80.43
Overseas operations	11,076,212	8.00	9,203,558	8.35	11,076,212	7.81	9,203,558	8.16
Off-shore Banking Centre	17,886,331	12.92	12,875,892	11.68	17,886,331	12.61	12,875,892	11.41
	138,473,385	100.00	110,279,926	100.00	141,792,485	100.00	112,822,239	100.00
Income								
Domestic operations	10,328,469	84.05	8,904,249	88.52	10,475,576	84.23	8,594,605	88.15
Overseas operations	1,151,904	9.37	589,429	5.86	1,151,904	9.26	589,429	6.05
Off-shore Banking Centre	809,272	6.58	565,429	5.62	809,272	6.51	565,429	5.80
	12,289,645	100.00	10,059,107	100.00	12,436,752	100.00	9,749,463	100.00
Profit before Tax								
Domestic operations	1,726,883	68.97	1,436,481	73.49	1,817,423	70.05	1,520,967	74.59
Overseas operations	442,303	17.66	264,458	13.53	442,303	17.05	264,458	12.97
Off-shore Banking Centre	334,745	13.37	253,656	12.98	334,745	12.90	253,656	12.44
	2,503,931	100.00	1,954,595	100.00	2,594,471	100.00	2,039,081	100.00
Profit after Tax								
Domestic operations	1,213,148	72.01	1,182,716	80.05	1,255,535	72.70	1,172,436	79.91
Overseas operations	234,053	13.89	89,806	6.08	234,053	13.55	89,806	6.12
Off-shore Banking Centre	237,513	14.10	204,965	13.87	237,513	13.75	204,965	13.97
	1,684,714	100.00	1,477,487	100.00	1,727,101	100.00	1,467,207	100.00

33. Directors' Interests in Contracts with the Company

- (a) Mr. A. L. Gooneratne, Mr. J.S. Mather and Dr. H.S. Wanasinghe who were Directors of the Company as at December 31, 2004 were also Directors of Commercial Development Company Limited (CDC) which Company has leased a major part of its premises to the Bank at an annual rental of Rs. 58,260,185/- excluding VAT and has hired motor vehicles to the Bank for which a hiring charge of Rs. 28,007,030/- was charged. Further, CDC has paid Rs.7,616,138/- to the Bank as lease rentals for the motor vehicles leased from the Bank.
- (b) Banking facilities amounting to Rs. 216,000/- were made available against the security of fixed deposits totalling to Rs. 378,685/- to Clodagh Western Estate in which Mr. M.J.C. Amarasuriya is a co-partner. The balance outstanding as at December 31, 2004 was Rs. 214,685/-. The provisions of Section 47 of the Banking Act No. 30 of 1988 have been complied with.
- (c) Banking facilities amounting to Rs. 300,000/- in the form of an International Master Card were made available to Dr. H.S. Wanasinghe during the year. The balance outstanding as at December 31, 2004 was Rs. 45,242.63. The provisions of Section 47 of the Banking Act No. 30 of 1988 have been complied with.
- (d) Banking facilities amounting to Rs. 600,000/- in the form of an International Master Card were made available to Mr. A.L. Gooneratne during the year. The balance outstanding as at December 31, 2004 was nil. The provisions of Section 47 of the Banking Act No. 30 of 1988 have been complied with.
- (e) Banking facilities are made available to the following Directors in the ordinary course of business on commercial terms and conditions. The total amount of facilities granted by the Bank and balances as at December 31, are given below. The provisions of Section 47 of the Banking Act No. 30 of 1988 have been complied with.

	Total amount of facility granted (Rs.)	Balance as at 31.12.2004 (Rs.)	Balance as at 31.12.2003 (Rs.)
Mr.S.K.G. Senanayake - Overdraft - City Office	6,000,000	Credit Balance	Credit Balance
Mr.S.K.G. Senanayake(Joint Account) - Overdraft - Kirulapone	40,000	Credit Balance	Credit Balance

Notes to the Accounts

34. Related Party Transactions

34. (a) The Bank carries out transactions in the ordinary course of its business on an arm's length basis at commercial rates with related parties. The weighted average Prime Lending Rate published by the Central Bank of Sri Lanka for the six months ended June 30, 2004 and December 31, 2004 were 9.15% and 9.78%, respectively. The facilities granted to the related parties listed below have been at or above the Prime Lending Rate that prevailed at the time of granting the facilities. The related parties, names of Directors, their relationship, accommodation granted and the balances outstanding as at December 31, 2004 are listed below:

Name of Related Party	Name of Director	Relationship	Accommodation Granted	Limit Rs.	Balance Outstanding Rs.
Subsidiary Companies					
Commercial Development Co. Ltd.	Mr. J.S. Mather	Director	Leasing Facilities	97,340,690	70,767,790
	Dr. H.S. Wanasinghe	Director			
	Mr. A.L. Gooneratne	Director			
Associate Companies					
Commercial Leasing Co. Ltd.	Mr. M.J.C Amarasuriya	Director	Overdraft	10,000,000	Credit Balance
	Mr. A.L. Gooneratne	Director	Short-Term Loans	65,000,000	65,000,000
			Term Loans	600,000,000	437,165,500
			Letters of Credit	30,000,000	1,783,511
			D/A (Sub Limit of L/C)	(2,000,000)	4,313,223
			Leasing (Block Leasing Facility)	50,000,000	2,138,820
Other Related Parties					
Acme Printing & Packaging Ltd.	Mr. J.S. Mather	Director	Overdraft	10,000,000	12,170,943
	Mr. M.L. Mack	Director	Temporary Overdraft	2,000,000	
			Letters of Credit	7,500,000	59,273
			Import Loans (Sub Limit of L/C)	(5,000,000)	5,058,214
			D/A	–	1,185,467
			Term Loan	7,500,000	2,132,000
			Letters of Guarantee	–	144,000
Chemanex Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft	10,000,000	Credit Balance
			Short-Term Loans (Sub Limit of O/D)	(10,000,000)	Nil
			Letters of Credit	25,000,000	11,761,010
			D/A (Sub Limit of L/C)	(25,000,000)	4,505,932
			Import Loans (Sub Limit of L/C)	(25,000,000)	2,414,592
			Shipping Guarantee	–	11,812,000
			Letters of Guarantee	1,000,000	1,000,000
Chemical Industries (Colombo) Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft	350,000,000	66,350,680
	Mr. J.S. Mather	Director	Short-Term Loans (Sub Limit of O/D)	(350,000,000)	175,000,000
			Letters of Credit (Sub Limit of O/D)	(350,000,000)	22,170,072
			D/A (Sub Limit of O/D)	(350,000,000)	62,450,080
			Shipping Guarantee	–	51,510,000
CIC Agribiotech (Pvt.) Ltd.	Mr. B.R.L. Fernando	Chairman	Current Account	–	915,574

Notes to the Accounts

Name of Related Party	Name of Director	Relationship	Accommodation Granted	Limit Rs.	Balance Outstanding Rs.
CIC Feeds (Pvt.) Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft	350,000,000	173,655,138
			Short-Term Loans (Sub Limit of O/D)	(350,000,000)	100,000,000
			Letters of Credit (Sub Limit of O/D)	(350,000,000)	18,877,131
			D/A (Sub Limit of O/D)	(350,000,000)	833,725
			Letters of Guarantee	5,000,000	1,711,539
			Shipping Guarantee	–	130,540,000
			Term Loan	217,300,000	166,331,000
CIC Fertilizer (Pvt.) Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft	890,000,000	Credit Balance
			Short-Term Loans (Sub Limit of O/D)	(890,000,000)	860,000,000
			Letters of Credit (Sub Limit of O/D)	(890,000,000)	1,629,595
			D/A (Sub Limit of O/D)	(890,000,000)	Nil
			Letters of Guarantee	5,000,000	1,460,045
			Shipping Guarantees	–	7,829,000
			Term Loan	8,000,000	5,450,000
CIC Seeds (Pvt.) Ltd.	Mr. B.R.L. Fernando	Chairman	Temporary Over Draft	8,000,000	7,930,462
			Letters of Guarantee	–	1,425,000
CIC Vetcare (Pvt.) Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft	70,000,000	10,307,714
			Short-Term Loans (Sub Limit of O/D)	(70,000,000)	30,000,000
			Letters of Credit (Sub Limit of O/D)	(70,000,000)	8,665,950
			D/A (Sub Limit of O/D)	(70,000,000)	4,712,450
			Shipping Guarantee	–	15,185,000
Cisco Speciality Packaging (Pvt.) Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft	15,000,000	} 23,894,896
			Temporary Over Draft	15,000,000	
			Letters of Credit	20,000,000	2,502,502
			Import Loans	10,000,000	11,437,665
			D/A (Sub Limit of L/C)	(10,000,000)	5,792,073
			Letters of Guarantee	5,000,000	Nil
			Term Loan	40,000,000	30,100,000
Commercial Insurance Brokers (Pvt.) Ltd.	Mr. A.L. Gooneratne	Director	Letters of Guarantee	–	4,150,000
			Current Account	–	44,827
David Pieris Motor Co. Ltd.	Mr. J.S. Mather	Director	Overdraft	30,000,000	Credit Balance
			Short Term Loans (Sub Limit of O/D)	(30,000,000)	Nil
			Letters of Credit	150,000,000	36,017,990
			Import Loans (Sub Limit of L/C)	(50,000,000)	Nil
			Shipping Guarantees	150,000,000	47,858,000
DFCC Bank	Mr. M.L. Mack	Chairman	Overdraft	450,000,000	Credit Balance
	Mr. A.N. Fonseka	Director	Money Market Placements	600,000,000	Nil
	Mr. M.J.C. Amarasuriya	Director	Government Security Re-purchase Facility		
			(Sub Limit of MM Placement)	(500,000,000)	Nil
			Letters of Credit	800,000,000	Nil
			D/A (Sub Limit of L/C)	(500,000,000)	Nil
Shipping Guarantee (Sub Limit of L/C)	(500,000,000)	Nil			
Lakjaya Thrift and Credit Foundation Ltd.	Mr. M.J.C. Amarasuriya	Chairman	Leasing Facilities	1,048,888	475,957

Notes to the Accounts

Name of Related Party	Name of Director	Relationship	Accommodation Granted	Limit Rs.	Balance Outstanding Rs.
Orient Motor Company Ltd.	Mr. M.J.C.Amarasuriya	Director	Term Loan	260,000,000	117,954,010
			Leasing Facilities	50,000,000	24,232,731
			Overdraft	15,000,000	11,603,854
Paints & General Industries (Exports) Ltd.	Mr. B.R.L. Fernando	Director	Overdraft	300,000,000	300,092,692
			Letters of Credit	–	10,462,524
			D/A	–	1,355,122
Pelawatte Sugar Industries (Pvt.) Ltd.	Mr. M.J.C.Amarasuriya	Chairman	Letters of Credit	–	115,390
Post Graduate Institute of Management	Mr. A.N. Fonseka	Member Governing Board	Leasing Facilities	2,166,667	1,366,278
Rainwear (Pvt.) Ltd.	Mr. B.R.L. Fernando	Director	Overdraft (US \$)	112,000	103,984
			Letters of Credit (US \$)	183,000	7,722
			Import Loans (Sub Limit of L/C) (US \$)	(183,000)	160,626
Serendib Flour Mills (Pvt.) Ltd.	Mr. M.J.C.Amarasuriya	Chairman	Term Loan	366,730,000	131,344,462
			Letters of Credit (One off)	875,000,000	49,880,787
The Lighthouse Hotel Ltd.	Mr. B.R.L. Fernando	Director	Overdraft	10,000,000	Credit Balance
United Motors Lanka Ltd.	Mr. M.J.C.Amarasuriya	Chairman	Short-Term Loans	100,000,000	100,000,000
			Term Loan	150,000,000	Not Disbursed
			Letters of Credit	45,000,000	5,826,000
			Import Loans / D/A (Sub Limit of L/C)	(45,000,000)	19,599,144

- 34 (b)** (i) During the year, the Bank purchased 588,200 shares of the DFCC Bank from the Commercial Leasing Co. Ltd. at a cost of Rs. 195.947 million.
- (ii) The Bank invested Rs. 123.200 million in Trust Certificates issued by the Commercial Leasing Co. Ltd. in 2003. The value of such investment outstanding as at December 31, 2004 was Rs. 123.200 million.

35. Events After the Balance Sheet Date

As at December 31, 2004, the exchange rate between the Sri Lankan Rupee and the US \$ was Rs. 104.45. The translation gain recognised on the profits retained in the Off-shore Banking Centre at this exchange rate amounted to Rs. 222.471 million for the year 2004. However, the sudden inflow of funds to the country in the aftermath of tsunami for the relief and medium term reconstruction of the tsunami hit areas, resulted in a rapid appreciation of the Sri Lankan Rupee against major international currencies and consequently, the exchange rate between the Sri Lankan Rupee and the US \$ came down to Rs. 99.36 as of the date of this report.

In view of this appreciation of the Rupee, there is likely to be a translation loss on the profits retained in the Off-shore Banking Centre, which may have to be recognised in the first quarter of 2005. The translation loss estimated at the exchange rate as of the date of this report amounts to Rs. 166.296 million.

Nevertheless, if the appreciation trend in the Rupee is arrested during the course of the year and if the pre-tsunami exchange rate is achieved, the above translation loss would be reversed.

36 Comparative Figures

Amounts shown for the previous year in respect of Directors' fees in Note 4, Group income tax in Note 8 and Loans and Advances in Notes 16.2 and 16.5, have been reclassified to facilitate comparison.

Income Statement

For the year ended December 31,	Bank			Group		
	2004 US\$ '000	2003 US\$ '000	Change %	2004 US\$ '000	2003 US\$ '000	Change %
Income	117,661	103,809	13.34	119,069	100,614	18.34
Interest income	91,755	81,852	12.10	93,610	78,741	18.88
Less: Interest expenses	46,703	43,530	7.29	48,247	40,036	20.51
Net interest income	45,052	38,322	17.56	45,363	38,705	17.20
Foreign exchange profit	8,363	4,097	104.12	8,363	4,097	104.12
Fee and commission income	13,184	10,848	21.53	13,184	10,847	21.55
Other income	4,358	7,012	(37.85)	3,912	6,929	(43.54)
	70,957	60,279	17.71	70,822	60,578	16.91
Less: Operating expenses						
Personnel costs	17,292	14,307	20.86	17,426	14,429	20.77
Premises, equipment and establishment expenses	9,962	8,882	12.16	9,754	8,595	13.48
Provision for staff retirement benefits	3,119	3,211	(2.87)	3,119	3,211	(2.87)
Loan losses and provisions	6,694	6,431	4.09	6,694	6,431	4.09
Other overhead expenses	9,918	7,278	36.27	9,721	7,308	33.02
	46,985	40,109	17.14	46,714	39,974	16.86
Profit from operations	23,972	20,170	18.85	24,108	20,604	17.01
Add: Share of profit before tax of Associate Companies	–	–	–	731	440	66.14
Profit before taxation	23,972	20,170	18.85	24,839	21,044	18.03
Less: Provision for taxation	7,843	4,924	59.28	8,304	5,902	40.70
Profit after taxation	16,129	15,246	5.79	16,535	15,142	9.20
Less: Minority interest	–	–	–	17	18	(5.56)
Net profit for the year	16,129	15,246	5.79	16,518	15,124	9.22
Basic Earnings per Ordinary Share (US\$)	0.20	0.19	5.26	0.21	0.19	10.53
Diluted Earnings per Ordinary Share (US\$)	0.20	0.19	5.26	0.21	0.19	10.53
Dividend per Ordinary Share (US\$)	0.06	0.05	20.00	0.06	0.05	20.00

Exchange Rate of 1 US\$ was Rs. 104.45 as at 31.12.2004 (Rs. 96.90 as at 31.12.2003).

US DOLLAR ACCOUNTS

The Income Statement and the Balance Sheet given on pages 120 and 121 are solely for the convenience of shareholders, investors, bankers and other users of Financial Statements and do not form part of the Financial Statements.

Balance Sheet

As at December 31,	Bank			Group		
	2004 US\$ '000	2003 US\$ '000	Change %	2004 US\$ '000	2003 US\$ '000	Change %
ASSETS						
Cash and short-term funds	116,186	92,899	25.07	116,187	92,900	25.07
Balances with Central Banks	60,504	54,002	12.04	60,504	54,002	12.04
Government Treasury Bills and Bonds	52,865	164,393	(67.84)	58,304	214,117	(72.78)
Commercial paper	5,358	5,638	(4.97)	5,358	5,638	(4.97)
Securities purchased under re-sale agreements	3,821	63,814	(94.01)	19,985	40,981	(51.23)
Dealing securities	1,049	–	–	1,049	–	–
Investment securities	28,151	26,889	4.69	28,152	26,890	4.69
Treasury Bonds maturing after one year	131,912	–	–	142,995	–	–
Bills of Exchange	26,796	25,746	4.08	26,796	25,746	4.08
Loans & advances	790,852	625,229	26.49	790,852	625,229	26.49
Lease receivable within one year	19,333	13,320	45.17	19,182	13,177	45.57
Lease receivable from one to five years	31,566	21,400	47.50	31,045	21,157	46.74
	1,268,398	1,093,330	16.01	1,300,409	1,119,837	16.12
Investments in Associate Companies	1,040	808	28.71	2,324	1,768	31.45
Investments in Subsidiary Companies	4,111	4,431	(7.22)	–	–	–
Interest and fees receivable	10,504	4,022	161.16	10,946	4,022	172.15
Other assets	13,964	18,347	(23.89)	13,833	19,320	(28.40)
Property, Plant & Equipment	27,723	17,141	61.73	30,003	19,369	54.90
	1,325,738	1,138,079	16.49	1,357,515	1,164,316	16.59
FINANCED BY						
LIABILITIES						
Deposits from customers	945,235	775,898	21.82	944,198	774,995	21.83
Dividends payable	2,205	1,957	12.67	2,224	1,957	13.64
Borrowings	87,025	55,786	56.00	87,025	55,786	56.00
Securities sold under re-purchase agreements	86,643	109,187	(20.65)	117,391	133,648	(12.16)
Other liabilities	33,470	47,433	(29.44)	33,425	47,426	(29.52)
Tax payable	4,628	1,527	203.08	4,636	2,384	94.46
Deferred taxation	2,282	2,552	(10.58)	2,401	2,671	(10.11)
Debentures	31,062	23,162	34.11	31,062	23,162	34.11
	1,192,550	1,017,502	17.20	1,222,362	1,042,029	17.31
MINORITY INTEREST	–	–	–	118	137	(13.87)
SHAREHOLDERS' FUNDS						
Share capital	24,924	26,863	(7.22)	24,924	26,863	(7.22)
Statutory Reserve Fund	9,660	10,413	(7.23)	9,668	10,413	(7.15)
Reserves	98,604	83,301	18.37	100,444	84,874	18.34
Shareholders' funds	133,188	120,577	10.46	135,036	122,150	10.54
Total liabilities, minority interest and shareholders' funds	1,325,738	1,138,079	16.49	1,357,515	1,164,316	16.59
Commitments and contingencies	420,698	393,791	6.83	420,698	393,791	6.83

Exchange Rate of 1 US \$ was Rs. 104.45 as at 31.12.2004 (Rs. 96.90 as at 31.12.2003).

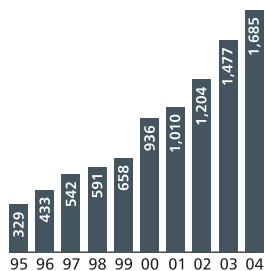
Subsidiary/Associate Companies

	BANK'S INTEREST	PRINCIPAL ACTIVITY	DIRECTORS	PRE-TAX PROFIT/(LOSS) Rs. Mn.		DIVIDEND RATE %	
				2004	2003	2004	2003
Subsidiary Companies							
Commercial Bank Primary Dealer Ltd. "Commercial House", 21, Bristol Street, Colombo 1. Tel: 2445010-15, 2336700, 2328193-5, 2332319 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 L.W.P. Indrajith (<i>Company Secretary</i>)	1,637	293.064	-	179
ONEzero Co. Ltd. "Commercial House", 21, Bristol Street, Colombo 1. Tel: 2430420 Incorporated on February 17, 2003	100.0%	Provision of IT Related Services	M.J.C. Amarasuriya (<i>Chairman</i>) J.S. Mather A.N. Fonseka A.L. Gooneratne G.L.H. Premaratne R. Samaranayake W.M.R.S. Dias M.D.A. Peiris S.D. Bandaranayake S.R. Pushpakumara (<i>Company Secretary</i>)	0.004	0.284	-	-
Commercial Development Co. Ltd. "Commercial House", 21, Bristol Street, Colombo 1. Tel: 2447300 Incorporated on March 14, 1980	94.55%	Property Development	M.T.L. Fernando (<i>Chairman</i>) A.L. Gooneratne J.S. Mather Dr. H.S. Wanasinghe M.A. Pemasiri G.L.H. Premaratne S.R. Pushpakumara (<i>Company Secretary</i>)	51.801	46.699	15	26
X-Pertise Ltd. No. 1, Union Place, Colombo 2. Tel: 2305280, 2305282 Incorporated on October 6, 2004	100.0%	Training & Development of Human Resources (Operations commenced in 2005)	M.J.C. Amarasuriya (<i>Chairman</i>) A.L. Gooneratne G.L.H. Premaratne R. Samaranayake W.M.R.S. Dias M.D.A. Peiris Mrs. Sarojini Dunuwille (<i>Company Secretary</i>)		-		-
Associate Companies							
Commercial Fund Management (Pvt.) Ltd. 108 A, 1/1, Maya Avenue, Colombo 6. Tel: 2506347, 5373747 Incorporated on January 20, 1992	50.0%	Fund Management	M.J.C. Amarasuriya (<i>Chairman</i>) H.D.S. Amarasuriya A.L. Gooneratne R. Melville R. Hill E.A.D. Perera (<i>Alternate</i>) Mrs. R.R. Dunuwille (<i>Company Secretary</i>)	6.471	7.541		-
Commercial Leasing Co. Ltd. 68, Baudhaloka Mawatha, Colombo 4. Tel: 4526526 Incorporated on April 22, 1988	30.0%	Leasing, Factoring, Hire Purchase and Hiring of Vehicles	H.D.S. Amarasuriya (<i>Chairman</i>) M.J.C. Amarasuriya A.L. Gooneratne M.P. Jayawardena K.K. Shah P.R. Saldin H.A. Peiris (<i>Alternate</i>) Nihal A. Rodrigo (<i>Company Secretary</i>)	236.550	122.450	20	35
Equity Investments Lanka Ltd. 108 A, 1st Floor, Maya Avenue, Colombo 6. Tel: 5373745, 2507605-6 Incorporated on August 08, 1990	22.92%	Venture Capital Financing	M.J.C. Amarasuriya (<i>Chairman</i>) H.D.S. Amarasuriya S.T. Nagendra A.L. Gooneratne Deshabandu S.E. Captain Y.T.T.S.I.I.T. Ja'afar E.A.D. Perera (<i>Alternate</i>) Mrs. R.R. Dunuwille (<i>Company Secretary</i>)	9.403	8.430	-	4

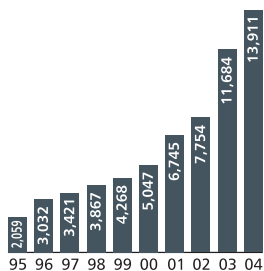
The Dividend rates shown above for 2004 are the Interim Dividends paid by the respective companies.

Graphical Review of a Decade

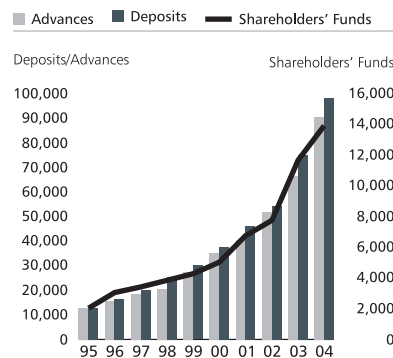
Profit after Taxation
(Rs. Mn.)



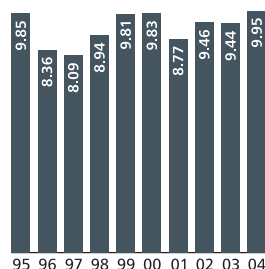
Shareholders' Funds
(Rs. Mn.)



Balance Sheet Growth
(Rs. Mn.)

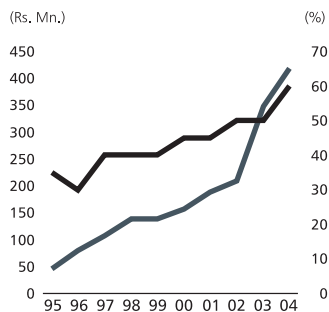


Total Assets to Shareholders' Funds (Times)



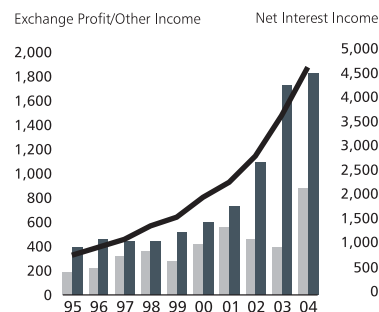
Gross Dividend to Ordinary Shareholders & Rate of Dividend

— Gross Dividend to Ordinary Shareholders (Rs. Mn.)
— Rate of Dividend (%)



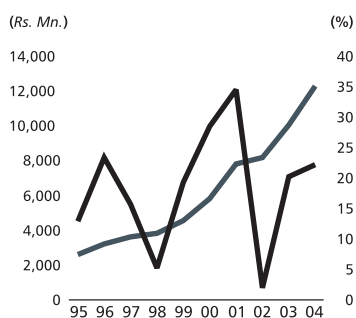
Net Interest Income, Exchange Profit & Other Income (Rs. Mn.)

— Exchange Profit
— Other Income
— Net Interest Income



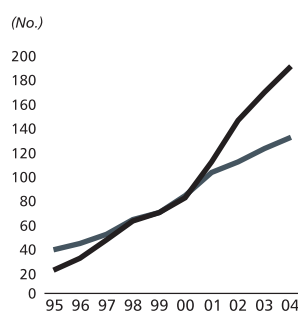
Gross Income & Income Growth

— Gross Income (Rs. Mn.)
— Income Growth (%)



Branches & ATM Expansion

— No. of Branches
— No. of ATMs



Decade at a Glance

Bank (Rs. Mn.)	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<i>Year ended December 31</i>										
OPERATING RESULTS										
Gross income	2,727	3,365	3,781	3,979	4,744	6,096	8,203	8,364	10,059	12,290
Interest income	2,038	2,553	2,876	3,031	3,762	4,796	6,510	6,613	7,931	9,584
Interest expenses	(1,213)	(1,572)	(1,723)	(1,605)	(2,158)	(2,776)	(4,174)	(3,747)	(4,218)	(4,878)
Foreign Exchange profit	187	219	320	362	274	421	563	464	397	874
Commission & other income	393	461	440	440	517	600	732	1,097	1,731	1,832
Operating expenses & provisions	(916)	(1,081)	(1,261)	(1,459)	(1,586)	(1,891)	(2,306)	(2,902)	(3,887)	(4,908)
Profit before income tax	489	580	652	769	809	1,150	1,325	1,525	1,954	2,504
Income tax on profit	(160)	(147)	(110)	(178)	(151)	(214)	(315)	(321)	(477)	(819)
Net profit for the year	329	433	542	591	658	936	1,010	1,204	1,477	1,685
<i>As at December 31</i>										
ASSETS										
Cash and short-term funds	3,066	4,363	4,639	8,440	3,761	5,456	4,272	1,835	9,002	12,136
Balances with Central Banks	1,804	2,274	1,938	1,840	2,644	2,583	3,091	3,244	5,233	6,320
Government Treasury Bills and Bonds	–	–	–	409	3,573	1,449	5,307	9,436	15,930	19,300
Commercial paper	–	–	–	–	745	331	1,170	1,080	546	560
Securities purchased under re-sale agreements	26	20	–	70	–	–	1,064	832	6,184	399
Dealing & Investment Securities	86	308	658	409	300	208	462	905	2,606	3,050
Placements with banks maturing after one year	–	–	–	–	289	–	–	–	–	–
Bills of Exchange	1,564	2,135	2,074	1,597	1,873	2,331	2,368	2,552	2,494	2,799
Loans and advances	11,269	13,414	15,690	18,312	24,787	31,703	36,730	47,350	60,585	82,605
Lease receivable	–	177	489	730	1,047	1,263	1,519	1,921	3,364	5,317
	17,815	22,691	25,488	31,807	39,019	45,324	55,983	69,155	105,944	132,484
Investments in Associate Companies	414	128	128	78	78	78	78	78	78	109
Investments in Subsidiary Companies	–	274	274	274	274	424	424	424	429	429
Other assets	1,445	1,571	972	1,368	1,253	2,478	1,251	2,149	2,168	2,553
Property, Plant and Equipment	604	671	797	1,059	1,263	1,306	1,410	1,546	1,661	2,896
TOTAL ASSETS	20,278	25,335	27,659	34,586	41,887	49,610	59,146	73,352	110,280	138,473
LIABILITIES										
Deposits from customers	13,048	16,611	20,156	25,274	30,128	37,523	46,306	54,585	75,185	98,730
Dividends Payable	27	48	75	98	98	108	163	118	190	230
Borrowings	2,150	2,601	1,321	1,124	1,350	2,317	1,862	4,200	5,405	9,090
Securities sold under re-purchase agreements	1,213	1,030	1,468	2,130	3,371	1,430	228	1,938	10,580	9,050
Other liabilities	1,706	1,975	1,226	1,594	2,168	2,643	3,263	4,218	4,844	3,736
Taxation	75	38	(8)	(1)	4	42	79	39	148	483
Debentures	–	–	–	500	500	500	500	500	2,244	3,244
	18,219	22,303	24,238	30,719	37,619	44,563	52,401	65,598	98,596	124,562
SHAREHOLDERS' FUNDS										
Share capital	125	268 ^{@#1}	268	348 ⁺	348	348	1,324 ^{~^1}	1,324	2,603 ^{^*^}	2,603
Reserve fund	1,009	1,009	1,009	1,009	1,009	1,009	1,009	1,009	1,009	1,009
Reserves	925	1,755	2,144	2,510	2,911	3,690	4,412	5,421	8,072	10,299
CAPITAL EMPLOYED	20,278	25,335	27,659	34,586	41,887	49,610	59,146	73,352	110,280	138,473
Commitments and contingencies	11,027	10,517	13,768	14,612	15,445	17,880	19,749	24,082	38,158	43,942

Decade at a Glance

Bank	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
RATIOS										
Return on average -										
shareholders' funds (%)	18.00	17.00	16.80	16.20	16.21	20.09	17.13	16.61	15.20	13.16
Income growth (%)	12.88	23.40	15.71	5.24	19.25	28.49	34.56	1.96	20.26	22.17
Return on average assets (%)	1.74	1.90	2.05	1.90	1.72	2.05	1.86	1.82	1.61	1.35
Rate of dividend (%)	35.00	30.00	40.00	40.00	40.00	45.00	45.00	50.00	50.00	60.00
Ordinary share dividend cover (times)	7.25	5.39	3.90	4.24	4.73	5.91	5.20	5.20	3.70	3.48
Gross dividends										
to ordinary shareholders (Rs. Mn.)	45.37	80.40	107.10	139.30	139.30	156.71	188.06	208.95	348.25	418.10
Advances to deposits and										
refinance (%)	95.30	92.50	88.95	80.42	89.75	91.81	85.51	92.59	86.16	89.52
Property, Plant and Equipment to										
shareholders' funds (%)	29.12	22.14	23.29	27.37	29.72	25.87	20.90	19.93	14.22	20.81
Total assets to shareholders'										
funds (times)	9.85	8.36	8.09	8.94	9.81	9.83	8.77	9.46	9.44	9.95
Capital Funds to Liabilities including										
Contingent Liabilities (%)	7.04	9.24	9.00	8.53	8.04	8.08	9.35	8.65	8.54	8.26
Cost/Income Ratio (%)	55.87	56.53	55.62	56.91	58.66	54.75	55.27	55.46	55.87	56.78
Liquid assets to liabilities (%)	20.74	28.17	25.36	24.97	22.19	27.22	27.72	27.88	23.95	23.17
(As specified in the Banking Act										
No. 30 of 1988)										
Capital Adequacy (%) Group Tier I	13.56	17.13	16.71	15.53	14.90	14.97	15.72	14.94	13.43	10.78
Tier I & II	13.94	17.47	17.63	18.45	17.14	16.62	16.20	15.07	15.46	13.16
INFORMATION ON ORDINARY SHARES										
Market value of a voting share (Rs.)	200	124	150	120	115	93	127	200	144	159.75
Basic Earnings per share (Rs.)	5	6	8	8	9	13	14	17	18	21
Price earnings ratio (times)	8	7	10	7	6	4	5	8	8	8
Net assets value per share (Rs.)	165	113	128	111	123	121	140	164	140	172
Earnings yield (%)	13	15	11	14	16	29	18	13	13	13
Dividend payout ratio (%)	13	17	25	24	21	17	22	18	27	29
OTHER INFORMATION										
No. of employees	1,845	1,837	1,889	1,985	1,996	2,067	2,259	2,399	2,648	2,863
No. of branches / CSPs / MiniComs/										
Service Points	36	41	49	61	67	81	100	109	116	125
No. of branches / booths - Bangladesh	–	–	–	–	–	–	–	–	4	4
No. of Automated Teller Machines	19	29	44	60	67	79	109	143	166	188

@ 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.

* Scrip issue of one bonus share for every three ordinary shares held was made in May 2003.

▲ Rights issue of one ordinary share for every four ordinary shares held was made in October 2003.

• Issue of 11.25% Cumulative Redeemable Preference Shares of Rs. 10/- each for Rs. 1,000.000 million was made in May 2003.

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 listed in the Colombo Stock Exchange. The audited Income Statement for the year ended December 31, 2004 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, 2004

2.1 Voting

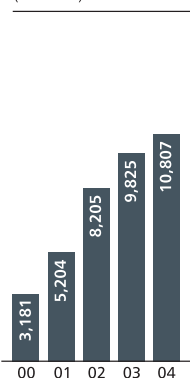
Range of Shareholdings	Resident		Non-Resident		Total		
	No. of Shareholders	No. of Shares	No. of Shareholders	No. of Shares	No. of Shareholders	No. of Shares	%
Upto 500 shares	2,434	430,659	37	7,957	2,471	438,616	0.67
501 - 5,000	2,567	4,417,572	72	143,170	2,639	4,560,742	7.01
5,001 - 10,000	300	2,062,596	6	52,681	306	2,115,277	3.25
10,001 - 20,000	155	2,094,107	5	85,098	160	2,179,205	3.35
20,001 - 30,000	41	976,301	5	137,959	46	1,114,260	1.71
30,001 - 40,000	16	553,794	1	34,900	17	588,694	0.91
40,001 - 50,000	10	454,623	-	-	10	454,623	0.70
50,001 - 100,000	23	1,605,224	2	170,750	25	1,775,974	2.73
100,001 - 1,000,000	24	5,637,870	7	2,249,951	31	7,887,821	12.13
Over 1,000,000 shares	5	29,201,941	3	14,712,616	8	43,914,557	67.53
	5,575	47,434,687	138	17,595,082	5,713	65,029,769	100.00

There were 6,145 resident and 130 non-resident shareholders as at December 31, 2003.

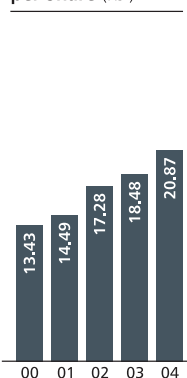
Analysis of Shareholders	December 31, 2004			December 31, 2003		
	No. of Shareholders	Total Holdings	%	No. of Shareholders	Total Holdings	%
Individuals	5,429	16,156,513	24.84	5,976	16,803,861	25.85
Institutions	284	48,873,256	75.16	299	48,196,139	74.15
	5,713	65,029,769	100.00	6,275	65,000,000	100.00

As per the Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at December 31, 2004 was 44.84% (44.86% as at December 31, 2003).

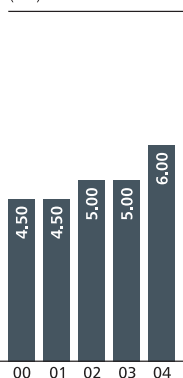
Market Capitalisation
(Rs. Mn.)



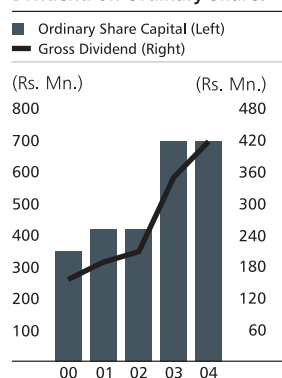
Basic Earnings per Share
(Rs.)



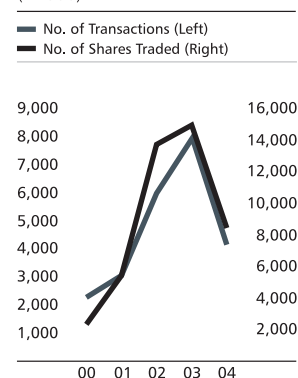
Dividends per Share
(Rs.)



Ordinary Share Capital & Gross Dividend on Ordinary Shares



Share Trading
(in '000)



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	%
Upto 500 shares	759	124,544	17	3,318	776	127,862	2.75
501 - 5,000	509	796,607	11	12,270	520	808,877	17.39
5,001 - 10,000	52	369,860	2	18,966	54	388,826	8.36
10,001 - 20,000	30	419,282	2	27,702	32	446,984	9.61
20,001 - 30,000	10	242,818	1	22,000	11	264,818	5.69
30,001 - 40,000	4	127,207	-	-	4	127,207	2.74
40,001 - 50,000	1	50,000	-	-	1	50,000	1.08
50,001 - 100,000	5	333,742	2	165,700	7	499,442	10.74
100,001 - 1,000,000	5	1,298,514	2	637,700	7	1,936,214	41.64
Over 1,000,000 shares	-	-	-	-	-	-	-
	1,375	3,762,574	37	887,656	1,412	4,650,230	100.00

There were 1,308 resident and 34 non-resident shareholders as at December 31, 2003.

Analysis of Shareholders	December 31, 2004			December 31, 2003		
	No. of Shareholders	Total Holdings	%	No. of Shareholders	Total Holdings	%
Individuals	1,305	2,572,871	55.33	1,227	2,488,449	53.51
Institutions	107	2,077,359	44.67	115	2,161,781	46.49
	1,412	4,650,230	100.00	1,342	4,650,230	100.00

As per the Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at December 31, 2004 was 88.00% (88.04% as at December 31, 2003).

3. Twenty largest Shareholders as at December 31

Ordinary Voting Shares

Name of the Shareholder	2004		2003*	
	No. of Shares	%	No. of Shares	%
DFCC Bank	19,353,135	29.76	19,353,135	29.77
HSBC Intl. Nominees Ltd. - SSBT - International Finance Corporation	9,750,000	14.99	9,750,000	15.00
Raj Rajaratnam	3,749,116	5.77	3,248,716	5.00
Sri Lanka Insurance Corporation Ltd. - Life Fund	3,465,810	5.33	3,465,810	5.33
Sri Lanka Insurance Corporation Ltd. - General Fund	2,980,120	4.58	2,980,120	4.58
National Savings Bank	1,907,891	2.93	1,553,691	2.39
Distilleries Company of Sri Lanka Ltd.	1,494,985	2.30	1,494,985	2.30
HSBC Intl. Nominees Ltd. - SSBT - Aberdeen Global Asia Pacific Fund QM11	1,213,500	1.87	400,000	0.63
Yonmerenge Simon Hewage Indra Kumar Silva	579,472	0.89	232,272	0.36
HSBC Intl. Nominees Ltd. - SSBTL - Aberdeen Asian Smaller Companies Investment Trust XC.	575,000	0.88	575,000	0.88
Bank of Ceylon A/C - CeyBank Unit Trust	546,467	0.84	228,567	0.35
HSBC Intl. Nominees Ltd. - JPMCB - Scottish ORL SML TR GTI 6018	545,000	0.84	545,000	0.84
Hatton National Bank Ltd. A/C No. 1	412,666	0.63	412,666	0.63
HSBC Ltd. - National Equity Fund	397,056	0.61	918,256	1.41
City Properties (Pvt.) Ltd.	334,700	0.51	59,700	0.09
Employee Trust Fund Board	332,816	0.51	290,316	0.45
Explorer Capital (International) Services Ltd. A/C No. 1	307,651	0.47	328,451	0.51
HSBC Intl. Nominees Ltd. - BPSS LDN - Aberdeen Intl. Fund PLC - Asian	300,000	0.46	-	-
HSBC Ltd. - Comtrust Equity Fund	262,191	0.40	12,491	0.02
Renuka Consultants & Services Ltd.	249,401	0.38	99,401	0.15
	48,756,977	74.98	45,948,577	70.69
Others	16,272,792	25.02	19,051,423	29.31
Total	65,029,769	100.00	65,000,000	100.00

* Comparative shareholdings as at December 31, 2003 of the twenty largest shareholders as at December 31, 2004.

Share and Debenture Information

Ordinary Non-Voting Shares

Name of the Shareholder	2004		2003*	
	No. of Shares	%	No. of Shares	%
Sri Lanka Insurance Corporation Ltd. - General Fund	493,835	10.62	493,835	10.62
Muthar Taufiq Talib Al-Nakib	477,700	10.27	30,000	0.65
Akbar Brothers Ltd. A/C No. 1	323,066	6.95	323,066	6.95
Hatton National Bank Ltd. A/C No. 1	229,900	4.94	29,900	0.64
Sulaiman Ahmed Said Al Hokoani	160,000	3.44	-	-
Sino Lanka (Pvt) Ltd.	147,582	3.17	147,582	3.17
The Associated Newspapers of Ceylon Ltd.	104,131	2.24	104,131	2.24
The Gilpin Fund Ltd.	100,000	2.15	100,000	2.15
M.J.F. Exports Ltd.	80,388	1.73	77,400	1.66
Seylan Bank Limited/Shanker Varadananda Somasundaram	78,750	1.69	82,450	1.77
M.S.H. Packaging Industries Ltd.	72,000	1.55	23,400	0.50
Hashim Ahmed Alsayid Hashim Algharabally	65,700	1.41	-	-
Lambert Maasiri Maalyn Dias	52,138	1.12	52,138	1.12
Mahendra Jayanthipal Chandima Amarasuriya	50,466	1.09	48,466	1.04
Jayantha Dewage	50,000	1.08	-	-
Asbestos Cement Industries Ltd.	35,800	0.77	35,800	0.77
Interplast Asia Ltd.	31,200	0.67	31,200	0.67
Associated Electrical Corporation Ltd.	30,200	0.65	10,400	0.22
Renuka Holdings Ltd.	30,007	0.65	42,307	0.91
Ananda Krishnakumar Abeyunga Jayawardene	29,362	0.63	31,362	0.67
	2,642,225	56.82	1,663,437	35.77
Others	2,008,005	43.18	2,986,793	64.23
Total	4,650,230	100.00	4,650,230	100.00

* Comparative shareholdings as at December 31, 2003 of the twenty largest shareholders as at December 31, 2004.

4. Market Value of Shares

	2004 Rs.	2003 Rs.
Ordinary Shares		
Voting		
Highest	170.00	226.00
Lowest	130.00	130.00
Year end	159.75	144.00
Non-Voting		
Highest	126.00	165.00
Lowest	80.00	100.00
Year end	90.00	100.00
13% Cumulative Redeemable Preference Shares		
Highest	10.25	11.25
Lowest	10.00	11.00
Year end	10.25	11.25
11.25% Cumulative Redeemable Preference Shares		
Highest	11.00	11.00
Lowest	9.00	10.00
Year end	10.00	11.00

5. Information on Debentures

5.1 Debentures - 1998/2003 Series

5.1.1 Market Values

	Fixed Interest Rate		Floating Interest Rate	
	2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.
Highest	-	(Not traded	-	1,050.00
Lowest	-	during	-	1,050.00
Year end	-	the year)	-	1,050.00
				(As at 13.01.03)
		(Matured on 20.07.2003)		(Matured on 08.10.2003)

Share and Debenture Information

	Fixed Interest Rate		Floating Interest Rate	
	2004	2003	2004	2003
5.1.2 Interest Rates				
Coupon Rate	–	13.50%	–	12.00%*
Effective Annual Yield	–	14.20%	–	12.55%
* 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.				
5.1.3 Interest Rate of Comparable Government Security				
Interest Rate of Comparable Government Security	–	8.85%	–	9.10%
5.1.4 Other Ratios				
Interest yield as at date of last trade	–	–	–	8.57% (As at 13.01.03)
Yield to Maturity of last trade	–	–	–	5.43% (As at 13.01.03)
5.2 Debentures - 2003/2008 Series				
5.2.1 Market Values				
	Fixed Interest Rate		Floating Interest Rate	
	2004 Rs.	2003 Rs.	2004 Rs.	2003 Rs.
Highest	1,000.00	1,000.00	1,050.00	(Not
Lowest	1,000.00	1,000.00	1,050.00	traded
Year end	1,000.00	1,000.00	1,050.00	during
	(As at 02.03.04)	(As at 18.07.03)	(As at 13.10.04)	the year)
5.2.2 Interest Rates				
Coupon Rate	10.00%	10.00%	9.45%	10.05%*
Effective Annual Yield	10.38%	10.38%	9.79%	10.44%
* Floating coupon rate equivalent to the weighted average yield of the three months Government of Sri Lanka Treasury Bills after 10% WHT rate plus 2% p.a. is payable quarterly.				
5.2.3 Interest Rate of Comparable Government Security				
Interest Rate of Comparable Government Security	9.05%	7.90%	9.20%	8.15%
5.2.4 Other Ratios				
Interest yield as at date of last trade	10.00% (As at 02.03.04)	10.00% (As at 18.07.03)	9.00% (As at 13.10.04)	–
Yield to Maturity of last trade	10.38% (As at 02.03.04)	10.38% (As at 18.07.03)	9.31% (As at 13.10.04)	–
5.3 Debentures - 2004/2009 Series				
5.3.1 Market Values				
	Floating Interest Rate			
	2004 Rs.	2003 Rs.		
Highest	(These debentures		–	
Lowest	are not		–	
Year end	quoted)		–	
5.3.2 Interest Rates				
Coupon Rate	9.45%	–		
Effective Annual Yield	9.79%	–		
* Floating coupon rate equivalent to the weighted average yield of the three months Government of Sri Lanka Treasury Bills after 10% WHT rate plus 2% p.a. is payable quarterly.				

Share and Debenture Information

	Floating Interest Rate	
	2004	2003
5.3.3 Interest Rate of Comparable Government Security		
Interest Rate of Comparable Government Security	9.05%	-
5.3.4 Other Ratios		
Interest yield as at date of last trade	-	-
Yield to Maturity of last trade	-	-
5.4 Other Ratios		
	2004	2003
Debt Equity Ratio (%)	29.84	22.96
Interest Cover (Times)	11.61	11.49
Quick Assets Ratio (%)	23.17	23.95

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. 10,807 million as at December 31, 2004 (Rs. 9,825 million as at December 31, 2003). This accounted for 2.83% (3.70% in 2003) of the total Market Capitalisation of the Colombo Stock Exchange and ranked number 6 (number 4 in 2003) among the listed public companies. Commercial Bank ranked number 16 in terms of the value of the shares traded on the Colombo Stock Exchange (Number 7 in 2003).

7. Dividends

On Ordinary Shares	2004	2003
Interim paid	20%	18%
Final proposed/paid	40%	32%
Total	<u>60%</u>	<u>50%</u>

On 13% and 11.25% Cumulative Redeemable Preference Shares - dividends were paid on January 4, 2005 for the year ended December 31, 2004 (on January 3, 2004 for the year ended December 31, 2003).

8. Share Trading

Ordinary Shares	2004	2003
No. of transactions	4,136	7,943
No. of shares traded	8,411,800	14,976,211
Value of shares traded (Rs.)	1,214,404,275	2,676,416,506
13% Cumulative Redeemable Preference Shares		
No. of transactions	3	3
No. of shares traded	6,000	14,000
Value of shares traded (Rs.)	60,875	154,750
11.25% Cumulative Redeemable Preference Shares		
No. of transactions	30	16
No. of shares traded	577,200	392,000
Value of shares traded (Rs.)	5,965,950	4,187,000

9. Financial Ratios

Key financial ratios are given in the "Decade at a Glance" on page 125.

10. Investments

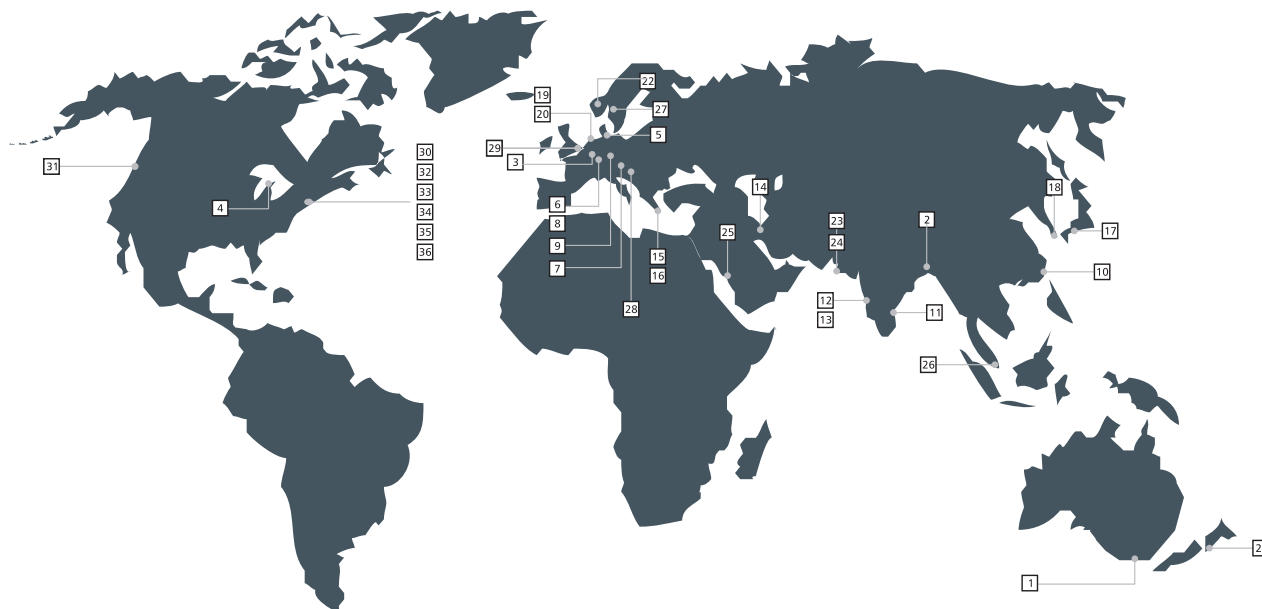
The details of investments in shares of Subsidiary/Associate companies are given on page 122.

Eighty Four Years Tradition

1920	The Eastern Bank Ltd. (EBL) opens a branch in Chatham Street.
1957	The share capital of EBL is acquired by Chartered Bank.
1969	The Commercial Bank of Ceylon Ltd. incorporated with EBL holding 40% of its equity.
1971	The business of the EBL is taken over by the Chartered Bank.
1973	The Galle, Jaffna and Kandy branches of the Mercantile Bank Ltd. are acquired by the Bank.
1979	The Foreign Currency Banking Unit is formed.
1980	Commercial Development Company Ltd. is incorporated to construct a Headquarters for the Bank with a 40% equity participation.
1984	The Headquarters of the Bank is shifted to "Commercial House", 21, Bristol Street, Colombo 1.
1985	The Foreign Department is elevated to the status of a fully-fledged branch. This move completed the reorganisation process whereby three independent offices representing the City Office, the Foreign Branch and the Head Office were created by segregating the different operations.
1987	EBL changes its name to Standard Chartered (UK) Holdings Ltd.
1988	An associate company, Commercial Leasing Company Ltd. is formed.
1992	The Bank sponsors a Fund Management Company, Commercial Fund Management (Pvt.) Ltd. for the purpose of operating unit trusts. The first unit trust launched in March 1992. The Bank enjoys a 50% equity participation in this company.
1993	Introduction of the International Comprehensive Banking System (ICBS) linking nine metropolitan branches.
1997	Standard Chartered Bank sells its 40% stake in the Bank.
1998	365 day branch at Colombo 7 Branch is opened. All branches except Jaffna are linked to the ICBS.
1999	Banking and supermarketing are combined by opening the first "MiniCom" at the Staples Street Cargills Food City outlet. Rated as the Best Bank in Sri Lanka by "Global Finance".
2000	Internet Banking is launched. Rated as the Best Bank in Sri Lanka by "Global Finance" for the second consecutive year.

2001	Receives 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.															
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. upholds the SL AA+ rating in their annual review. Winner of the overall National Award for HRM - 2002. South Asian Federation of Accountants (SAFA) ranks the Bank's Annual Report for 2001 to be the first in the Financial Sector.															
2003	Rated as the Best Bank in Sri Lanka by "Global Finance" for the fifth consecutive year. Selected as the Bank of the Year by "The Banker" Magazine for the third consecutive year. Fitch Ratings Lanka Ltd. upholds the SL AA+ rating in their annual review. SAFA rates Annual Report 2002 as the Best Presented Accounts of the Financial Sector. The Institute of Chartered Accountants of Sri Lanka (ICASL) ranks the Annual Report 2001 of the Bank as the Overall Winner, the Winner of the Financial Sector and Winner of Corporate Governance Disclosure Award. The operations of Credit Agricole Indosuez in Bangladesh is taken over. The first service point at Arpico Super Centre was opened at Dehiwela.															
2004	Rated as the Best Bank in Sri Lanka by "Global Finance" for the sixth consecutive year. Selected as the Bank of the Year by "The Banker" Magazine for the fourth consecutive year. Fitch Ratings Lanka Ltd. upholds the AA+ (sri) rating in their annual review. SAFA rates Annual Reports 2002 and 2003 as the Best Presented Accounts of the Financial Sector. The ICASL ranks the Annual Reports 2002 and 2003 of the Bank as follows:															
	<table border="1"> <thead> <tr> <th>Award</th> <th>2003</th> <th>2002</th> </tr> </thead> <tbody> <tr> <td>Overall</td> <td>Winner</td> <td>Winner</td> </tr> <tr> <td>Banking Sector</td> <td>Winner</td> <td>Winner</td> </tr> <tr> <td>Corporate Governance Disclosure</td> <td>Joint 1st Runners up</td> <td>Winner</td> </tr> <tr> <td>Corporate Social Responsibility</td> <td>Joint 1st Runners up</td> <td>Joint 2nd Runners up</td> </tr> </tbody> </table>	Award	2003	2002	Overall	Winner	Winner	Banking Sector	Winner	Winner	Corporate Governance Disclosure	Joint 1st Runners up	Winner	Corporate Social Responsibility	Joint 1st Runners up	Joint 2nd Runners up
Award	2003	2002														
Overall	Winner	Winner														
Banking Sector	Winner	Winner														
Corporate Governance Disclosure	Joint 1st Runners up	Winner														
Corporate Social Responsibility	Joint 1st Runners up	Joint 2nd Runners up														
	Overall HRM winner in the Large Service Sector and winner - most innovative HR Practices. Commercial Bank Social Responsibility Trust was set up in September.															

Correspondent Banks



Country	Name & Address of the Bank	BIC Code	CCY	Account No.	Web site
Australia	1 National Australia Bank 11/120, Spencer Street, Melbourne Victoria 3000 - Australia.	NATAAU33033	AUD	1803020052500	national.com.au
Bangladesh	2 Commercial Bank of Ceylon Ltd. 47, Motijheel Commercial Area, P.O. Box 3490, Dhaka 1000, Bangladesh.	CCEYBDDH	AC\$	2-802000017	combank.net
Belgium	3 Fortis Bank NV/SA Montagne DU PARC 3, B-1000, Brussels, Belgium.	GEBABEBB	EUR	291-1179210-78	fortis.com
Canada	4 Canadian Imperial Bank of Commerce Int'l Dept. Head Office, Commerce Court, Toronto M5L 1H1, Canada.	CIBCCATT	CAD	1733117	cibc.com
Denmark	5 Nordea Bank Denmark A/S P.O. Box 850, DK-0900, Copenhagen C, Denmark.	NDEADKKK	DKK	5000408909	nordea.com
Germany	6 American Express Bank GmbH Theodor - Heuss - Allee 112, 60486 Frankfurt AM Main, Germany.	AEIBDEF	EUR	424-018109406	amexbank.de
	7 Bayerische Hypo und Vereins Bank AG D-80311 Muenchen, Germany.	HYVEDEMM	EUR	69101429	hvb.com hvb.de
	8 Commerz Bank AG ZTB BC Mitte 6.4, Mainzer Landstrasse 277-293, 60261, Frankfurt AM Main, Germany.	COBADEFF	EUR	400872103701	commerzbank.com
	9 West LB AG Girozentrale-P.O. Box D40199, Dusseldorf, Germany.	WELADED	EUR	59031/EUR	westlb.com westlb.de
Hong Kong	10 Standard Chartered Bank P.O. Box 21, 9th Floor, 4-4A, Des Voeux Road, Central Hong Kong.	SCBLHKHH	HKD	41109468048	standardchartered.com
India	11 American Express Bank Ltd. 187, Mount Road, Chennai 600 006, India.	AEIBINDXMAS	AC\$	510280024	americanexpress.com
	12 ICICI Bank Ltd. ICICI Bank Towers, Bandra-Kurla Complex, Bandra (East), Mumbai 400 051, India.	ICICINBB	AC\$	000406000181	icicibank.com
	13 Standard Chartered Bank 23-25, Mahathma Gandhi Road, P.O. Box 558, Mumbai 400 001, India.	SCBLINBB	AC\$	22205031885	standardchartered.com

Correspondent Banks

Country	Name & Address of the Bank	BIC Code	CCY	Account No.	Web site
Iran	14 Bank Melli Iran Int'l Dept. Corres. Banking, P.O. Box 11365-171, Ferdowsi Avenue, Tehran, Iran.	MELIIRTHFSS	AC\$	12-08-504	bmi.ir
Italy	15 Capitalia Societa Per Azioni Viale, Mberto, Tutini, 180, 1-00144 Rome, Italy.	BROMITRR	EUR	1000271	capitalia.it
	16 Banca Intesa SPA #2612 Head Office, Int'l Money Transfer Dept., Piazza Della Scala 6, 20121 Milan, Italy.	BCITITMMFSS	EUR	9629220249	bancaintesa.it
Japan	17 Standard Chartered Bank P.O. Box 9997, 21st Floor, Sanno Park, Tower 2-11-1, Nagata-cho, Chiyoda-ku, Tokyo 100-6155, Japan.	SCBLJPJT	JPY	2168531110	standardchartered.com
Korea	18 Kookmin Bank 9-1, 2GA, Namdaemun - RO, Jung - GU, Seoul 100-703, Korea.	CZNBKRSE	US\$	759-8-US\$-01-0	kbstar.com
Netherlands	19 ABN Amro Bank N.V. 32, Vijzelstraat, P.O. Box 669, Amsterdam, Netherlands.	ABNANL2A	EUR	540427349	abnamro.com
	20 Ing Bank N.V. P.O. Box 1800 1000 BV., Amsterdam, Netherlands.	INGBNL2A	EUR	0050908928	Ingbank.com Ing.com
New Zealand	21 Bank of New Zealand P.O. Box 2392, 1, Willis Street, Wellington, New Zealand.	BKNZNZ22	NZD	2659680000	bnz.co.nz
Norway	22 Den Norske Bank Stranden 21, 0021, Oslo, Norway.	DNBANOKK	NOK	7002-02-04808	ubn.no dnbnor.com
Pakistan	23 Habib Bank AG Zurich P.O. Box 1424, Hirani Centre, 1.1, Chundrigar Road, Karachi 74200, Pakistan.	HBZUPKKA	AC\$	20110-333-31503	habibbank.com
	24 Standard Chartered Bank 1.1, Chundrigar Road, Karachi 75600, Pakistan	HBZUPKAFSD	AC\$	15000297601	standardchartered.com
Saudi Arabia	25 The National Commercial Bank International Banking Division, Banking Relations, 20th Floor, P.O. Box 3555, Jeddah 21481, Saudi Arabia.	NCBKSAJE	US\$	55535150090301	alahli.com
Singapore	26 Standard Chartered Bank P.O. Box 1901, 6, Battery Road, 7th Storey, Singapore 049909.	SCBLSGSG	SGD	0109344561	standardchartered.com
Sweden	27 Skandinaviska Enskilda Banken Utlandsreskontran Stockholm S 106 40, Sweden.	ESSESESS	SEK	52018529803	sebgroun.com
Switzerland	28 UBS A.G. P.O. Box CH-8098, Zurich, Switzerland.	UBSWCHZH	CHF	02308540805W	ubs.com
United Kingdom	29 Standard Chartered Bank City Office, Branch No. 37, Grace Church Street, London EC3V 0BX, UK.	SCBLGB2L	GBP EUR	01804813401 5601804813496	standardchartered.com
United States of America	30 American Express Bank 300, Bo ulevard East, Weehawken, NJ 07086, U.S.A.	AEIBUS33	US\$	000724989	americanexpress.com
	31 Bank of America NT & SA International Deposit Services, 1850 Gateway BL VD, 6th Floor, Concord CA 94520, U.S.A.	BOFAUS6SGDS	US\$	6290890098	bankofamerica.com
	32 Citi Bank 111, Wall Street, 19th Floor, New York 10043, U.S.A.	CITIUS33	US\$	36141446	citibank.com
	33 Deutsche Bank Trust Company Americas P.O. Box 318, Church Street Station, New York NY 10008, U.S.A.	BKTRUS33	US\$	04034566	dutsche_bank.com
	34 HSBC Bank U.S.A. 500, Stanton Christiana Road, Newark Delaware 19713, NY - U.S.A.	MRMDUS33	US\$	000045829	asiapacific.hsbc.com
	35 Standard Chartered Bank One Medison Avenue, New York NY 10010-3603 U.S.A.	SCBLUS33	US\$	3582052360001	standardchartered.com
36 Wachovia Bank N.A. 11, Penn Plaza, 4th Floor, New York NY 10038,	PNBPUS3NNYC	US\$	2000191002407	wachovia.com wachovia.firstunion.com	

Branch Network

Branches In Sri Lanka

Ampara District

Ampara Branch

Anuradhapura District

Anuradhapura Branch

Kekirawa Branch*

Badulla District

Badulla Branch

Bandarawela Branch

Batticaloa District

Batticaloa Branch

Colombo District

Avissawella Branch

Bambalapitiya Branch

Baseline CSP

Battaramulla Branch

Borella Branch

City Office

Colombo 7 Branch-

(Town Hall)

Colombo Fort Branch-

Foreign

Dehiwela Branch

DFCC CSP (Colombo 2)

Duplication Road Branch-

(Colombo 3)

Grandpass Branch

Homagama Branch

Kaduwela Branch

Katubedda CSP

Keyzer Street Branch

Kirulapone Branch

Kohuwala Branch

Kollupitiya Branch

Kotahena Branch

Kotahena Savings Centre

Maharagama Branch

Main Street Branch-(Pettah)

Malabe Branch

Maradana Branch

Moratuwa Branch

Mt. Lavinia Branch

Mutwal Branch

Narahenpita Branch

Nawala Branch

Nugegoda Branch

Old Moor Street Branch

Panchikawatte Branch

Pettah Branch

Piliyandala Branch

Priority Banking Centre

Rajagiriya Branch

Ratmalana Branch

Reid Avenue Branch*

Sri Lanka Insurance

Corporation CSP

Thalawathugoda Branch

Union Place Branch

Wellawatte Branch

Service Points

(Supermarket Banking

Centres)

at Arpico Supercentres

Battaramulla*

Dehiwela

Hyde Park Corner*

MiniCom Centres

(Supermarket Banking

Centres)

at Cargills Food City

Supermarkets

Maharagama

Majestic City -

Bambalapitiya

Kirulapone

Moratuwa

Nawala*

Staples Street - Colombo 2

Galle District

Ambalangoda Branch

Baddegama Branch

Elpitiya Branch

Galle City Branch

Galle Fort Branch

Hikkaduwa Branch

Gampaha District

Airport Counter

Ekala Branch

Gampaha Branch

Ja-Ela Branch

Kadawatha Branch

Kandana Branch

Katunayake FTZ Branch

Kiribathgoda Branch

Kochchikade Branch

MiniCom - Gampaha -

(Supermarket Banking

Centre)

Minuwangoda Branch

Mirigama Branch

Negombo Branch

Nittambuwa Branch

Seeduwa Branch

Wattala Branch

Yakkala Branch

Hambantota District

Ambalantota Branch

Jaffna District

Chunnakam Branch

Jaffna Branch

Nelliady Branch

Kalutara District

Aluthgama Branch

Bandaragama Branch

Horana Branch

Kalutara Branch

Matugama Branch

Panadura Branch

Kandy District

Gampola Branch

Kandy Branch

Katugastota Branch

Nawalapitiya Branch

Peradeniya Branch

Pilimathalawa Branch*

Kegalle District

Kegalle Branch

Mawanella Branch

Kurunegala District

Kuliyapitiya Branch

Kurunegala Branch

MiniCom - Kurunegala -

(Supermarket Banking

Centre)

Narammala Branch

Nikaweratiya Branch

Matale District

Dambulla Branch

Galewela Branch

Matale Branch

Matara District

Akuressa Branch

Deniyaya Branch*

Kamburupitiya Branch

Koggala Branch

Matara Branch

Weligama Branch*

Nuwara Eliya District

Hatton Branch*

Nuwara Eliya Branch

Polonnaruwa District

Hingurakgoda Branch

Kaduruwela Branch

Puttalam District

Chilaw Branch

Nattandiya Branch

Palavi CSP

Wennappuwa Branch

Ratnapura District

Balangoda Branch

Embilipitiya Branch

MiniCom - Ratnapura -

(Supermarket Banking

Centre)

Ratnapura Branch

Trincomalee District

Trincomalee Branch

Vavuniya District

Vavuniya Branch

Overseas Branches

Bangladesh

Dhaka

No. 47, Motijheel

Commercial Area,

P.O. Box: 3490, Dhaka

1000.

Tel: (88 02) 9566566

Fax: (88 02) 9565707

Chittagong

71, Agrabad Commercial

Area,

P.O. Box: 787, Chittagong.

Tel: (88 031) 713325-27

Fax: (88 031) 710978

Gulshan Booth

House No. 73/A, Plot 11,

Gulshan Avenue, Dhaka.

Tel: (88 02) 8824275

Fax: (88 02) 8824147

Sonargaon Booth

Room No. L-264,

Sonargaon Hotel, Dhaka.

Tel: (88 02) 8111959

Fax: (88 02) 8111959

* Opened in 2004

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 excluding Loan Loss Provision 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 excluding deferred tax divided by the profit before taxation.

Equity Method

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

Finance Lease

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

Foreign Exchange Profit

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

Foreclosed Properties

Properties acquired in full or partial satisfaction of debts.

Forward Exchange Contract

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

Free Capital

Excess of equity capital over net book value of Property, Plant 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.

Glossary of Financial & Banking Terms

Interest Margin

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

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 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.

Open Credit Exposure Ratio

Total net non-performing loans expressed as a percentage of regulatory capital base.

Price Earnings Ratio (P/E Ratio)

Market price of a share divided by earnings per share.

Provision Cover

Total provisions on non-performing loans expressed as a percentage of net non-performing loans before discounting for provisions on non-performing loans.

Prudence

Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

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.

Repurchase Agreement

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

Reverse Repurchase Agreement

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

Return on Average Equity (ROE)

Net profit for the year, less preference share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

Revenue Reserve

Reserves set aside for future distribution and investment.

Segmental Analysis

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

Shareholders' Funds

Total of issued and fully paid share capital and capital and revenue reserves.

Statutory Reserve Fund

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

Substance Over Form

The consideration that the accounting treatment and the presenting in financial statements of transactions and the events should be governed by their substance and financial reality and not merely by legal form.

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.

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Notice of Meeting

Notice is hereby given that the **Thirty-Sixth Annual General Meeting** of Commercial Bank of Ceylon Limited will be held at the 9th Floor of the Union Place Branch of the Bank, No.1, Union Place, Colombo 2, on Wednesday, March 30, 2005 at 10.00 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, 2004 with the Report of the Auditors thereon.
2. To declare a dividend as recommended by the Directors.
3. To re-elect Directors in place of those retiring by rotation.
4. To re-appoint Messrs. KPMG Ford, Rhodes, Thornton & Company as Auditors and authorise the Board of Directors to determine their remuneration.
5. To authorise the Board of Directors to determine donations for 2005.

By Order of the Board,


Mrs. R.R. Dunuwille
Company Secretary

February 18, 2005
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 Holder need not be a member of the Company.*
2. *A Form of Proxy is found at the end of this Report. The completed Form of Proxy should be deposited at the Registered Office of the Company, "Commercial House", No. 21, Bristol Street, Colombo 1, not less than 48 hours before the time appointed for the holding of the Meeting.*
3. *It is proposed to post the Dividend Warrants on March 30, 2005.*

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. Anthony Nihal Fonseka	whom failing
Mr. Lalin Joseph Ainsley Fernando	whom failing
Mr. Sanjiva Kanishka Gamini Senanayake	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-Sixth Annual General Meeting of the Company to be held on March 30, 2005 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

	For	Against
1. To receive, consider and adopt the Report of the Directors and the Financial Statements for the year ended December 31, 2004 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.		
(a) Mr. M.J.C. Amarasuriya	<input type="checkbox"/>	<input type="checkbox"/>
(b) Mr. B.R.L. Fernando	<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 2005.	<input type="checkbox"/>	<input type="checkbox"/>

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

.....
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% and 11.25% Cumulative Redeemable Preference Shares and the Unsecured Subordinated Redeemable Debentures 2003/2008 of the Company are listed on the Colombo Stock Exchange.

Registered Office

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

Telephone : 2445010-15 (6 lines), 2328193-5 (3 lines)
2430420, 2336700
Telegraphic Address : COMBANK
Telex : 21520 COMEX CE; 21274 COMBANK CE;
21898 COMFEX CE; 22384 COMFX CE;
23375 COMTLX CE.
Facsimile : 941-2449889
SWIFT Code - Sri Lanka : CCEYLKX
SWIFT Code - Bangladesh : CCEYBDDH
E-mail : email@combank.net
Website : www.combank.net

Head Office

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

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.

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. A.N. Fonseka
Mr. L.J.A. Fernando
Mr. Iyad M. Malas
Mr. S.K.G. Senanayake (*Alternate Director*)

Company Secretary

Mrs. R.R. Dunuwille

Audit Committee

Mr. J.S. Mather (*Chairman*)
Dr. H.S. Wanasinghe
Mr. B.R.L. Fernando
Mr. A.N. Fonseka

Compliance Officer

Mr. Delip Fernando - Assistant General Manager
(Inspection)

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 Rating

The Bank has received AA+(Sri) credit rating from Fitch Ratings Lanka Ltd.
The Bank's Bangladesh Operations received AA credit rating from Credit Rating Information Services 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
ONEzero Company Ltd.	100.00%	Provision of IT related Services
X-pertise Ltd.	100.00%	Training and Development of human resource
Commercial Development Company Ltd.	94.55%	Property Development

Associate Companies

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

