80th Anniversary
1939 - 2019
Leading the way through innovation

BANK OF CEYLON
ANNUAL REPORT 2019

A League of Our Own

BANK OF CEYLON
Bankers to the Nation

A League of our own

Marking eight decades of timeless and legendary presence, the Bank of Ceylon is a powerhouse that has fuelled a Nation's hopes and aspirations with banking solutions. Rising tall as the Nation's premier banking institution, the Bank represents the vanguard of excellence in many frontiers. Recognised in local and international platforms, the Bank reigns supreme as the only state institution amongst the most admired entities in Sri Lanka.

As Sri Lanka's most profitable and largest financial institution these achievements pave the way for Bank of Ceylon to rise above as ***a league of its own.***

BANK OF CEYLON
BOC
Bankers to the Nation

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Bankers to the Nation

Our Vision

To be the Nation's preferred bank with a strong global presence providing customer centric innovative financial solutions.

Our Mission

To provide highly efficient, customer focused, technologically sophisticated, resilient and innovative financial services to the Nation with global access, empowering employees and enhancing value to the stakeholders.

Corporate Value Statement

In achieving our vision to be the Nation's preferred bank, with a strong global presence, providing customer centric innovative financial solutions, we are committed to upholding our core five values as follows:

- Being customer centric
- Respecting all forms of diversity
- Committing towards high level of ethics, governance and professionalism
- Focusing towards agility and innovation
- Being accountable for all our actions

Bank of Ceylon Annual Report 2019

About this Report

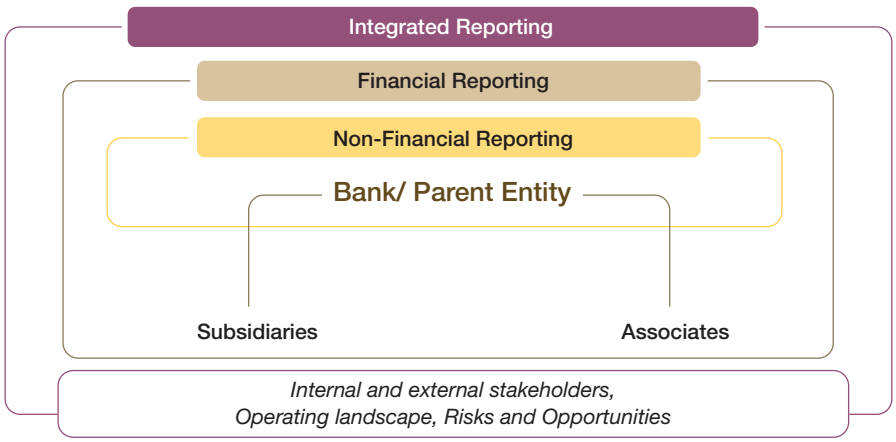
Bank of Ceylon (herein referred to as "BoC" or the "Bank") 2019 Annual Report, 'A League of our Own' is designed to best present readers with a clear and meaningful account of how the Bank performed and created value in 2019. The Report covers the domestic and overseas operations of BoC and its subsidiaries (collectively referred to as the "Group") for the period from 1 January 2019 to 31 December 2019. The previous Annual Report for the financial year ending 31 December 2018 is available for download at *https://web.boc.lk/assets/annual_report/2018/index.html.* This is the Bank's Seventh Integrated Annual Report prepared in line with the Integrated Reporting Framework published by the International Integrated Reporting Council. This Report is also prepared in accordance with the GRI Standards; core option while targeted primarily towards the Bank's capital providers, the Report also includes information which is relevant to other stakeholders.

Reporting Boundary

The financial information presented on pages 133 to 338 of this Report reflects consolidated financial information while the non-financial information and its narrative is limited to that of the parent entity, given its dominance within the Group. The Scope of the Integrated Report extends beyond the Bank's operations to include its broader value chain and impacts, including external stakeholders and the operating landscape. We adopt an annual reporting cycle and this Report builds on the Bank's previous annual report for the financial year ending 31 December 2018, for which comparative information has been provided. There have been no material restatements of non-financial information provided in the previous report. There were also no significant changes to the Bank's structure, ownership or supply chain during the year under review.

Materiality

The content included in this Integrated Report has been determined following a materiality analysis, which takes into consideration trends in the operating landscape, legitimate interests of our stakeholders and the Bank's strategic aspirations. The process for determining material content and a full list of material topics is given on page 42 of this Report.



What's new in this year's Report

- Structured to demonstrate our strategic priorities and drivers
- Increased connectivity through navigation icons
- Enhanced conciseness (62 pages reduced)
- Adoption of Gender Parity Reporting introduced by CA Sri Lanka

Scan the QR Code with your smart device to view this report online.

Basis for Preparation

Integrated Report	Sustainability Reporting	Corporate Governance	Financial Statements
Frameworks: IR Framewok published by the IIRC	**Frameworks:** GRI Standards-In Accordance: 'Core' criteria; ESG Reporting Framework of the Colombo Stock Exchange; Gender Parity Reporting Framework of CA Sri Lanka	**Frameworks:** Bank of Ceylon Ordinance No.53 of 1938 and ammendments; Banking Act No.30 of 1988 and subsequent ammendments; Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka; Listing Rules of Colombo Stock Exchange	**Frameworks:** Sri Lanka Accounting Standards issued by CA Sri Lanka; Guidelines issued by CBSL and CSE listing requirements on Financial Statements and other disclosures for Licensed Commercial Banks
Assurance: Certain information extracted from the Group's audited financial statements	**Assurance:** GRI Reporting disclosures audited by Messrs Ernst & Young Chartered Accountants	**Assurance:** Auditor General	**Assurance:** Auditor General

How this Report is Structured

This year's Annual Report features a key change in how material content has been structured and presented. In line with international best practice, we have aligned our narrative with the Bank's strategic agenda, clearly demonstrating what we want to achieve and how we intend to get there. Navigation icons have been used across the Report to demonstrate connectivity between themes and eliminate duplication.

Leadership Reviews and the Bank's performance in 2019	Performance Highlights *Page 8*		
	Chairman's Message *Page 12*	General Manager's Review *Page 14/ 18*	
Organisational overview	Who we are *Page 21*	Leadership Team *Page 24*	Value Creation Model *Page 34*
	Our operating environment *Page 39*	Materiality and Risk Management *Page 42*	
Strategic Report	Where we are now *Page 64* Where we want to be *Page 64* *The Bank's medium to long-term strategic objectives*	How we plan to get there *Page 65* *Strategic drivers and how we made the progress during the year*	
Performance and Outlook	Economic and Industry Environment *Page 117* Financial Review *Page 121* Business Line Reviews *Page 124*	Outlook for 2020 *Page 127*	
Financial Information and Statutory Reports	Financial Reports *Page 132*	Compliance Annexes *Page 339*	Supplementary Information *Page 391*

Feedback

We are committed to consistently enhancing the readability and relevance of our reporting and we welcome your suggestions and comments on our Annual Report. Please direct your feedback to,

dgmfp@boc.lk

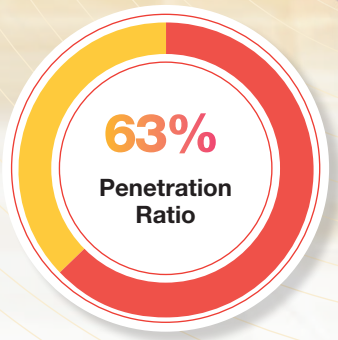
Icon Guide

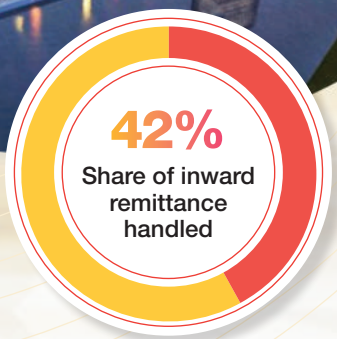
Financial Capital | Manufactured Capital | Human Capital | Intellectual Capital | Social and Relationship Capital | Natural Capital

Information available online

Information available in other parts of this Report

Empowering Nation





The Bank supports national socio-economic development through its role as a leading financial intermediary, thereby stimulating economic activity and its direct and indirect contribution to Government revenue.

LKR 18.1 billion

Value added to Government coffers during 2019

LKR 135.9 billion

Financing to large scale infrastructures projects during 2019

LKR 577.0 billion

Funding to Direct Government and SOEs

Performance Highlights 2019

Financial Highlights

	Bank			Group		
	2019	2018	Change %	**2019**	2018	Change %
Results of Operations (LKR million)						
Total income	**239,116**	221,021	8.2	**248,692**	229,351	8.4
Net interest income	**75,146**	65,558	14.6	**78,295**	68,689	14.0
Profit before taxes on financial services	**40,206**	43,004	(6.5)	**41,478**	43,770	(5.2)
Profit before tax	**29,685**	33,416	(11.2)	**30,676**	33,961	(9.7)
Profit after tax	**23,098**	21,003	10.0	**23,747**	21,039	12.9
Value to the Government	**18,144**	24,158	(24.9)	**19,626**	24,852	(21.0)
Financial Position (LKR million)						
Total assets	**2,415,117**	2,284,831	5.7	**2,462,484**	2,329,600	5.7
Gross loans and advances	**1,648,761**	1,510,534	9.2	**1,682,589**	1,544,355	9.0
Loans and advances net of provisioning for impairment	**1,549,805**	1,429,107	8.4	**1,580,949**	1,460,619	8.2
Due to Depositors	**2,005,212**	1,770,975	13.2	**2,025,204**	1,789,924	13.1
Total liabilities	**2,272,834**	2,152,661	5.6	**2,307,488**	2,186,731	5.5
Total equity	**142,283**	132,170	7.7	**154,996**	142,868	8.5
Per Share Data (LKR)						
Basic earnings per share	**972**	1,127	(13.7)	**987**	1,129	(12.6)
Net assets value per share	**5,691**	6,608	(13.9)	**6,128**	7,109	(13.8)
Performance Ratios (%)						
Return on average assets	**1.3**	1.6	(0.3)	**1.3**	1.6	(0.3)
Return on average equity	**16.8**	17.3	(0.5)	**16.0**	15.9	0.1
Interest margin	**3.2**	3.1	0.1	**3.3**	3.2	0.2
Cost to income	**37.3**	36.3	1.0	**39.6**	38.7	0.9
Loans to deposits	**82.2**	85.3	(3.1)	**83.1**	86.3	(3.2)
Debt to equity	**34.7**	41.0	(6.3)	**-**	-	-
Impairment provision as a percentage of gross loans and advances	**6.0**	5.4	0.6	**6.0**	5.4	0.6
Statutory Ratio (%)						
Liquid assets ratio (Domestic) (minimum requirement 20%)	**24.6**	24.5	0.1	**-**	-	-
Liquidity coverage ratio (LKR) (minimum requirement 2019 - 100%, 2018 - 90%)	**188.2**	143.5	44.7	**-**	-	-
Liquidity coverage ratio (All currency) (minimum requirement 2019 - 100%, 2018 - 90%)	**125.6**	115.0	10.6	**-**	-	-
Capital Adequacy Ratios (%)						
Common Equity Tier I Capital (Minimum requirement 2019 - 8.50%, 2018 - 7.375%)	**11.2**	10.3	0.9	**11.4**	10.4	1.0
Tier I capital (Minimum requirement 2019 - 10.00%, 2018 - 8.875%)	**11.2**	10.3	0.9	**11.4**	10.4	1.0
Total Capital (Minimum requirement 2019 - 14.00%, 2018 - 12.875%)	**15.6**	14.6	1.0	**15.7**	14.6	1.1

Non-Financial Highlights

Economic Performance

		2019	2018	2017
Value creation to Government	LKR million	**18,144**	24,158	28,524
Direct new employment creation	No.	**12**	1,622	534
Penetration ratio	%	**63**	62	60
Branches outside the Western Province	No.	**445**	442	443
Road developments financed	LKR million	**28,294**	31,696	1,464
Renewable power projects financed	LKR million	**1,508**	3,600	640
Inward remittances facilitated	LKR million	**524,749**	580,133	449,170

Social Performance

		2019	2018	2017
Human Capital				
Total employees	No.	**8,503**	8,724	7,587
New recruits	No.	**12**	1,622	534
Female representation rate	%	**60**	60	57
Attrition rate	%	**0.8**	0.9	0.3
Total payments to employees	LKR million	**18,365**	17,351	16,996
No. of promotions	No.	**821**	174	1,831
Investment in training and development	LKR million	**233**	354	289
Total training hours	Hours	**398,189**	523,378	279,274
Revenue per employee	LKR million	**28.1**	25.3	24.9
Net profit per employee	LKR million	**2.7**	2.4	2.8
Employees holding membership in professional bodies	No.	**323**	371	292

		2019	2018	2017
Social and Relationship Capital				
Total customers	No. in million	**13.7**	13.4	12.8
Interest paid to customers	LKR million	**126,713**	112,056	92,229
Customer contact points	No.	**1,880**	1,721	1,589
Payments to suppliers	LKR million	**10,775**	9,704	9,266
Spending on local suppliers	%	**97**	97	92
Investment in CSR	LKR million	**68**	108	127
No. of University trainees and School leavers trained	No.	**2,879**	2,752	1,870
No. of correspondent relationships	No.	**675**	859	859

Non-Financial Highlights

		2019	2018	2017
Intellectual Capital				
Brand value	LKR million	**51,827**	42,874	40,600
Employee experience (tacit knowledge)	Years	**78,132**	81,627	81,841
Corporate Management experience	Years	**496**	519	566

		2019	2018	2017
Manufactured Capital				
Investment in digital infrastructure	LKR million	**1,698**	1,963	1,693
Capital expenditure in Branch transformation and upgrade	LKR million	**2,007**	1,170	1,187

Environmental Performance

		2019	2018	2017
Natural Capital				
GHG emission Scope 1	Tons in (CO_2eqv.)	**2,974***	2,902	Not Available
GHG emission Scope 2	Tons in (CO_2eqv.)	**14,220***	10,354	Not Available
Solar power generation	kWh	**2,369,762**	885,238	492,230
Fuel usage	Litres	**696,559**	732,101	440,180
Electricity consumption	MWh	**24,328**	21,135	22,325
Water usage	m^3	**501,779**	501,229	489,560
Investment in solar power	LKR million	**71**	146	71
No. of loans screened under ESMS	No.	**115**	508	Not Available

** Based on estimated and extrapolated data from the previous year assessment.*

Anniversary Celebrations

1939 - 2019
Leading the way through innovation

BoC celebrated 80 years of service to the Nation in 2019. In commemorating this momentous achievement in a meaningful way, the Bank conducted a 80th Anniversary mega celebration event with the participation of highest political representation, many loyal customers, employees and other business partners of its journey so far. Throughout the event, it highlighted the economic contribution the Bank has made to the Nation as the Nations partner in growth and it also sought to launch two strategic CSR projects aimed at supporting Environmental and Social sustainability. When formulating CSR projects, the Bank has focused on areas of national interest which are aligned to the achievement of the Sustainable Development Goals for which the Government seeks corporate sector partnership.

Economic Sustainability

80th Anniversary Mega Celebration event was carried out at BMICH with the participation of the President, Prime - Minister and some cabinet Ministers. Bank's Chairperson, Directors, Leadership Team, distinguished customers, employees, retired members of the BoC family, and strategic partners in growth as well as well-wishers. Throughout, the ceremony the Bank highlighted how it has contributed the Nations growth trajectory by effectively merging its business model with the Nation's growth priorities across many eras ranging from manual to knowledge based economic era.

Products Launched

- Bank's QR-code enabled mobile payment app - BoC Smart Pay
- PFC Smart Saver investment plan
- BoC 'Sansada' account
- BoC Smart Lady investment plan

Environmental Sustainability

"Haritha Arana: Preserving the Country's Biodiversity and Natural Habitats"

Designed with the objective of contributing to the Government's target of increasing Sri Lanka's forest cover to 32% and aligned to the SDGs of Climate Action and Life on Land, this initiative involves planting 80,000 trees in a degraded forest strip in Habarana. Conducted in partnership with the Ministry of Environment and Mahaweli Development and Department of Forest Conservation, the Bank planted 40,000 new saplings in a total area of 100 Ha and cleared weeds which allowed for the healthy growth of another growth-retarded plants of around 40,000. The area and trees to be planted were based on the recommendations of the Department of Forest Conservation. The Bank, as well as its employees contributed both financial resources and time for this initiative.

Social Sustainability

"BoC Yalu Para: Fostering a Culture of Responsible Driving"

This unique project is designed to nurture a culture of responsible driving and raise awareness on road rules with the objective of reducing road accidents, which claim over 2,800 lives every year in Sri Lanka.

Conducted with the support of the Sri Lanka Police, the project was launched at the Bank's 80th Anniversary Celebrations which was held on 1 August 2019.

The project is implemented in phases, with Phase 1 targeted towards the Bank's employees. Accordingly, seven awareness programmes were conducted for the Head Office and Provincial level staff in partnership with the Road Safety Division of Sri Lanka Police. Separate programmes were also conducted at provincial level. The Bank also developed and launched seven videos designed to raise awareness on road safety and road rules to be shared among employees as well as external stakeholders. These videos will be circulated through official WhatsApp groups and social media platforms of the Bank. Following the launch of the videos, employees were given the opportunity to pledge to be a responsible driver. In the next phase, the project will be extended to families of employees, corporate clients, customers and ultimately the general public.

Chairman's Message

Kanchana Ratwatte, **Chairman - Bank of Ceylon**

> "As Sri Lanka's most economically and socially impactful organisation, BoC has over the past eight decades played the pivotal role in the country's development journey."

Dear Stakeholder,

As the premier financial institution of this Island Nation enters its 81st year, we remain evermore resilient in order to face the trying times inflicted by a worldwide pandemic. We have weathered many a storm during our existence and have kept the wheels of finance moving by giving leadership to the entire financial sector of Sri Lanka. It is under these circumstances that I take pride and pleasure in presenting to you the Annual Report and Audited Financial Statements of Bank of Ceylon for 2019.

As Sri Lanka's most economically and socially impactful organisation, BoC has over the past eight decades played the pivotal role in the country's development journey. Its market leadership position as the country's largest financial institution operating the industry's most extensive branch network and the long-term relationships it has nurtured with diverse stakeholders places the Bank in a unique position to contribute directly towards the country's socio-economic empowerment. This was clearly evident following the cessation of the civil conflict in 2009, where BoC played a significant role in fostering equitable wealth distribution across the country, as one third of the economy re-entered the formal structure driving economic growth of over 6%. As a fully-state owned entity, the Bank's long-term objectives include both economic and social objectives as it continues to play a vital role in partnering the growth of individuals, entrepreneurs, businesses and the Government.

The Sri Lankan economy faced considerable challenges in 2019 with GDP growth slowing up to 2.3% during the year. Spillover effects of global dynamics coupled with prolonged impacts of the debilitating terror attacks in April had broad-based impacts on key sectors of the economy, resulting in a sharp deceleration in credit demand and weakening of investor sentiments. These dynamics directly impacted the country's banking sector which saw a slowdown in credit growth, an escalation in impairments and narrowing interest rate margins. Economic activity was further affected during the period leading up to the Presidential elections in November 2019, which saw investors adopting a wait-and-see approach. Despite these conditions, BoC delivered a resilient performance in 2019 recording a 10% growth in profit-after-tax to LKR 23.1 billion.

While 2020 commenced on a positive note, given anticipated policy stability and a conflict-free environment between the executive and legislature, the outlook is now considerably tempered by the global and domestic implications of the COVID-19 pandemic. The economic and human toll to Sri Lanka is yet to be fully determined, although stringent measures adopted by the Government to ensure social distancing and prevent a further spread of the virus will undoubtedly impact economic activity over the short-to-medium term, over the longer-term however, the fiscal and monetary policy stimulus provided by the Government is expected to strengthen

"As a responsible corporate citizen and Sri Lanka's leading Bank, we are cognisant of the role we can play..."

the country's SME sector, resulting in improved economic activity across key industries. Furthermore, possible debt moratoriums which are currently under negotiation between the Treasury and Sri Lanka's key bilateral lenders would provide immediate relief to the country's fiscal pressures, affording the necessary impetus to kick start the economy.

The Bank will continue to support the Government's development agenda, directing lending towards much needed areas of the economy while contributing towards national infrastructure development projects. Our long-term strategy will also focus on further enhancing the Bank's digital proposition, transforming the customer experience through offering seamless banking services and further strengthening our brand.

As a responsible corporate citizen and Sri Lanka's leading Bank, we are cognisant of the role we can play in propagating sustainable business practices in addressing critical social and environmental issues. BoC adopts a strategic approach to sustainability, focusing on the three key dimensions of economic, social and environmental sustainability. We made significant progress in all three fronts during 2019, including continued investments in green buildings and solar power generation, implementation of a comprehensive Environmental and Social Screening system as well as meaningful and impactful CSR activities; these initiatives are discussed in further detail in subsequent sections of this Report. We also offer a unique value proposition centred on skill development, engagement and opportunities for progression to our team of 8,503 employees.

Acknowledgements

As the Bank gears up for 2020, I wish to thank my colleagues on the Board for their valuable counsel and continued support. I also take this opportunity to praise the Management Team and all employees for delivering the results set out before you in a challenging year. I wish to extend my gratitude to the Hon. Minister of Finance and the Officials for the confidence placed in me and their continued support. My appreciation also goes out to the Governor and Officials of the Central Bank of Sri Lanka and the Auditor General and his team for their proactive actions in creating a conducive operating landscape for the financial sector. Finally, I wish to extend my gratitude to our valuable customers, suppliers, trade unions, business partners and communities for partnering us in our journey and I look forward to your support in the coming years.

Kanchana Ratwatte
Chairman

24 March 2020
Colombo

Outgoing General Manager's Review

Senarath Bandara, **Outgoing General Manager - Bank of Ceylon**

> "— The first local bank to cross LKR 50 billion in brand value and retaining its position as Sri Lanka's No.1 Banking brand.. —"

Dear Stakeholder,

The Bank of Ceylon continued to leverage on its unique value proposition to deliver sustainable stakeholder value, in a year characterised by numerous global and domestic challenges. The Bank maintained its market position as Sri Lanka's leading financial intermediary, emerging as the first local bank to cross LKR 50 billion in brand value and retaining its position as Sri Lanka's No.1 Banking brand, a position it has maintained consecutively for over a decade. It also received twenty two local and international awards and accolades for various aspects of its operations, attesting to the effectiveness of recent management interventions to reposition and re-energise the Bank. Most valuable banking brand in Sri Lanka 2019 - Brand Finance, Top 1000 Banks in the World - The Banker Magazine (UK), Most admired companies of Sri Lanka - 2019 by International Chamber of Commerce and the Top 10 Best Corporate Citizens in the Best Corporate Citizens Sustainability Awards - 2019 by Ceylon Chamber of Commerce are some prime awards we received during the year, out of those mentioned above. BoC also commemorated 80 years of service to the Nation in 2019, while its UK operations marked its 70th anniversary. Against this backdrop, it gives me great pleasure to present to you an overview of our strategy and performance in 2019.

Context to our Performance

The operating environment in 2019 presented numerous challenges for the economy as a whole and many key industries. The terror attacks in April led to a sharp downturn in the tourism sector, which in turn affected the entire hospitality value chain. Heightened security concerns and subdued sentiments in subsequent months adversely impacted overall economic activity, with consumer spending decelerating sharply. Investors also adopted a wait-and-see approach hoping for new policies in the months leading up to the elections, further impacting economic sentiments. These dynamics contributed towards liquidity stresses in many key sectors and value chains, leading to a broad-based influx of non-performing-loans across the banking sector. The banking sector was also impacted by the tightening regulatory and compliance environment, as the regulator imposed interest rate caps with a view to stimulating economic activity.

Changes in the country's political landscape towards the latter part of 2019 and the relatively accommodative monetary and fiscal policy stance adopted by the Government has led to an overall improvement in sentiments. Credit demand has shown gradually signs of recovery in the first few months of 2020 and relief granted to the SME sector in the form of moratoriums and

"— In view of escalating competition, unprecedented changes in technology and increasing customer sophistication, the Bank has identified four areas of focus which will form the foundation of its strategic actions over the next few years. —"

tax concessions is expected to stimulate activity over the longer-term. The short-to-medium outlook, however, is tempered by the yet uncertain impacts of the COVID-19 pandemic.

A Resilient Performance

BoC's performance in 2019 was understandably impacted by dynamics in the operating environment, although I am pleased to report that BoC performed relatively well in comparison to its peers. The Bank's total income increased by 8% in 2019, supported by loan growth of 9% as we continued to support the country's SME sector despite the prevalent conditions. Net interest income growth was relatively strong at 15%, while the Net-Interest-Margin improved to 3.2% reflecting smart margin management. Other Operating Income recorded a decline of 90% compared to the previous year, reflecting a normalisation of significant exchange gains recorded in 2018.

Impairment charges on loans and advances increased by 27% reflecting the industry-wide deterioration in portfolio quality. Meanwhile, proactive efforts undertaken to strengthen monitoring and recovery mechanisms enabled the Bank to limit its gross NPA ratio to 4.8% as at end-December 2019, more over in line with the industry average. Meanwhile, the growth in operating expenses was contained at 5% reflecting the Bank's strategic efforts towards driving automation and process efficiencies.

Overall, the Bank's operating profit before tax on financial services recorded a decline of 7% and also post-tax level, operating profit showed a sharper decline of 11% mainly due to the implementation of the Debt Repayment Levy during the year. However, a reversal of income tax stemming from SLDB investments during the year led to the Bank's total income tax declining 47%, which in turn resulted in the Bank's post-tax profit recording an increase of 10% to LKR 23.1 billion during the year.

The Bank recorded consistent balance sheet expansion, with total assets increasing by 6% to reach LKR 2,415.1 billion as at end-December 2019. Deposit growth was strong at 13% while total equity increased by 8% in view of stronger profit retention during the year. As a state-bank BoC faces limitations in approaching the market for capital raising activities; given enhanced capital requirements, we have been compelled to strengthen our capital base by relying solely on internal capital generation and managing the dividend pay-out.

Transforming the Bank

In view of escalating competition, unprecedented changes in technology and increasing customer sophistication, the Bank has identified four areas of focus which will form the foundation of its strategic actions over the next few years. These aspirations provide a clear blueprint on where we want to be over the long-term and the specific actions that would be required to maintain the Bank's market leadership and sustain its competitive edge over the long-term. The progress we made in the achievement of these objectives in 2019 is briefly discussed below; further information is available in subsequent sections of this Annual Report.

■ Excellence in Customer Service

We are committed towards driving a customer-centric proposition by transforming the customer experience and providing a consistent service across our touch points. This is aligned to our digital strategy, through which we are striving to increase digital adoption among our customers, by offering self-service channels and virtual platforms. During the year, we opened three DIGI centres, 143 CRMs and 67 Smart Zones across the island, and introduced a QR code-based mobile payment app - BoC Smart Pay. Our long-term strategy is to drive customer migration to digital channels for routine transactions, thereby freeing up employee time to pursue increased value addition. Given the demographic profile of our customer base, driving digital adoption continues to be a challenge although during the year BoC made considerable progress in this front with the digitally active customer base increasing by 16%. During the year, we also sought to optimise our brick and mortar model with the addition of four new branches and relocation of 22 branches to offer improved customer access and convenience.

Outgoing General Manager's Review

> **"— The Bank has adopted a strategic and holistic approach towards sustainability.. —"**

Leading the Digital Adoption

As Sri Lanka's leading bank and a state-owned entity, we are cognisant of the role we can play in supporting the achievement of the National Digital Policy and the Central Bank's Digital Road Map. Key elements of our digital transformation strategy include process automation, analytics and data enrichment, paperless banking and digital channels/ engagement. In 2019, we introduced six workflow solutions, made further investments in Document Management System (DMS), piloted paperless banking in four branches and introduced digital pads to 47 branches. These initiatives have resulted in a considerable reduction in paper consumption while reducing transaction turnaround times and driving increased efficiencies.

Retaining Market Leadership

While the Bank maintained its position as the undisputed market leader in financial services, we are cognisant of intensifying competitive pressures stemming from both traditional and non-traditional banks as well as fintech companies. In order to effectively retain our market leadership status and leverage on the unmatched strength of our brand, we engaged in concerted efforts to build brand visibility across all market segments while investing in digital engagement platforms to strengthen the appeal of the brand to the younger demographics.

Best in Sustainable Banking

As one of Sri Lanka's most economically and socially impactful organisations, we are aware of the role we can play in providing meaningful and effective solutions to emerging social and environmental issues. Given the increasing prevalence of climate related risks, natural disasters and widening income inequalities, the Bank has adopted a strategic and holistic approach towards sustainability, focusing on the three main dimensions of economic, environmental and social sustainability. By end-December 2019, we had converted 41 branches to solar, thereby contributing 1,855 Kwh of renewable energy to the national grid. The Bank also currently has three branches which have been constructed in compliance with guidelines for the Green Buildings issued by Green Building council Sri Lanka with 12 more branches in the pipeline. Social sustainability comprises ongoing CSR engagements in supporting education, health and wellbeing including You are a Leader programme, Nanajaya and Hapana scholarships as well as several reforestation programmes launched reiterate our commitment to Environmental Sustainability.

Stakeholder Value Creation

In 2019, we enhanced the mechanisms in place to ensure that we are responsive to our stakeholders and responsible in our value creation process. Employee training and development was a key priority during the year, and we focused on upskilling employees to thrive in a digital world, while driving attitudinal changes to better serve internal and external customers. Proactive engagement with employees was facilitated through multiple platforms aiming to drive team spirit and a sense of camaraderie among our multi-generational workforce.

We sought to further strengthen our customer value proposition by widening our product portfolio and added the Smart Saver-personal foreign currency saving account, Smart Lady (Women's investment plan) and Sansada account for Associations and Clubs during the year. In addition to investing in self-banking channels we also sought to enhance financial literacy through and education. As a Bank with an extensive rural presence and customer penetration rate of 63%, we play a significant role in driving financial inclusion across the country; for instance, we added five more Branch on Wheels to penetrate the country's unbanked segment and continued to channel funds to the country's most deserving segments through development credit schemes and our micro-financing programme 'BoC Mithuru'.

The Bank continues to be a key partner in the Government's economic development agenda, funding national infrastructure projects such as Road Development, Power Generation and Water distribution and Irrigation among others. We also play a vital role in supporting the country's SME sector and promoting entrepreneurship through various credit schemes. Total tax contribution during the year amounted to LKR 17.8 billion.

Risk Return Dynamics

From a risk management perspective, key areas of focus during the year included strengthening our credit risk management framework and enhancing the IT and cyber security infrastructure. Given rising impairments across the industry, the Bank sought to proactively engage customers through awareness programmes and recovery workshops. We also invested in strengthening employees' credit management skills, with nearly 5,000 employees undergoing training on credit appraisal and management. We are aware that the Bank's increasing thrust towards digitisation is likely to lead to increased exposure to IT vulnerabilities and continued to invest in upgrading the IT and Cyber security infrastructure in line with international standards. In 2019,

we completed the establishment of a dedicated Security Operations Centre and invested in Data Loss Prevention Solutions and Advanced threat protection for servers.

Acknowledgements

I would like to take this opportunity to extend my gratitude to the Chairman and Boards of Directors for their vision and valuable counsel. I also wish to thank the Corporate and Executive Management team, trade unions and all BoC employees who inspired me and offered their unstinted support over the years. I also wish to thank the Minister of Finance and Officials of the Ministry for their invaluable support. The Central Bank of Sri Lanka has provided sterling support in ensuring the creation of a stable and resilient financial sector and I wish to express my appreciation for their efforts. My gratitude also goes out to the Auditor General and his staff for the execution of the audit of the Financial Statements enabling the timely publication of this Report.

Further, I extend my gratitude to our valuable customers, who always kept their trust towards BoC.

Senarath Bandara
Outgoing General Manager

28 February 2020
Colombo

Acting General Manager's Review

D P K Gunasekera, **Acting General Manager - Bank of Ceylon**

> "The Bank's customer penetration is unmatched at over 63%, enabling it to directly contribute to the development of individuals, entrepreneurs, SMEs, mid corporates and corporates."

Dear Stakeholder,

It is my pleasure to pen this message to you as we present the Annual Report and Audited Financial Statements of the Bank of Ceylon for the financial year ending 31 December 2019.

BoC maintains its position as the undisputed market leader in Sri Lanka's financial services sector, accounting for more than 19% of assets and 22% of deposits of the Banking sector as at end-December 2019. The Bank's customer penetration is unmatched at over 63%, enabling it to directly contribute to the development of individuals, entrepreneurs, SMEs, mid corporates and corporates. As a state-owned entity, the Bank has and will continue to play a vital role in the Government's development agenda, through lending to projects of national importance, contribution to national coffers via dividend and tax employment generation and facilitating financial inclusion across the country. The role we play in ensuring the soundness of the financial sector of the country also significant as the largest Banking establishment of the country.

Despite the numerous challenges that prevailed in 2019, BoC continued to deliver on its stakeholder commitments supported by a holistic strategy, a committed team and effective governance and risk management structures. The Bank recorded profit growth of 10% during the year, while the balance sheet expanded by 6%. Key priorities during the year included strengthening the digital infrastructure, upskilling employees, preserving portfolio quality and building our brand. Further information on our strategic progress is discussed in detail in subsequent sections of this Report.

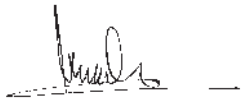
The outbreak of the Coronavirus (COVID-19) has brought the global economy to a crippling halt; the World Health Organisation declared COVID-19 as a pandemic on 11 March 2020, opining that the virus would inevitably spread to all parts of the world. With most countries implementing extraordinary measures to limit the spread, including lockdowns, curfews and large-scale quarantines, economies and businesses are expected to suffer significant distress over the next few months while recovery timelines become increasingly unpredictable. From BoC's perspective, our first priority is to ensure the safety of our team and customers. Necessary measures have been taken to enable staff of non-critical areas to work from home while stringent checks are in place for front-line staff who are inevitably exposed to outside parties. Many measures are also taken to ensure the safety of the customers who visits the Bank branches and ATMs. We are also cognisant of the role we have to play in ensuring the continued functioning of the country's payment and settlement

systems and facilitate cash circulation among masses; accordingly, in line with Government guidelines, all efforts have been made to continuously offer our essential services, albeit in a limited manner across all districts in the country.

At this point in time, it is premature to ascertain the exact economic impact of the pandemic on Sri Lanka's economy. However I am confident that the resilience and spirit of the Sri Lankan people will enable the country to overcome these challenges over the short-to-medium term. The recent relief measures and tax concessions announced by the Government is anticipated to support a turnaround in consumer spending while political and policy stability is likely to augur well for overall economic activity over the medium to long term. We are keen to support the Government's socio-economic development plans and will comply with the announced debt moratoriums while directing lending towards sectors and communities that have been earmarked to drive economic growth. We also remain optimistic with regards to the recovery of the local economy, particularly sectors such as agriculture, dairy and e-commerce which continue to demonstrate resilience and growth amidst this crisis. We hope to capitalise on the opportunities offered by these sectors while thereby supporting our customers and the country to overcome the economic challenges arising from COVID-19. Other areas of priority will include further strengthening our digital proposition, enhancing our brand, developing people and driving improvements in customer service.

Acknowledgements

I would like to extend my gratitude to the Chairman and Board of Directors for the confidence placed in me and look forward to their valuable counsel.
I wish to thank, the BoC leadership team, all employees and the trade unions continue to be a source of inspiration and I am certain that their spirit and commitment will enable us to overcome these challenging times. I also wish to thank the Minister of Finance, Officials of the Ministry, Auditor General and his staff and the Central Bank of Sri Lanka for their continued support. Finally, my warmest appreciation goes out to all our stakeholders including our valuable customers, business partners and suppliers for their continued patronage and support.



D P K Gunasekera
Acting General Manager

24 March 2020
Colombo

Empowering Communities

Our unparalleled customer reach, extensive geographical footprint and inclusive approach to lending enable us to contribute towards the economic empowerment of the country's most deserving segments.

LKR 68.4 billion

SME Loan disbursed during the year via scheme loans

LKR 9.4 billion

Micro finance loan disbursed during the year via scheme loans

17,740

No. of beneficiaries of financial literacy programmes

Organisational Overview

Who we are

Bank of Ceylon is Sri Lanka's leading financial institution with an unparalleled track record of eight decades in driving the country's socio-economic development through partnering the growth of individuals, businesses and the Government by providing access to finance and safeguarding public interest. A financial powerhouse with a customer penetration rate of over 63%, BoC accounts for a respective 19% and 22% of the banking industry's assets and deposits is by far the largest bank in the country. As a fully-state owned, Domestic systemically Important Bank, BoC's role extends beyond that of mere financial intermediation and its impact on the economic and social fabric of Sri Lanka is unmatched.

NO. 1

- Profit after tax
- Assets
- Deposits
- Gross loans and advances
- Inward Remittance

Sri Lanka's largest financial institution mainly in terms of assets, advances, deposits and profit. BoC also has the largest customer penetration ratio in the financial services industry, catering to over 13.7 million customers across the island through the widest reach.

LKR 2.4 trillion assets
LKR 2.0 trillion deposits
1,880 customer touch points (direct)

Sri Lanka's No.1 Banking Brand for 11 consecutive years

Brand value: **LKR 51.8 billion**

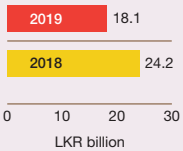
Social Impact

Direct employment generation: **12**
Value created to employees:
LKR 18,365 million
Investment in CSR: **LKR 67.9 million**
Spending on local suppliers:
LKR 10,416 million (97%)

Environmental Impact

Lending to renewable energy:
LKR 1,508 million
Solar powered branches: **41**
Solar power generated :
2,369,762 Kwh
No. of loans screened under ESMS: **115**

LKR 18.1 billion
Value creation to Government



LKR 571.3 billion
Investment in Government Securities

LKR 135.9 billion
Lending to infrastructure projects

LKR 77.8 billion
Disbursements to the SME and Micro-finance sectors via scheme loans

LKR 524.7 billion
Inward remittances facilitated

BoC is often the pioneering bank to establish a presence in rural regions, thereby playing a pivotal role in driving financial inclusion across the country.

581 branches
(445 outside the Western Province)

15 SME Centres

2,477 Mobile School Savings units and School "Sansada"

Performance

3.2% (2018: 3.1%)
NIM

1.3% (2018: 1.6%)
Return on average assets

16.8% (2018: 17.3%)
Return on average equity

LKR 29.7 billion (2018: LKR 33.4 billion)
Profit before tax

Portfolio Quality

4.8% (2018: 3.6%)
Gross NPL ratio

1.8% (2018: 1.0%)
Net NPL ratio

LKR 18.6 billion (2018: LKR 15.0 billion) Impairment charge

Capital and liquidity

11.16% (2018: 10.31%)
CETI ratio

11.16% (2018: 10.31%)
Tier 1 capital ratio

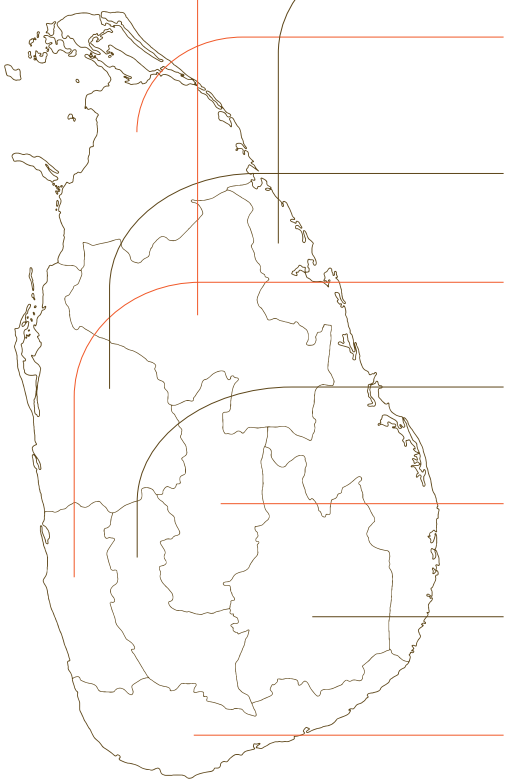
15.58% (2018: 14.58%)
Total capital ratio

4.9%
Leverage ratio

125.6% (2018: 115.0%)
Liquidity coverage ratio (all currency)

Our Reach

In addition to its extensive presence in Sri Lanka, the Bank has also established an international presence by operating three overseas branches in India, Maldives and Seychelles and a subsidiary in London, the UK. It also maintains relationships with 94 exchange companies in 19 counties further fortifying its international reach. During the last three years, in addition to increasing our reach via physical and digital touch points, we have also invested heavily in expanding our reach via virtual platforms.



North Central Province	50	03	01	91	15	02	01
Eastern Province	55	03	01	71	7	01	01
Northern Province	63	06	01	66	12	01	01
North Western Province	57	03	01	106	19	02	02
Western Province	126	18	02	294	50	03	01
Sabaragamuwa Province	49	02	01	79	13	01	02
Central Province	65	07	01	120	15	01	02
Uva Province	41	02	01	68	11	01	02
Southern Province	65	03	01	113	19	02	03

Corporate and Overseas Customer Touch Points

Corporate Branches	05	14	18	03	-
Premier Banking	01	-	01	-	-
Overseas Branches	03	01	06	-	-
FCBU	01	-	-	-	-
Mobile Unit	-	-	-	-	01

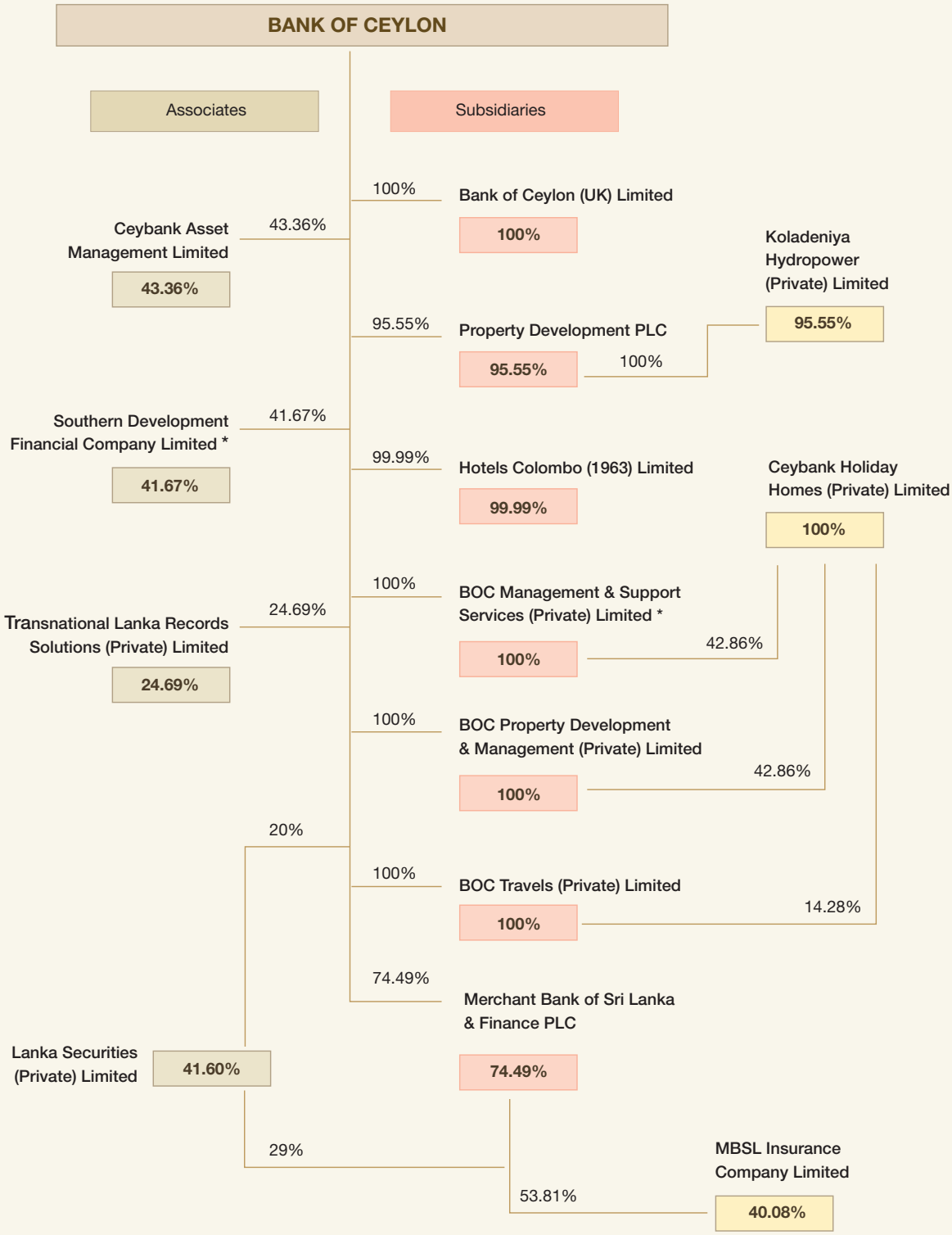
Total Customer Touch Points

Branches	581
Limited Service Branches	62
Mobile Branches	11
ATMs/ CRMs	1,033
CDMs	164
Regional Loan Centres	14
SME Centres	15

Virtual Touch Points

BoC Smart online Banking | BoC Smart Mobile Banking | BoC Smart Pay

Group Structure



** Not in Operation*

Board of Directors

Seated (Left to Right)

Mr Lalith P Withana
Independent
Non-Executive Director

Mr Kanchana Ratwatte
Chairman
Independent Non-Executive Director

Ms Visakha Amarasekere
Ex officio Director/
Non-Independent
Non-Executive Director

Standing (Left to Right)

Ms Janaki Senanayake Siriwardane
Secretary, Bank of Ceylon/
Secretary to the Board

Mr G Harsha Wijayawardhana
Independent
Non-Executive Director

Mr Hasitha Premaratne
Independent
Non-Executive Director

Mr Kanchana Ratwatte
Chairman
Independent Non-Executive Director
Date of appointment: 2 January 2020

Skills and experience:

A lawyer by profession, Mr Ratwatte has extensive experience in both civil and criminal law. He has also held several leadership positions in the public sector, particularly in the fields of commerce and administration. Additionally, he has held Board positions in several private sector enterprises in the fields of IT, security data printing, software development, BPO, insurance broking and securities. He holds a LL.B Degree from the University of Colombo.

Previous appointments:

Director General of the Telecommunications Regulatory Commission of Sri Lanka, Chairman of Sri Lanka Standards Institution and Ceylon Shipping Corporation Limited among others.

Ms Visakha Amarasekere
Ex officio Director/ Non-Independent, Non-Executive Director
Date of appointment: 11 January 2020

Skills and experience:

Ms. Amarasekere counts over 15 years' of experience at the Government Treasury, she holds a Bachelor of Science (Hons) Degree in Economics and Management from the University of London, UK and a Master of Arts in Development Economics from the Vanderbilt University, USA. She is a Member of the Chartered Institute of Management Accountants (CIMA) UK and is also a Chartered Public Finance Accountant.

Other appointments:

Director of the Department of External Resources of the General Treasury of the Ministry of Finance, Economy and Policy Development

Previous appointments:

She has represented the Government Treasury on the Boards of several key state-owned enterprises including the Ceylon Electricity Board, Ceylon Petroleum Corporation and People's Bank.

Mr Lalith P Withana
Independent Non-Executive Director
Date of appointment: 14 January 2020

Skills and experience:

Mr Withana counts over 25 years of experience in the corporate sector in the fields of Banking, Manufacturing and Trade with more than 18 years at Senior Management capacity. He holds a Master of Business Administration (MBA) from the University of Sri Jayawardenapura and a Bachelor of Arts (Hons.) Degree from the University of Manchester Metropolitan, UK. He is also a Fellow Member of the Chartered Institute of Management Accountants (CIMA), UK and the Institute of Chartered Accountants of Sri Lanka. He is also a Project Management Professional at the Project Management Institute, USA.

Other appointments:

Chief Executive Officer of Sri Lanka Catering Limited.

Previous appointments:

Independent Non-Executive Director on the Boards of Bank of Ceylon, Dankotuwa Porcelain PLC, Merchant Bank of Sri Lanka PLC, Ceylease Limited and Seylan Bank PLC. He has also been a Commissioner of the Telecommunication Regulatory Commission of Sri Lanka.

Mr G Harsha Wijayawardhana
Independent Non-Executive Director
Date of appointment: 14 January 2020

Skills and experience:

Mr Wijayawardhana is an IT professional with over 20 years of wide-ranging experience in the ICT industry. He was also recognised as one of the Internet pioneers of Sri Lanka and one of the seven founding members of LEARN. He has been involved in several Government ICT projects and has designed and implemented Government networks for the Ministry of Foreign Affairs and Information Department of Sri Lanka, etc. He was also responsible for establishing the Software Development Unit of the University of Colombo, as well as key national - level software projects such as Birth, Marriage and Death Certificate Issuance System and Householder lists at Divisional Secretariats. He holds a Bachelor of Science Degree from the University of Miami and is a Professional Fellow of the British Computer Society.

Other appointments:

Board member of nic.lk and Co-Chair of the Sinhala Generation Panel of ICANN. COO/CTO of Theekshana R&D which is one of the three, not - for - profit companies that had been set up in association with public universities in Sri Lanka.

Previous appointments:

Served on the Board of Directors of Lanka Government Information Infrastructure and has served as an ICT Consultant to the Telecommunication Regulatory Commission of Sri Lanka. Was also the founding President of Sri Lankan Chapter of the Internet Society (ISOC).

Mr Hasitha Premaratne
Independent Non-Executive Director
Date of appointment: 14 January 2020

Skills and experience:

A finance professional, Mr Premaratne has wide ranging experience in the fields of capital markets, economics, strategic finance, management and research. He also has over 11 years of experience as a lecturer for Chartered Institute of Management Accountants (CIMA), UK and Association of Chartered Certified Accountants, ACCA (UK) examinations in Sri Lanka, India, Singapore and Philippines and was awarded the prestigious "Tutor of the year award" at CIMA Global Financial Management Awards 2009 in London. He holds an MBA in International Finance and a BSc in Computer Science. He is a Fellow Member of the Chartered Institute of Management Accountants (CIMA), UK, Association of Chartered Certified Accountants, (ACCA), UK and the Institute of Certified Management Accountants (CMA), Sri Lanka.

Other appointments:

Group Finance Director of the Brandix Group, Managing Director of Brandix India Apparel City, Director of several subsidiaries of the Brandix Group including Teejay Lanka PLC, Committee Member of the Ceylon Chamber of Commerce and Board Member of the Sri Lanka Accounting and Auditing Standards Board.

Previous appointments:

Head of Research at HNB Stockbrokers (Private) Limited, Board Member of CIMA Sri Lanka.

Ms Janaki Senanayake Siriwardane
Secretary, Bank of Ceylon/
Secretary to the Board

Profile given on page 29.

Corporate Management

Seated (Left to Right)

Mr K E D Sumanasiri, Mr Senarath Bandara

Standing (Left to Right)

Mr D M L B Dassanayake, Dr. Indunil Liyanage, Mr C Amarasinghe
Mr P M Liyanage, Mr S T K Hewage

Seated (Left to Right)

Mr D P K Gunasekera, Mr W P Russel Fonseka
Ms Janaki Senanayake Siriwardane

Standing (Left to Right)

Mr A De S Pinnaduwage, Mr M M Luxaman Perera, Mr D N L Fernando
Mr M J P Salgado, Mr W N P Surawimala, Mr E M Jayaratne

Corporate Management

Mr Senarath Bandara

General Manager
(from 22 February 2018 to 2 March 2020)

Date appointed to the Corporate Management: March 2012

Skills and experience

A veteran banker, Mr Bandara holds over 30 years of multi-faceted experience in the Bank in its local as well as cross border operations. He has held leadership positions in various functions including Product Development, Sales and Channel Management, Treasury, Corporate banking, overseas operations and also the major technology transformation projects of the Bank. His overseas Banking experience includes holding the CEO position in BoC (UK) Ltd.

He holds a BSc degree in Physical Science (University of Kelaniya), MBA (Merit) from the Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura (USJ) and Postgraduate Executive Diploma in Bank Management from Institute of Bankers Sri Lanka (IBSL). He is also a fellow member of the same. Further, he has also completed the Advanced Management Programme of the Harvard Business School, USA.

Other appointments

- Chairman of the Asia Pacific Rural and Agricultural Credit Association (APRACA)
- Member of the Governing Board of IBSL

Directorships in the Group Companies

Director of MBSL, HCL, HH, MSS, PDML, Travels, BoC UK and Ceybank Asset.

Mr D P K Gunasekera

Senior Deputy General Manager (International, Treasury and Investment)
Appointed as the Acting General Manager Since 02 March 2020

Date appointed to the Corporate Management: February 2013

Skills and experience

With over 40 years of diverse experience in the Bank, Mr Gunasekera has deep insights in the areas of Retail and Corporate Banking, Treasury and Money Market Operations and overseas branch operations. Having held DGM positions in Corporate Divisions and International, Treasury, Investment and Overseas Divisions, Head of Treasury position in Chennai Branch and also experience in BoC (UK) Ltd has further widened his experience.

He holds a BSc degree in Business Administration (University of Sri Jayewardenepura) and MBA (University of Southern Queensland, Australia). He has also obtained a Postgraduate Diploma in Business and Financial Administration from Institute of Chartered Accountants of Sri Lanka and has obtained training through the Management Development Programme of PIM (University of Sri Jayewardenepura). He also hold an Associate Membership of the IBSL.

Other current appointments

- Member of the Board of Lanka Securities (Private) Limited
- Member of the Special Standing Cabinet appointed Procurement Committee of the Ceylon Petroleum Corporation

Directorships in the Group Companies

Director of MSS, Ceybank Asset and LSL.

Mr W P Russel Fonseka

Chief Financial Officer/ Senior Deputy General Manager (Corporate and Offshore Banking)

Date appointed to the Corporate Management: March 2012

Skills and experience

He has served the Bank for 30 years across its local and overseas operations in various capacities including DGM-Retail Banking, International, Treasury and Investment and Corporate and Offshore Banking while specialises in financial management, budgets and strategic planning.

Mr Fonseka holds a BSc (Special) degree in Business Administration and Post Graduate Diploma in Management (PIM) from University of Sri Jayewardenepura, MBA (University of Southern Queensland, Australia) and has completed the Advanced Management Programme at the Harvard Business School, USA. He is also a fellow member of the Institute of Chartered Accountants of Sri Lanka and a Senior Fellow Member of the IBSL.

Other current appointments

- Chairman of Audit Committee at MBSL
- Chairman of Audit Committee of PDL
- Alternate Director on the Board of LankaClear (Private) Limited, as the Chairman of the Audit Committee

Directorships in the Group Companies

Director of MBSL, PDL and TLRS.

BoC UK – Bank of Ceylon (UK) Limited, PDL – Property Development PLC, HCL – Hotels Colombo (1963) Limited, MSS – BOC Management & Support Services (Private) Limited, PDML – BOC Property Development & Management (Private) Limited, Travels – BOC Travels (Private) Limited, MBSL – Merchant Bank of Sri Lanka & Finance PLC, MBSL Insurance – MBSL Insurance Company Limited, KHP – Koladeniya Hydropower (Private) Limited, HH – Ceybank Holiday Homes (Private) Limited, Ceybank Asset – Ceybank Asset Management Limited, TLRS – Transnational Lanka Records Solutions (Private) Limited, LSL – Lanka Securities (Private) Limited.

Mr K E D Sumanasiri

Senior Deputy General Manager (Human Resource)

Date appointed to the Corporate Management: April 2013

Skills and experience

He counts over 30 years' of experience at the Bank, having held senior leadership positions in Recoveries and Human Resource management. He also has wide exposure in areas such as Retail Banking, Micro Finance, Corporate Finance and Learning and Development.

He holds a BSc (Hons.) degree in Business Administration and has completed special management course of Higher Management and Public Policy for Business Leadership and Management Development Programme for Key Management Personal offered by PIM (University of Sri Jayewardenepura). Also he has undergone a leadership training programme offered by the Harvard Business School of USA. He is also an Associate Member of the IBSL and a fellow member of the Institute of Certified Professional Managers.

Other current appointments

- An Alternate Director of the Governing Board of IBSL

Directorships in the Group Companies

Director of KHP, HH and HCL.

Ms Janaki Senanayake Siriwardane

Secretary, Bank of Ceylon/ Secretary to the Board

Date appointed to the Corporate Management: October 2010

Skills and experience

An Attorney – at Law by profession, Ms Siriwardane has served the Bank for 24 years, with extensive experience in the Company Secretarial work and Corporate Governance.

She holds a Bachelor's Degree in Law and MBA (Merit) from the University of Colombo. She is also a finalist in the Charted Secretaries.

Mr D N L Fernando

Chief Risk Officer

Date appointed to the Corporate Management: December 2015

Skills and experience

He has served the Bank for 34 years with multi-faceted experience in Retail Banking, Recoveries, Product and Development Banking and Risk Management. Among others, he also has gained extensive experience in serving overseas branches of the Bank, including being CEO in BoC (UK) Ltd.

He holds a BSc degree in Mathematics from the University of Colombo and is an Associate member of the IBSL.

Directorships in the Group Companies

Director of MBSL, Alternate Director of PDL.

Mr M M Luxaman Perera

Head of Information Technology

Date appointed to the Corporate Management: August 2013

Skills and experience

An IT professional, Mr Perera holds over 34 years of experience within the Bank having led multiple digitisation and ICT projects including core-banking applications.

He holds a BSc (Hons) degree in Science, MSc in Computer Science and MBA from the University of Colombo. He also holds Fellow Membership of the Computer Society of Sri Lanka and Membership of the British Computer Society.

Other current appointments

- The Former Chairman of Bank's CIO Forum
- Member of the FINCSIRT Steering Committee

Mr C Amarasinghe

Deputy General Manager (Sales and Channel Management)

Date appointed to the Corporate Management: July 2016

Skills and experience

He counts over 30 years of experience in the Bank and has held leadership positions in Retail Banking, Sales and Channel Management and Corporate and Offshore Banking operations.

He holds a BSc (Special) degree in Public Administration and MSc in Management from the University of Sri Jayewardenepura and also holds an Associate Membership of the IBSL.

Other current appointments

- Member of the Governing Board of the IBSL
- Alternate director of CRIB
- President of the Association of Professional Bankers of Sri Lanka

Directorships in the Group Companies

Director of MBSL, Alternate Director in PDML.

Mr M J P Salgado

Deputy General Manager (Product and Banking Development)

Date appointed to the Corporate Management: July 2016

Skills and experience

Having served the Bank for over 30 years, Mr Salgado has held senior leadership positions in Province Sales, Credit Card operations and Product and Banking Development.

Corporate Management

He has played a leading role in implementing digital transformation and digital adoption projects of the Bank.

He holds a B.Com (Special) degree from the University of Sri Jayewardenepura. He is also an Associate Member of the IBSL, Member of the Association of Accounting Technicians of Sri Lanka and a Licentiate Certificate Holder of the Institute of Chartered Accountants of Sri Lanka.

Other current appointments

- Director of Regional Development Bank.

Mr D M L B Dassanayake

Deputy General Manager (Recovery Provinces)

Date appointed to the Corporate Management: December 2016

Skills and experience

He counts 37 years of experience in the Bank specialising in Corporate Credit and Bank's overseas operations specially holding key positions in Bank's overseas branches in Malé and BoC (UK) Ltd. He has held Country Manager Position in BoC Male`. In addition, he has also held leading positions in Retail Credit and Recovery Divisions of the Bank.

He holds a BA (Economics Special) degree from the University of Peradeniya, MBA from Mahatma Gandhi University, India and a Postgraduate Diploma in Business and Financial Administration from the Institute of Chartered Accountants of Sri Lanka. He is also an Associate member of the IBSL.

Directorships in the Group Companies

Director of KHP.

Mr E M Jayaratne

Deputy General Manager (Retail Banking – Range I and Range II)

Date appointed to the Corporate Management: August 2018

Skills and experience

With over 37 years of multi-faceted experience in the Bank, Mr Jayaratne's areas of expertise include Retail and cross-border credit operations, specially holding Credit Manager position in BoC Malé Branch.

He holds a MBA from the University of Wayamba and Post Graduate Diploma in Bank Management (IBSL). Further, he also holds an Associate Membership of the IBSL.

Directorships in the Group Companies

Alternate Director of Travels.

Mr W N P Surawimala

Deputy General Manager (Recovery Corporate)

Date appointed to the Corporate Management: August 2018

Skills and experience

He counts 28 years of service to the Bank with exposure to areas such as Retail banking, Corporate banking, Offshore banking and Recovery operations. Further, by serving in BoC Chennai branch he has gained experience in to cross-border operations of the Bank.

He holds a BSc (Special) degree in Public Administration and MSc in Management, specialising in Banking and Finance from the University of Sri Jayewardenepura. He has also completed the Management Development Programme for Key Management Personnel from the PIM and is an Associate Member of the IBSL.

Directorships in the Group Companies

Director of TLRS.

Mr S T K Hewage

Chief Legal Officer

Date appointed to the Corporate Management: August 2019

Skills and experience

An Attorney-at-Law, Mr Hewage counts over 34 years of experience in the Bank and has held senior legal positions in Corporate, Recovery and International and Investment Banking.

He holds a Bachelor's Degree in Law and, is a Notary Public. He is also a member of the Bar Association of Sri Lanka and a member of the Association of Corporate Lawyers of Sri Lanka. He has significant experience in banking law especially in the areas of recovery, insurance and ICT.

Directorship in the Group of Companies

- Director of MSS and Travels

Mr A de S Pinnaduwage

Deputy General Manager - Compliance

Date Appointed to the Corporate Management: August 2019

Skills and experience

The Bank's Compliance Officer since 2013, Mr Pinnaduwage has served the Bank for over 30 years in multiple capacities including Retail credit, Recoveries and Branch banking. He has also led projects in automation including leasing and regulatory systems.

BoC UK – Bank of Ceylon (UK) Limited, PDL – Property Development PLC, HCL – Hotels Colombo (1963) Limited, MSS – BOC Management & Support Services (Private) Limited, PDML – BOC Property Development & Management (Private) Limited, Travels – BOC Travels (Private) Limited, MBSL – Merchant Bank of Sri Lanka & Finance PLC, MBSL Insurance – MBSL Insurance Company Limited, KHP – Koladeniya Hydropower (Private) Limited, HH – Ceybank Holiday Homes (Private) Limited, Ceybank Asset – Ceybank Asset Management Limited, TLRS – Transnational Lanka Records Solutions (Private) Limited, LSL – Lanka Securities (Private) Limited.

He is a Graduate from the University of Ruhuna, Sri Lanka with a Bachelor of Science (Special) degree in Agriculture Science. He had been representing Corporate Management Committee as a permanent observer for last four years.

He is also a Fellow Member of the Institute of Bankers of Sri Lanka and has obtained the Postgraduate Executive Diploma in Bank Management from the same institute.

Currently he holds Head of Compliance position of the Bank and also oversees compliance framework of all its subsidiaries and permanent invitee of the Board Integrated Risk Management Committee for last five years.

Dr. Indunil Liyanage

Chief Marketing Officer

Date appointed to the Corporate Management: September 2012

Skills and experience

A marketing professional, Chartered Marketer, Dr. Liyanage holds over 30 years of marketing experience and he is professionally and academically qualified in three different disciplines namely Marketing, Management and Finance. He has experience in the field of Marketing in Financial Services, Fast Moving Consumer Goods (FMCG), electronic and agriculture industries.

He holds a PhD from the University of Colombo, MSc in Management from the University of Sri Jayawardenepura and PG. Dip. In Marketing from the Chartered Institute of Marketing (UK). He is also a Chartered Marketer CIM (UK). He holds Fellow Memberships in Chartered Institute of Marketing (UK) (FCIM) and Sri Lanka Institute of Marketing (FSLIM).

Dr. Liyanage was awarded with the prestigious National APEX Award 2016 (Pinnacle Award 2016) for Marketing by the Organisation of Professional Associations of Sri Lanka (OPA).

He was also honoured in the "Most Influential Marketing Leaders Listing" at the World Marketing Congress 2015 in Mumbai, India and also honoured with the "50 Most Talented CMOs Award" at the Golden Globe Tiger Awards 2013, World Marketing Summit held in Malaysia.

Mr P M Liyanage

Chief Internal Auditor

Date appointed to the Corporate Management: December 2014

Skills and experience

A finance professional with over 20 years of post-qualified experience, prior to join the Bank he has served in several other Banks and Financial institutes in similar capacities.

He holds a BSc (Special) degree in Accountancy and Finance from the University of Sri Jayewardenepura and is also a Fellow member of the Institute of Chartered Accountants of Sri Lanka and a Member of Certified Information Systems Auditors (CISA) of ISACA – USA.

Executive Management

Left to Right
Mr G A Jayashantha - Assistant General Manager (Offshore Banking), **Mr M D A Karunaratne** - Assistant General Manager IT (Delivery Channels), **Ms H M C M Maldeni** - Assistant General Manager IT (Application Systems), **Mr D S Muthukudaarachchi** - Country Manager (Chennai), **Mr Y A Jayathilaka** - Assistant General Manager (Province Sales Management), **Ms W B P Rathnayake** - Assistant General Manager (Corporate Credit), **Mr G R De Silva** - Assistant General Manager (Investigations), **Mr A R F John Pulle** - Assistant General Manager (Risk Management)

Left to Right
Mr M P Ruwan Kumara - Assistant General Manager (Budget Strategic Planning and MIS), **Mr W Ranjith** - Assistant General Manager (North Central Province), **Ms M H S Mala** - Assistant General Manager (Development Banking), **Mr H P K Silva** - Assistant General Manager (Western Province North), **Ms P P M Wijesekara** - Assistant General Manager (Overseas Branches), **Mr B K Gurusinghe** - Country Manager (Malè), **Ms A M R D Subasinghe** - Assistant General Manager (Pettah Branch), **Mr M D C Nilantha** - Chief Executive Officer (Bank of Ceylon (UK) Limited)

Left to Right
Ms T Perera - Assistant General Manager (Branch Credit - Range I), **Mr I S N Perera** - Assistant General Manager (Western Province South), **Ms R M K S M Ratnayake** - Deputy Chief Legal Officer (Credit), **Mr K G C Deepal** - Assistant General Manager (Information Systems Audit), **Ms R M M Weerasekera** - Assistant General Manager (Metropolitan Branch), **Mr L J Dissanayake** - Country Manager (Seychells), **Ms J Gnanasambanthan** - Assistant General Manager (Investment Banking), **Ms P N Gomes** - Assistant General Manager (Recovery Corporate)

Left to Right
Mr R M N Jeewantha - Assistant General Manager (Treasury), **Ms M M R P Fernando** - Assistant General Manager (Trade Services), **Mr M R N Rohana Kumara** - Assistant General Manager (Branch Credit Range II), **Ms Zeena Ruwais** - Assistant General Manager (Credit, Province and Branch Audit), **Mr K A D Wijayawardhena** - Assistant General Manager (Human Resources Operations), **Ms S P C K Fernando** - Assistant General Manager (Corporate Relations), **Mr S Sivanjan** - Assistant General Manager (International), **Ms K P Mallika** - Assistant General Manager (Treasury Back Office)

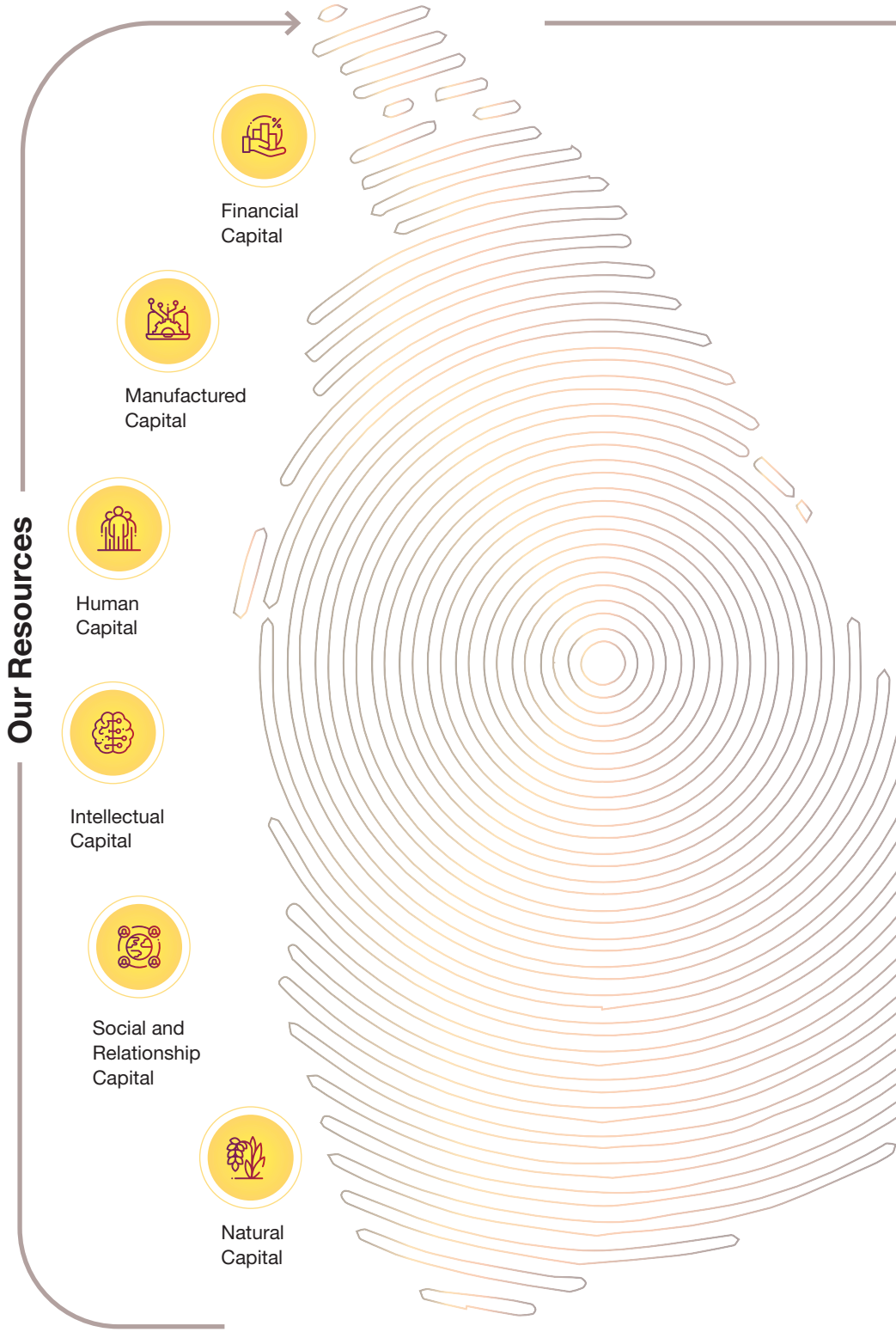
Left to Right
Mr G K G Mahinda Bandara - Assistant General Manager (Administrative Services), **Ms P M Withana Arachchi** - Assistant General Manager (Support Services), **Mr D A S S Wimalasiri** - Assistant General Manager (Uva Province), **Ms D R C S Udayakumari** - Assistant General Manager (Sabaragamuwa Province), **Mr W M A Wanigasekera** - Assistant General Manager (Accounting and Tax), **Ms K K I C K Kannangara** - Assistant General Manager (Project Management), **Mr W A Upali** - Assistant General Manager (North Western Province), **Mr S Aruna Kumara** - Assistant General Manager (Electronic Banking Centre)

Left to Right
Mr M T S A Perera - Assistant General Manager (Product Development and Business Process Re - Engineering Project), **Ms K J Yogaratnam** - Assistant General Manager (Eastern Province), **Mr S K Wickramasinghe** - Assistant General Manager (Marketing), **Ms S H M M P Herath** - Assistant General Manager (Recovery Provinces), **Mr K A A Karunaratne** - Assistant General Manager (Southern Province), **Ms H M M D Herath** - Assistant General Manager (Central Province), **Ms S Pirapaharan** - Assistant General Manager (Northern Province)

Value Creation Model

BoC's Value Creation Process

The Bank's key role is financial intermediation through which it bridges the funding requirements of individuals and businesses with depositors/ funding providers who have excess funds for investment. The Bank creates value on both sides of the balance sheet, through offering attractive investment returns to fund providers while disbursing funding to borrowers at affordable interest rates. This value creation process is powered by a team of 8,503 employees who serve across the Bank's extensive network of 581 Branches. Customer relationships are facilitated through both brick and mortar contact points and digital and virtual platforms. The Bank is also reliant on the relationships it has nurtured with its business partners, its organisational tacit knowledge, brand strength and natural resources to drive its value creation in a commercially, economically socially and environmentally sustainable manner.



Operating Environment (page 39)

Value Creation → Outputs → Outcomes

BANKING ACTIVITIES

Impact and risks →

- Lend money to individuals, SMEs, corporates and the Government
- Source funding from customers and fund providers
- Transactional banking services
- Group operations

STRATEGIC PRIORITIES

- **Excellence in customer service** *Page 64*
  Offer relevant and attractive products combined with excellent customer service through convenient platforms
- **Stay ahead in digital adoption** *Page 64*
  Driving increasing digitisation and automation in processes to enhance customer convenience and Internal process efficiencies while strengthening the cyber risk management
- **Retaining market leadership** *Page 64*
  Achieve sustainable top line growth while effectively managing all asset, liabilities, costs and income sources.
- **Best in Sustainable Banking** *Page 64*
  Economic, Environment and Social Sustainability and triple bottom line approach to value creation

Strategic enablers *Page 65*

- Service Care and Customer Tangibility
- Credit Culture and Quality
- Technology and Cyber Security
- Sustainable Business
- Brand Building
- Human Capacity Building
- Our Presence
- Process Streamlining and Innovation
- Good Governance, Ethics and Risk Management

Income Statement Impact and Associated Risk

Interest income - Exposed to Credit risk, Interest rate risk and Repricing risk

Interest expenses - Exposed to Interest rate risk, Repricing and Re-financing risk

Net fee and commission income - Market risk, Operational risk and Compliance risk

Trading and Other income - Exposed to Market risk and Exchange rate risk

Other outputs/ impacts

Operating expenses
Investment in staff training
Investment in communities
Discharge of carbon emissions

Shareholders

Financial return commensurate with the risk undertaken

Government
(Sole Shareholder)

Contribution through taxes, dividend, investment in Government securities, facilitating economic activity and indirect economic impacts

Customers

Access to affordable and relevant financial solutions together with convenience and beyond or expected level of service

Employees

Competitive remuneration, equitable treatment, opportunities for skill and career development in a conducive environment

Business Partners

Mutual business expansion

Communities

Indirect job creation in communities
Socio-economic empowerment CSR

Capitals Scorecard

The Bank utilises resources (defined as 'capitals' in the IR Framework) which are enhanced and nurtured to generate stakeholder value. The following Capitals Scorecard provides a high-level overview of how the Bank utilised and enhanced its capital during the year.

Resource/ Capitals	Indicator	2019	2018	Initiatives drive value creation in 2019
Financial Capital A strong funding base and diverse funding profile which allows the Bank to drive its strategic aspirations	Interest income as a percentage of total income	92%	88%	New bilateral relationships Special deposit campaigns Strengthened recovery mechanisms to preserve portfolio quality *(Page 121)*
	Customer deposits	LKR 2,005.2 billion	LKR 1,771.0 billion	
	Borrowings	LKR 226.2 billion	LKR 350.0 billion	
Manufactured Capital Physical infrastructure which facilitate our island-wide customer reach and digital and virtual infrastructure which drives customer convenience, agility and process efficiency in addition to wider reach	Property, plant and equipment	LKR 25.6 billion	LKR 24.2 billion	Review of Dividend policy Process automation and digital initiatives aligned to CBSL's Digital Road Map Standardising customer experience across branch network Expansion of CRM network *(Page 95)*
	Investment on Digital infrastructure	LKR 1,697.9 million	LKR 1,963.5 million	
	Branches and Limited Service Branches	643	629	
	ATM/ CRMs	1,033	894	
	CDMs	164	163	
	Smart Zones	351	284	
	Branch on wheels	11	6	
Human Capital Our diverse and engaged workforce facilitate our customer experience and allow us to respond rapidly to industry dynamics	No. of employees	8,503	8,724	Ongoing investment in training and development with focus on driving attitudinal change Promote better work-life balance across the organisation *(Page 90)*
	Retention rate	99%	98%	
	Investment on training per employee	LKR 27,437.4	LKR 39,591.9	
	Promotions during the year	821	174	
	Value distributed to employees	LKR 18,365.0 million	LKR 17.351.5 million	
Intellectual Capital In addition to our brand and tacit knowledge, this includes our drive for digital transformation and capacity for innovation	Brand value	LKR 51.8 billion	LKR 42.9 billion	Concerted efforts to strengthen brand across all segments and ensuring brand consistency across all platforms Process automation and digital onboarding of customers Piloted paperless banking in four branches *(Page 87 and 97)*
	Cumulative service experience	78,132	81,2678	
	Digitally active customers	6.8 million	4.5 million	
Social and Relationship Capital The relationships we have nurtured with our customers, business partners and communities we operate in	Customers	13.7 million	13.4 million	Increased engagement with customers across segments Developments of new products catering to women and tech savvy youth Pursued increased penetration across the younger demographics Launch of InnovBank an international symposium to drive stakeholder collaboration on driving digital revolution in the banking industry CSR initiates on improving health and wellbeing of customers and promoting education among children *(Page 68 and 78)*
	Business partners	7,177	9,722	
	Financial literacy programmes conducted for customers	196	113	
	Payments to suppliers	LKR 10,774.7 million	LKR 9,704.2 million	
	Investment in CSR	LKR 67.9 million	LKR 108.0 million	
	No. of Correspondent relationships	675	857	
Natural Capital We impact the environment through the natural resources we consume and the outputs we generate such as waste and emissions	Renewable energy generated	2,369,762 Kwh	885,238 Kwh	Community engagement initiatives focusing on environmental conservation Ongoing efforts to enhance energy efficiency and drive reductions in carbon footprint *(Page 78)*
	Carbon emissions	17,194 Tons CO2eqv.	13,256 Tons CO2eqv.	
	No. of solar powered branches	41	27	

Value Added Statement

An analysis of the Bank's value creation and allocation among the key stakeholders is depicted below.

	2019 LKR millon	2018 LKR millon	Change %
Value Added			
Income earned by providing banking services	**235,632**	217,805	8
Cost of services	**(139,721)**	(125,649)	11
Value added by banking services	**95,911**	92,156	4
Non - Banking Income	**3,485**	3,216	8
Impairment charges for loans and other losses	**(18,598)**	(15,041)	24
Value Addition	**80,798**	80,331	1
Value Allocation			
To Employees			
Salaries, wages and other benefits	**18,365**	17,352	6
To Government			
Dividends paid to Government of Sri Lanka	**346**	4,846	(93)
Income tax	**7,277**	9,724	(25)
Taxes on financial services	**10,521**	9,588	10
	18,144	24,158	(25)
To Community			
Social responsibility projects	**68**	108	(37)
To Providers of External Funds			
Interest on other borrowings	**12,341**	12,512	(1)
Interest on debt issued	**6,114**	5,154	19
	18,455	17,666	4
To Expansion and Growth			
Retained profit	**22,752**	16,157	41
Depreciation and amortisation	**3,704**	2,200	68
Deferred taxation	**(690)**	2,690	(126)
	25,766	21,047	22
	80,798	80,331	1

Economic Value Added (EVA)

Economic Value Added (EVA) indicates the true economic profit of a company. EVA is an estimate of the amount by which earnings exceed or fall short of required minimum return for shareholders at comparable risks. EVA of the Bank stood at 19,873 million as of 31 December 2019 against 17,510 million in 2018.

	2019 LKR millon	2018 LKR millon	Change %
Invested Capital			
Average Shareholders' funds	**137,226**	121,662	13
Add: Cumulative provision for loan losses	**98,956**	81,427	22
	236,182	203,089	16
Return on Invested Capital			
Profit after taxation as reported	**23,098**	21,003	10
Add: Provision for loan losses	**18,598**	15,041	24
Less: Loans written off	**(94)**	(32)	194
Total return on invested capital	**41,602**	36,012	16
Opportunity cost of invested Capital*	**(21,729)**	(18,501)	17
Economic Value Added	**19,873**	17,510	13
* Weighted average 12 months Treasury bill rate	**9.20%**	9.11%	

**Calculated based on weighted average 12 months Treasury bill rate 2019 - 9.20% (2018 - 9.11%)*

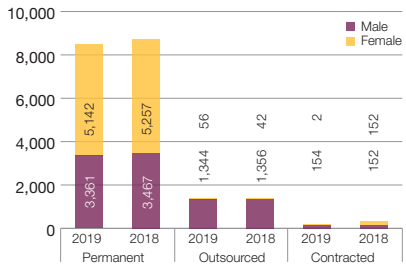
Our Team

The BoC team of 8,503 engaged employees remains key to our success as they play a vital role in facilitating the customer experience, are ambassadors of our brand and drive our strategic aspirations. We aspire to create an inclusive and conducive environment in which employees can thrive, attested by relatively low attrition rates and high satisfaction levels. Given the diversity of our extensive customer base, we understand the importance of building a similarly diverse team which is able to understand and effectively respond to varied customer needs. The Bank does not engage employees on a part-time basis.

Gender Diversity

We are focused on enhancing gender diversity through creating a workplace and culture that understands, supports and empowers women

Employment by Contract and Gender



Employees by Type and Gender

	Corporate Management		Executive Management		Chief Manager		Senior Manager		Br. Manager and Asst. Managers		Management trainees and other Officer grades		Staff assistants and Allied grades		Office Assistants and Allied Grades	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Male	13	12	26	29	40	56	94	90	455	409	847	929	1,471	1,520	415	422
Female	1	3	21	17	38	43	119	86	658	658	1,790	1,853	2,499	2,581	16	16

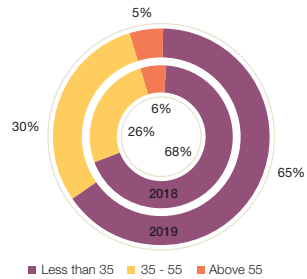
Multi-Generational Workforce

The Bank employs a multi-generational workforce demonstrating its attractiveness as an employer across generations.

Employees by Type and Age

	Corporate Management		Executive Management		Chief Manager		Senior Manager		Br. Manager and Asst. Managers		Management trainees and other Officer grades		Staff assistants and Allied grades		Office Assistants and Allied Grades	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Less than 35	0	0	0	0	0	0	0	0	124	175	1,691	1,940	3,584	3,697	126	133
35-55	1	2	35	26	56	69	183	140	901	746	843	705	299	309	271	273
Above 55	13	13	12	20	22	30	30	36	88	146	103	132	87	100	34	32

Employees by Age



Employee Reach

Our employees are spread across all nine provinces of Sri Lanka and in 13 overseas countries.

Location	Permanent	Contract
Western	3,732	73
Southern	738	19
Sabaragamuwa	558	11
Uva	464	4
North Western	700	8
Central	724	18
North Central	586	9
Eastern	467	7
Northern	534	7

100% Senior management hired from local communities

41 Deployed in overseas locations

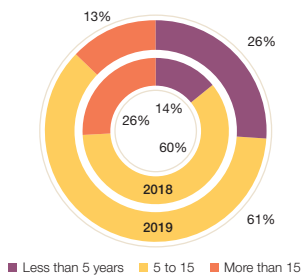
17 No. of differently abled employees

Skill Base

78,132

Collective experience of employees (in years)

Employees by Tenure



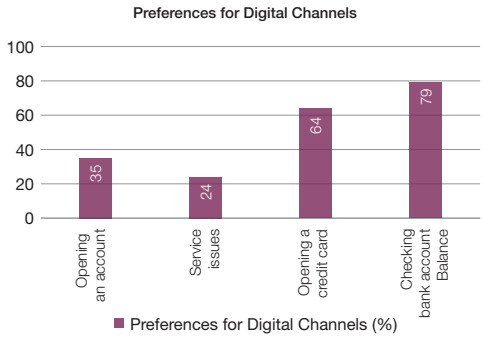
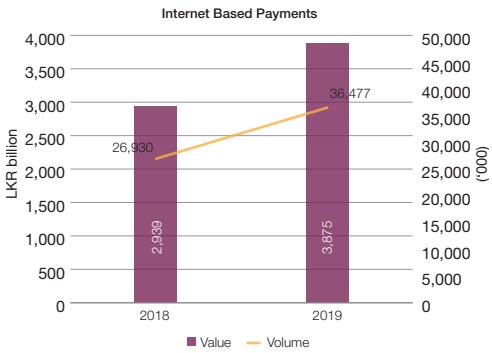
Operating Landscape and Risk Return Dynamics

Operating Landscape Opportunities and Risks

The material topics listed on page 42 present both opportunities and risks for the Bank's value creation. Key exposures and what the Bank is doing to effectively address these risks and/ or capitalise on the presented opportunities are summarised in the table below;

Material topics related - recent developments	Opportunities presented	Potential risks	How we are responding
Macro-economic and policy trends Sri Lanka's economic growth moderated in 2019 following the Easter Attacks and a relatively tight monetary and fiscal stance adopted by the Government. Sweeping tax concessions and relaxation of the monetary policy by the new Government is likely to result in a revival of the economy in 2020. Key policy developments which could directly impact the banking sector include, • Moratorium and relief package granted to SMEs • Concessions to chosen industry sectors • Tax concessions offered to the businesses and individuals *Refer page 117 for further information*	Expected revival of credit demand, particularly in the SME sector More connectivity with international investors for foreign inflows	Potential short-term impact on cash flows arising from moratorium Fiscal slippage due to upcoming general elections	As a state-owned, Systemically Important Bank we are committed to supporting the National development agenda and will continue to fulfil the funding requirements of the country's SME sector, while taking advantage of the retained cash of the businesses to drive them more towards new investments and to boost the economy and the business Strategic enabler, Sustainable Business and Credit Culture and Quality have specific actions to grab the opportunities arising and to mitigate the associate risks from these developments *Refer pages 71 and 78 for further information*
Talent management and labour relations Attracting and retaining the right talent is increasingly challenging given different expectations and career ambitions of the younger workforce. Increasing thrust towards digitisation has also led to a change in the skill composition required, with intense demand for talent in IT and data analytics among others	Attracting younger talent to drive the Bank's growth and digital aspirations Building an agile and highly skilled workforce	Increased labour costs due to the need for specialised skills Labour turnover, particularly among the younger demographic	Concerted efforts to enhance technical skills, drive attitudinal changes and driving congruence among our multi-generational employee categories. Human Capacity Building is the key Strategic enabler supporting the Bank towards these efforts *Refer page 90 for further information*

Operating Landscape and Risk Return Dynamics

Material topics related - recent developments	Opportunities presented	Potential risks	How we are responding
Customer experience Customer expectations are changing rapidly with increased demand for personalised service, instant accessibility and convenience. The wider use of digital platforms has also led to reduce brand loyalty and financial institutions which are unable to respond to these emerging expectations and customer preferences are likely to be at risk  *Source: Novantas, 2015*	Strengthen competitive position by leveraging on digital capabilities Enhancing service standards across the Branch network to drive better customer experience	Reduced brand loyalty due to rapidly changing customer expectations Banking Services provided by non-banking institutes	Service Care and Customer Tangibility and Our presence are the key strategic enablers for the Bank with specific actions targeted towards enhancing customer experience and service standards. Brand is managed by the Strategic enabler: Brand Building *Refer page 87 for further information*
Digitisation and technology Digitisation is becoming increasingly ubiquitous in financial services with adoption occurring at an unprecedented rate. Impacts include transforming customer interactions, process automation as well as heightened customer expectations on convenience and accessibility  	Support the Government's digitisation initiatives by aligning with CBSL's Digital Road Map Promoting the use of self-service channels to reduce crowding at branches Driving process efficiencies and stronger risk management practices Propagating digital banking practices in rural communities	Cybersecurity and IT risks Preserving data confidentiality in the digital age IT resilience and continuity Vendor and third-party risk Technological disruption by new entrants and fintech organisations Increasing competitive intensity	Digitisation is a key pillar of our strategy and key areas of focus include delivering customer-centric solutions, process automation, paperless operations and migrating customers to digital platforms Strategic enablers of the Bank are IT and Cyber Security and the Process Streamline and Innovations *Refer pages 74 and 97 for further information*

Material topics related - recent developments	Opportunities presented	Potential risks	How we are responding
Regulatory environment governance and risk Financial institutions in Sri Lanka have seen increased stringency of the regulatory framework, as the CBSL seeks to strengthen the soundness and stability of the financial system. Key regulatory developments during the year included, • Caps on deposit and lending rates • Framework for defining Systemically Important Banks • Reduction of statutory reserve ratio on all Rupee deposit liabilities • Harmonising SLFRS 9 with the computation of the capital adequacy ratio and leverage ratio under BASEL III	Strengthen capital position and credit quality Positive impacts on customers, industry and other stakeholders	Increased cost of compliance Increasing complexity of regulations	Strategic enabler: Sustainable Business and Good Governance, Ethics and Risks *Refer pages 78-99 for further information*
Climate change and environmental footprint Environmental risks have taken centre stage in 2019 with the World Economic Forum's Global Risk Report ranking mention natural disasters and failure to address climate change as a top risk. The wide - ranging impacts of climate change are being felt increasingly both domestically and globally and banks of our nature are expected to play a central role in providing pragmatic and long-term solutions through responsible lending decisions.	Integrating sustainability strategy to corporate strategy Propagating sustainable practices through adopting social and environmental screening criteria Access to funding lines targeted towards green lending	Impacts of climate change on lending to agricultural projects, large scale infrastructure projects and industries Short-to long term impact on profitability	The Bank's sustainability framework has been refined to align with the Sustainable Development Goals, enabling a more strategic and impactful approach towards managing our social and environmental impacts. Strategic enablers are Sustainable Business *Refer page 78 for further information*

Our Material Topics

Material topics represent both the internal and external factors that could have the most impact on our ability to create value. These factors essentially determine our strategic agenda and influence how the Board and leadership navigate the Bank. Material topics are reviewed on an annual basis to ensure relevance and importance.

The process adopted by the Bank in determining material matters is presented alongside, while key changes to material topics during the year are listed below.

Key Changes to Material Topics

- 'Macroeconomic and policy trends' added as a material topic given significant changes in the policy environment
- Governance and compliance topic has been broaden by adding 'Regulatory landscape' also to its scope
- Combine 'Talent management' and 'Labour Management Relations' to one material topic
- Combine 'Socio-economic contribution' and 'Financial inclusion'
- Broadened the topic of 'Environmental footprint' by including implications of climate change
- Technology and digitisation elevated in materiality, given the Bank's focus

Identify

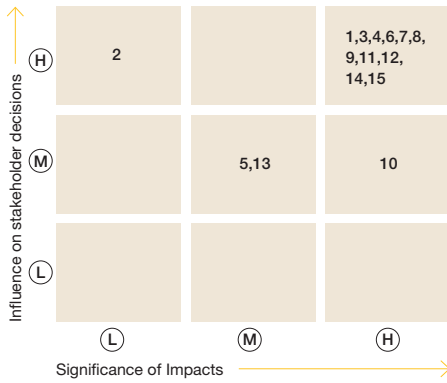
Identification of material topics based on stakeholder feedback, industry dynamics and our strategic aspirations.

Prioritise

Prioritise matters based on the relative significance of impacts and influence on stakeholder decisions. Matters are mapped against those prescribed by the GRI Standards.

Integrate and Report

Selected topics are integrated to performance objectives, strategy and corporate reporting.



Stakeholders	Relevant material topic	GRI indicator	ESG guidance: CSE	United Nation SDG
Employees	1. Talent management and Labour relations	**GRI 401:** Employment	Employment Training and education Occupational health and safety Workforce diversity and equal treatment	
	2. Diversity and equal opportunity	**GRI 402:** Labour/ Management relations **GRI 403:** Occupational health and safety **GRI 404:** Training and education **GRI 405:** Diversity and equal opportunity **GRI 407:** Freedom of association and collective bargaining		
Customers	3 Customer experience 4. Customer privacy and data security 5. Responsible banking 6. Digitisation and technology	GRI 417: Marketing and labelling GRI 418: Customer privacy		
Regulators/ Government	7. Financial performance 8. Socio-economic contribution and financial inclusion 9. Regulatory environment, governance and compliance	**GRI 201:** Economic performance **GRI 202:** Market presence **GRI 413:** Local communities **GRI 203:** Indirect economic impacts **GRI 419:** Socio economic compliance **GRI 307:** Environmental compliance	Compliance	
Business partners	10. Responsible procurement 11. Bribery and anti-corruption 12. Labour rights (outsourced/ contract)	**GRI 204:** Procurement practices **GRI 205:** Anti-corruption **GRI 406:** Non-discrimination **GRI 408:** Child labour **GRI 409:** Forced or compulsory labour		
General public	13. Climate change and environment footprint 14. Brand reputation 15. Macro economic and policy trends	**GRI 302:** Energy **GRI 305:** Emissions	Energy intensity Direct and indirect emissions	

Material Topics and Topic Boundaries

Material topic and why it is material to BoC	Changes in materiality compared to 2018	Topic boundary and any changes in boundary
1. Talent management and labour relations As an organisation operating in a service industry, employees are critical to all aspects of our operations. With 99% of our employees represented by one of the seven unions, maintaining cordial labour management relations is critical to the smooth continuity of our operations. With the ever evolving technological disruptions, re-skilling and up-skilling have formed a vital role in talent management	No change	Relates to the Bank's permanent employees in Sri Lanka and overseas
2. Diversity and equal opportunity We understand the importance of nurturing a diverse workforce in which each employee has an equal opportunity for fair remuneration and career progression.	No change	Relates to the Bank's permanent employees in Sri Lanka and overseas
3. Customer experience Given intensifying competition and increasingly sophisticated needs of customers, offering a unique customer experience is a source of competitive edge.	No change	Relates to the Bank's customers
4. Customer privacy and data security As a financial institution we have access to confidential customer information and are committed to protecting the privacy of such information.	No change	Relates to the Bank's customers and other critical data and confidential information relates to the Bank
5. Responsible banking As a state-owned entity and Sri Lanka's largest bank we are committed to promoting responsible banking practices and preserving public interest.	No change	Relates to the Bank's lending practices and marketing communications.
6. Digtisation and technology Advancements in digital technology have presented numerous opportunities for enhancing the customer experience, improving process efficiencies and strengthening risk management.	Elevated in materiality	Relates to the use of technology within the Bank
7. Financial performance Healthy financial performance is a prerequisite to generating sustainable shareholder returns and creating shared value among our stakeholders.	No change	Relates to the Group's consolidated performance
8. Socio-economic contribution and financial inclusion BoC's role extends beyond that of financial intermediation and profit generation and we are committed to partnering national economic development agenda and driving financial inclusion across the country.	No change	Relates to the Bank's value creation to external stakeholders including communities and customers.
9. Regulatory environment, governance and compliance A strong governance and compliance culture underpin the sustainable creation of value, protecting against potential financial and reputational losses.	Broadened to include regulatory environment	The Bank's regulatory environment, governance and compliance practices.
10. Responsible procurement The Bank seeks to nurture mutually rewarding supplier relationships through responsible procurement practices.	No change	Topic boundary extends to the Bank's supply chain and other business partners.
11. Bribery and anti-corruption As a state-owned entity, nurturing a culture of anti-bribery and anti-corruption is vital in the responsible creation of shared value.	No change	Relates to the Bank's dealings with third-parties.
12. Labour rights (outsourced/ contract) BoC currently utilises the services of over 1,500 outsourced and contract employees and we are committed to preserving the dignity of their labour and proving a conducive work environment.	No change	Relates to the Bank's outsourced and contract employees
13. Climate change and environmental footprint As a responsible corporate citizen, we are cognisant of the environmental impacts of our operations and are committed to reducing our environmental footprint.	Broadened in scope to include implications of climate change	Relates to the consumption of energy and water and the output of waste-paper and carbon emissions.
14.Brand reputation Consistently ranked as Sri Lanka's No.1 Banking brand, the BoC brand is a key source of competitive edge, underpinning our strong market position.	No change	Relates to the internal and external stakeholder perception of the Bank.
15.Macro-economic and policy trends Significant changes in the macro-economic and policy environment are likely to have a considerable impact on the Bank's operations over the short-to-medium term.	New material topic	Relates to the external macro-economic and policy environment.

Risk Management

The Bank's risk landscape in 2019 was shaped by numerous developments in the geo-political, economic and regulatory spheres which had a direct impact on its operations. In general, the operating conditions were challenging during the year given moderating economic conditions in 2019 and an industry-wide deterioration in portfolio quality which compelled most financial institutions to strengthen credit risk management frameworks. Against this backdrop, BoC performed commendably, maintaining its risk indicators within the defined parameters.

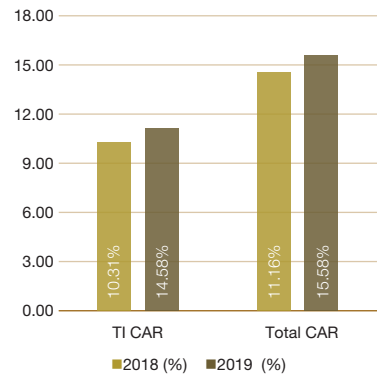
Highlights of 2019

Despite the challenging conditions the Bank strengthened its capital position during the year, with shareholders' funds increasing by 8% to LKR 142.3 billion. Meanwhile the Common Equity Tier 1 Capital ratio clocked in at 11.16% (compared to the minimum requirements of 10%) while the total capital ratio stood at 15.58% (minimum requirement of 14.0%).

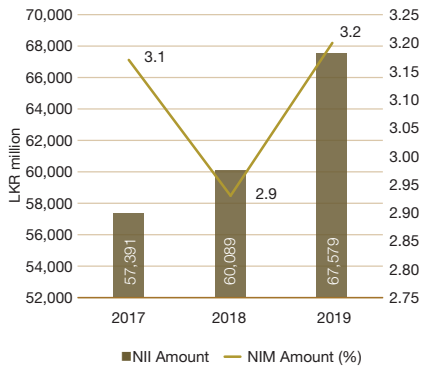
Credit growth moderated during the year under review, with an industry-wide deterioration in credit quality. Against this backdrop, the Bank performed relatively better than its peers to maintain NIM at 3.2% while the gross NPL ratio at 4.79%.

Market risk exposures, including interest rate, equity risk and forex risk was maintained within defined parameters supported by consistent monitoring of market variables and proactive measures to mitigate risk exposures.

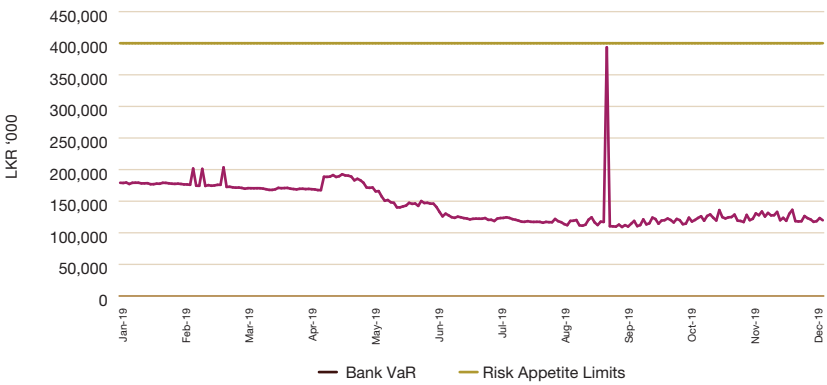
Capital Adequacy Ratio



NII and NIM



Bank VaR



Risk Landscape in 2019

A high-level overview of the key trends which shaped the Bank's risk landscape during the year is provided below;

Economic Trends

Sri Lanka's GDP growth moderated to 2.7% during the first 9 months of the year, reflecting cascading effects of global dynamics as well as domestic challenges. Subdued investor and consumer sentiments led to a sharp downturn in credit growth, with private sector credit expansion moderating to 6% in third quarter 2019. Despite reductions in policy interest rates to stimulate the economy, market interest rates remained high for most part of the year, before gradually declining towards the latter part of the year.

Threat of Terrorism

The April terror attacks had wide ranging impacts across industries, with particular stress on the tourism, consumer and retail sectors. Subdued investor sentiments following heightened security concerns had a sharp impact on economic activity with investors adopting a wait-and-see approach.

Global Dynamics

Escalating trade tensions between US and its key trading partners as well as frictions between US and Iran, uncertainties surrounding the BREXIT deal and stress in key emerging market economies resulted in global growth also moderating to 2.9% While growth is expected to recover marginally in 2020, key downside risks remain; these include rising geopolitical tensions, intensifying social unrest, cyclical and structural slowdowns stemming from USA's trade stance, as well as weather-related disasters and possible global implications of the Coronavirus.

Regulatory Developments

- Deposit and lending rate caps imposed by the regulator
- Reduction of policy rates twice by a total of 100 bps in May and August
- Reduction in SRR of all rupee deposit liabilities by 2.5%
- Debt moratorium granted to the tourism sector post-Easter attacks
- Full implementation of Basel III (CAR 14%, NSFR 100%)
- New criteria for determining Domestically Systemically Important Banks

Implications of Climate Change

The World Economic Forum's Global Risks Report for 2019 classifies environmental risks such as extreme weather, natural disasters and failure of climate change mitigation as the top risks both in terms of likelihood and impact. On the domestic front, continued droughts followed by flooding in certain regions have led to considerable vagaries in the plantations and agriculture sectors resulting in repayment pressure.

Key Numbers

2.9%
Global growth

2.3%
Sri Lankan GDP growth

6%
Private sector credit growth
Third quarter 2019

6%
Industry loan growth

4.7%
Industry Gross NPL ratio

3.6%
Industry NIM

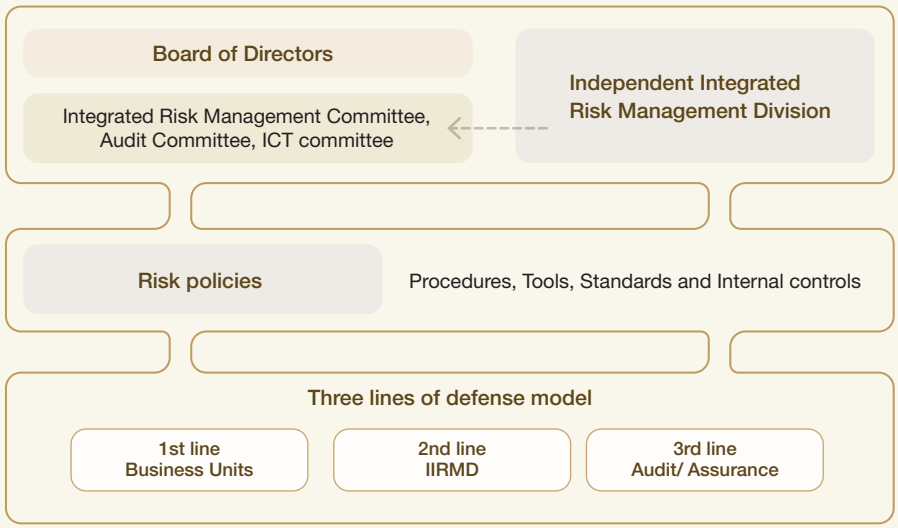
Risk Management

Our Approach to Risk Management

BoC's approach towards managing risk has evolved over the years to a holistic and systematic framework which aims to develop resilience through economic cycles and internal/ external challenges. Given the Bank's size, depth of operations and socio-economic impact, robust risk management practices are critical in ensuring the continued creation of value across the organisation.

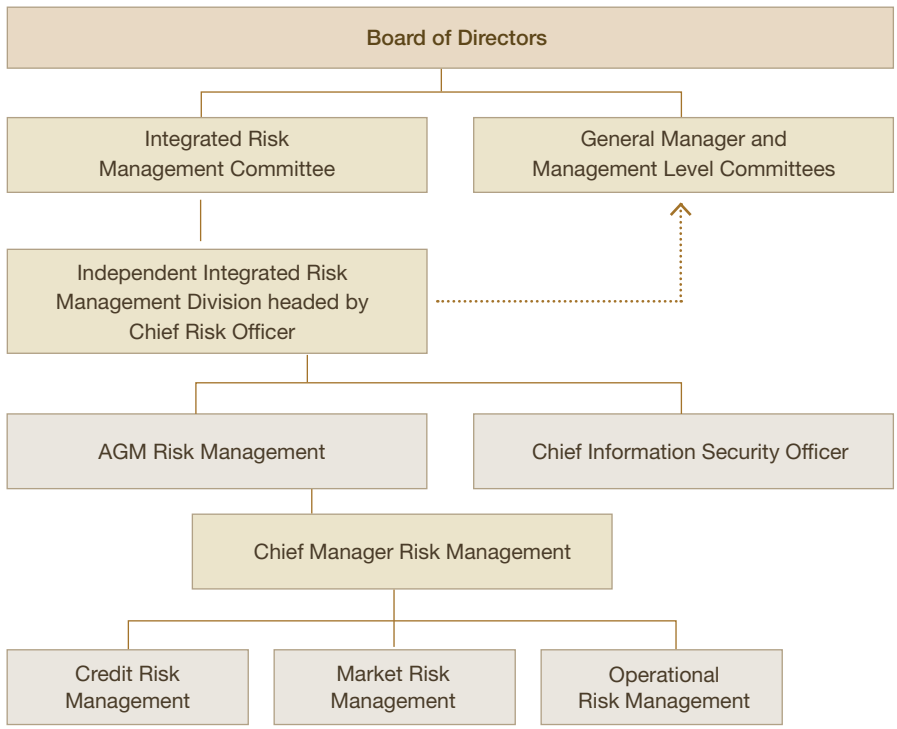
Risk Management Framework

The Board approved risk management framework consists of clearly defined governance structures, policy frameworks and a culture of risk awareness which ensures judicious empowerment and the consistent management of risks across the Bank. The framework provides consistent guidelines to identify, measure, mitigate and report risks in a consistent manner and is regularly reviewed and revised to ensure that it remains relevant given the increasingly dynamic operating environment. The risk framework is graphically illustrated.



Risk Governance

The clearly defined risk governance structure articulates responsibilities for the identification, measurement, management, monitoring and reporting of risks. The mandates of risk-related governance committees at both Board and Executive level ensure accountability for all types of risk across the organisation, facilitating a holistic and systematic approach to risk management which is graphically illustrated below. During the year, the Board reviewed and approved the risk governance structure;.



Board of Directors

The Board of Directors hold apex responsibility in ensuring that the Bank's risk profile is managed within acceptable limits while managing risk and return dynamics. The Board's risk related duties include defining the risk appetite in line with strategic aspirations, developing the risk management framework, ensuring the consistent treatment of risks through formulating policies and procedures and regularly monitoring the risk profile against the defined risk appetite. The Board has delegated specific risk-related responsibilities to three sub-committees; namely, the IRMC, Audit Committee and the recently formed Board Information and Communication Technology Committee (ICTC).

Integrated Risk Management Committee (IRMC)

The IRMC assists the Board in fulfilling its oversight responsibilities for all aspects of risk management including the following;

- Reviewing risk-related policy frameworks, procedures and committee charters
- Define indicators and exposure limits for all key risk exposures
- Ensure the effective functioning of risk-related management committees
- Review the adequacy and effectiveness of risk identification, measurement, monitoring and mitigation tools
- Review the Bank's capital position and future requirements in line with the Internal Capital Adequacy Assessment Process (ICAAP)
- Evaluate results of periodic stress testing to identify potential pain points and propose risk mitigants
- Review the Bank's Business Continuity Plan (BCP)

Board contribution to Risk Management in 2019

Reviewed of the Risk Governance Framework

Approval of the Risk Appetite and Limit Management Framework for 2019, in line with the Corporate Plan for 2019-2021

ICT Committee's contribution in strengthening the Bank's Cyber and IT security frameworks

Independent Integrated Risk Management Division (IIRMD)

The IIRMD is the second line of defense and operates independently of the revenue generating strategic business units. It is headed by the Chief Risk Officer (CRO) and carries out independent risk assessments thereby assisting the IRMC in fulfilling its mandate. Key responsibilities of the IIRMD include,

- Determining the Bank's risk appetite, including defining specific key risk indicators, range and limits for approval by the Board of Directors
- Regular stress testing to assess potential vulnerabilities arising from a range of stressed scenarios to assess the impact on performance and capital
- Preparation of a comprehensive ICAAP
- Support the first line of defense in risk identification, monitoring and reporting
- Introduce and implement measures to effectively mitigate risks
- Ensuring the effective implementation of the BCP
- Assess potential risks that could arise from the launch of new products and processes
- Develop a risk conscious culture among employees through ongoing training programmes and communications

Policy Framework

The Bank's risk management policies are underpinned on risk management framework which ensures consistent treatment in the identification, measurement, mitigation and reporting of risks. All policies are reviewed and updated regularly to ensure applicability to changing internal and external operating landscapes and industry best practices. Key policy related developments and revisions carried out during the year are listed alongside;

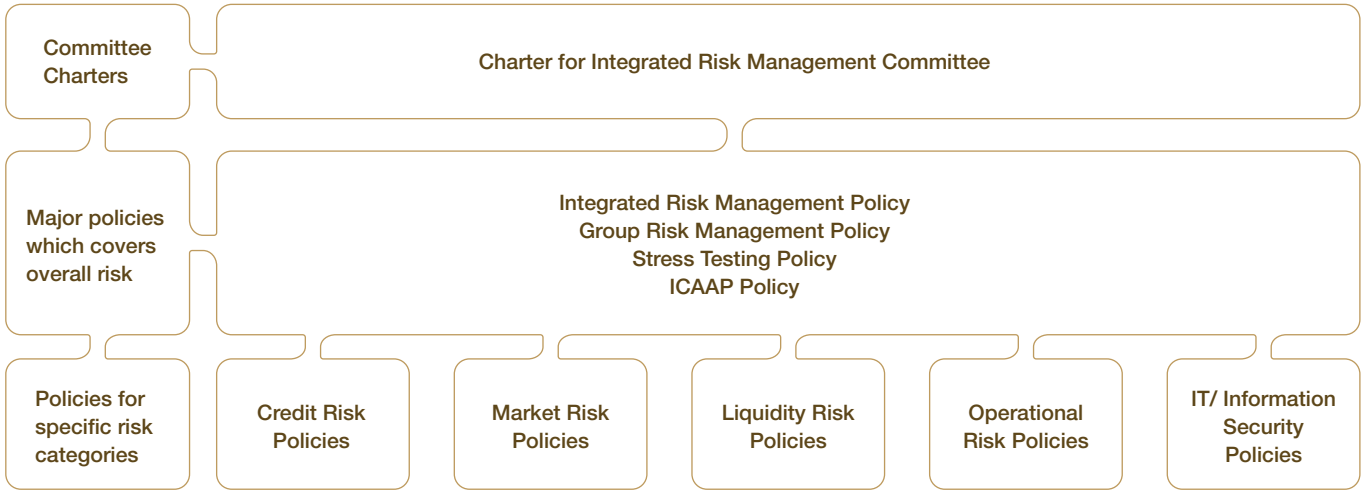
Policy developments

- Developed and updated Information Security related Policies, Guidelines, standards and procedures.
- Information Security Policy for Seychelles Branch
- Development of the Cyber Security Policy for the Chennai Branch

Policy revisions

- Group Risk Management Policy
- Integrated Risk Management Policy
- ICAAP Policy
- Stress Testing Policy
- Credit Risk Management Policy
- Credit Risk Rating Policy
- Credit Portfolio Management Policy
- Loan Review Mechanism Policy
- Market Risk Management Policy
- Liquidity Risk Management Policy
- Foreign Exchange Risk Management Policy
- Information Security Policy
- IT Risk Management Policy

Risk Management



The Three Lines of Defense (TLOD) Model

The Bank's risk management framework is based on the TLOD Model, which ensures clear allocation of responsibilities in the identification and management of risks. The globally accepted model facilitates transparency and accountability while contributing towards the development of specialised risk-based skills through segregation of duties.

1st line of defense
Risk ownership by business units

- Risk taking and risk ownership
- Day to day management of risk
- Act in accordance with risk policies
- Application of internal controls and risk responses

2nd line of defense
Risk management by IIRMD

- Develop risk management framework
- Provide guidance
- Monitoring, reporting and risk control
- Ensuring 1st line (business units) takes risk ownership

3rd line of defense
Assurance by the audit function

- Independent and objective assurance to the Board on the effectiveness of the 1st and 2nd lines of defense

Risk Culture

Risk management at BoC has evolved from that of a single department's responsibility to an organisation-wide culture in which all employees are responsible for risk identification and management. This has been facilitated by adoption of the TLOD model which has propagated a risk culture as well as regular training programmes and risk-related communications. Refreshers on the Bank's whistle-blowing procedures, internal controls and Code of Ethics serves to reinforce the Bank's values, emphasising transparency and integrity in all aspects of its operations.

Stress Testing

Stress testing is an effective tool in assessing the vulnerabilities of the Bank's risk profile to changes in the operating landscapes. BoC conducts regular stress testing and the feedback from this exercise forms a key input in corporate planning, capital management, risk appetite determination and formulating risk mitigating actions among others. A comprehensive, Board-approved stress testing policy is in place, and ensures that regular stress testing is carried out in a systematic way facilitating the potential impacts on capital, liquidity and profitability. The results of the stress testing exercise conducted during the year are disclosed in the respective sections of this report. Key variables for which stress testing was conducted during the year included the following;

Risk	Stress scenario	Impact on
Credit Risk	Rise in the gross NPA ratio	Profitability, Liquidity and Capital Adequacy
Default Risk	Default in specific sector/ region	
Losing Government Exposure	Reduction of Government exposure	
Collateral Quality	Collateral depletion	
Concentration Risk	Idiosyncratic Concentration – Top ten borrowers Top ten depositors	

Risk Reporting

Accurate and timely risk reporting is critical to effective risk management and clear reporting lines and defined responsibilities ensure that material financial and non-financial risks are clearly communicated and escalated wherever necessary. The Bank's risk profile and exposure against risk appetite limits for key business lines, products and geographical regions are reported to the Board on a regular basis. A comprehensive risk report, comprising risk indicator dashboards and performance against risk appetite indicators is provided to the IRMC on a monthly basis and as and when required.

During the year the following improvements were made to the Bank's risk reporting framework;

- Introduced a stress testing dashboard to the corporate and Executive Management teams
- Extended reporting line to the IRMC on the results of loan review mechanism
- Enhanced the scope and depth of risk reporting to reflect the magnitude of risks assumed by the Bank

Risk Appetite

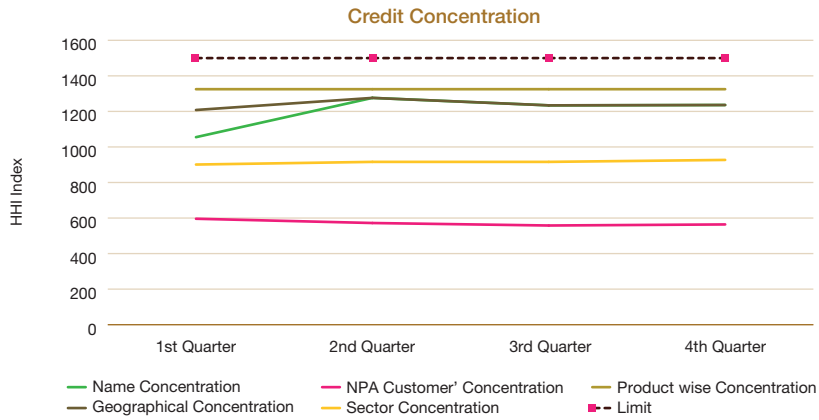
The Bank's risk appetite is expressed in the form of a Risk Appetite Statement (RAS) and articulates the level of risk the Bank is willing to undertake in the achievement of its corporate objectives. When formulating the RAS, the Board gives due consideration to the Bank's strategic aspirations, its national role and the optimum balance between risk return dynamics. The RAS includes tolerance limits and risk appetite triggers and defines specific corrective action to be taken in the event that such limits are exceeded/ triggered.

The RAS is reviewed and revised by the Board on an annual basis or as and when required. Material changes in the Bank's risk appetite for 2019 included,

- Introduction of concentration limits for rating grades
- Allocation of Limits on maturity profile of rupee loans and advances
- Allocation of Limits on maturity profile of USD Loans and Advances
- Capital charge for credit risk appetite was increased by 20% compared to previous year
- Capital charge for market risk appetite reduced by 48% mainly due to reduced capital charge for foreign exchange risk by 97% (due to less volatility of exchange rate).

Risk Appetite vs Actuals

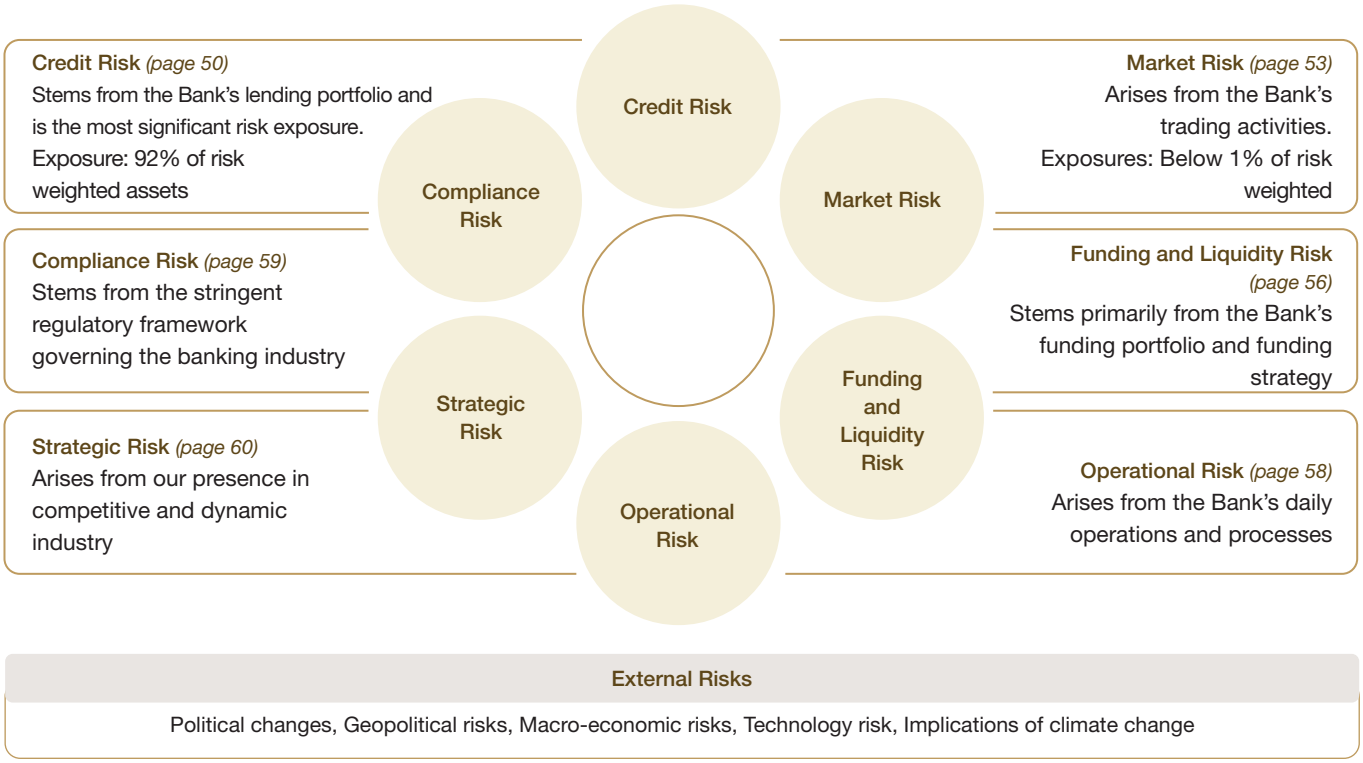
	Risk Appetite	Actuals as at 31 December
Leverage Ratio	Minimum 4.01%	4.37%
Purchased funds to total assets	Maximum 25%	9.31%
Forex Var	Maximum LKR 75,000,000	LKR 25,674,299
Equity Var	Maximum LKR 250,000,000	LKR119,435,071



Risk Management

The Risk Universe

The Bank's key risk exposures stem directly from its operations as well as from the external environment. While the former is managed systematically on a proactive basis, external risks are monitored on an ongoing basis by the Bank to assess the potential impact on our operations.



The subsequent sections of this Risk Management Report provide an overview of the Bank's approach to managing the key internal risks listed above.

Risk Profile in 2019

Credit Risk

Credit Risk is defined as potential losses arising due to a counterparty to a credit transaction failing to meet their obligations in accordance with agreed terms. Credit Risk can take the form of default risk, concentration of counterparties, geographical regions or industry sectors.

Credit Risk Governance

A comprehensive, Board-approved Credit Risk Management Policy clearly sets out the principles under which credit risk is to be assumed, ensuring the consistent identification, management and reporting of credit risk across the Bank.

The Credit Committee (headed by the GM) is responsible for the implementation of the credit risk management framework while oversight responsibility lies with the IRMC and Board level. Responsibilities of the Credit Committee include formulating, reviewing and implementing credit risk appetite limits, approving credit up to authorised limits and recommending the credit proposals to the Board, which are beyond it's authorised limit, ensuring regulatory compliance in the Bank's risk policies and guidelines and monitoring risk concentrations. The first line of defense and the primary responsibility for credit risk management lies with the business units, supported by independent review by the Credit Risk Unit of the IRMD.

Credit Risk Exposure

Credit risk arises through over 90% of the Bank's risk-weighted-assets and arises from the direct lending as well as indirect lending such as financial guarantees, letters of credit and acceptances issued.

Objective in 2019

Preserving asset quality above the industry level while managing credit risk in a challenging and turbulent environment.

Credit Risk Management Framework

Pre-credit sanctioning

- Structured credit appraisal mechanisms and defined credit criteria
- Multiple levels of approval authority
- Independent review by CRO
- Regulatory limits
- Prudential limits for concentration risk
- Risk Appetite Limits
- Retail scorecards and borrower rating models
- Risk based pricing

Post-credit monitoring

- Ongoing and robust credit review
- Portfolio evaluation
- Assessment of selected exposures
- Proactive engagement with customers in identifying requirements and stresses
- Stress testing and scenario analyses
- Monitoring watch list exposures

Policy framework | Segregation of duties | Collateral management | Credit ratings | Lending culture

- **Policy Framework**

  Key principles of the Bank's credit risk policy framework include segregation of duties, comprehensive credit appraisal mechanisms, delegated approval authority limits and prudential limits and is articulated through a set of comprehensive policies relating to risk rating, portfolio management and loan review among others. These policies are reviewed regularly and updated by the Board as and when required in view of changes in operating conditions and evolving best practice.

- **Segregation of duties**

  Segregation of duties pertaining to credit appraisal and post-sanction monitoring ensures objective judgement and effective implementation of appraisal guidelines. Clearly defined approval limits are in place for new credit, extension of existing credit and material changes to any terms and conditions of a facility. The Chief Risk Officer has the authority to independently review facilities above a certain threshold while post sanctioning review of large credit exposures is carried out periodically by the Credit Quality Assurance Unit at IIRMD.

- **Collateral management**

  Collateral is a secondary measure against a possible default and usually takes the form of cash, gold, properties, fixed assets, letters of credit, debtors and receivables among others. Collateral is valued regularly to ensure adequate coverage against the facility provided. Non-financial collateral is valued by independent third-party valuers

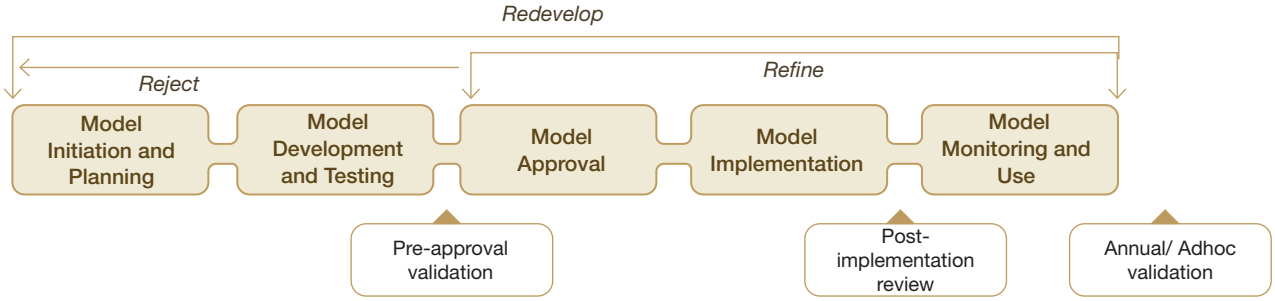
- **Credit ratings**

  The Bank utilises Risk rating models to evaluate corporate exposures and estimate the probability of default. These models incorporate both transaction and borrower specific factors and categorises all performance corporate credit exposures to eight grades covering the varying industries depending on credit quality. Separate, customised credit scorecards are used in assessing and managing retail credit exposures.

Strengthening our credit risk management framework

- Proactive monitoring to ensure that all corporate and mid corporate borrowers are rated and such ratings are reviewed annually
- Developing industry-specific credit policy guidelines
- Monitoring to ensure adherence to rating based lending
- Developing and implementing corporate rating models for the Male' branch;
- Implementing and monitoring of risk based pricing
- Widened the scope of the Credit Quality Assurance Unit taking more borrowers under the radar by lowering threshold limit for the corporate and retail segment.
- Training programmes and workshops to staff handling credit, aimed at strengthening the competencies in credit evaluation.

Risk Management



Credit risk models are developed and independently validated through a robust governance mechanism. When rating a counterparty, we apply in-house assessment methodologies and an eight grade rating scale for evaluating the credit worthiness of counterparties. Qualitative and quantitative techniques are also used in the independent validation of models.

- **Culture of responsible lending**

  Emphasis is placed on nurturing a responsible, risk conscious lending culture through continuous employee engagement, workshops, training on credit appraisal, web-based learning modules as well as mentoring and knowledge sharing across the organisation. In 2019, specific focus was placed on enhancing the credit management skills of our employees through numerous training programmes that were conducted across the branch network.

Credit Risk Performance in 2019

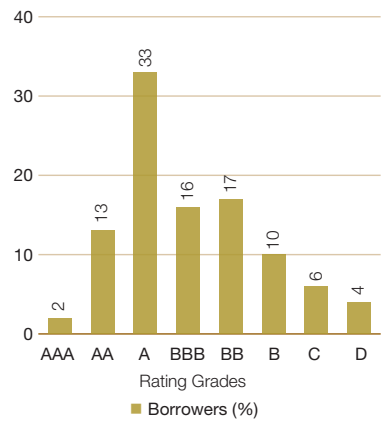
Overview: Subdued consumer and investor sentiments following the Easter attacks and the sharp downturn in the tourism and retail sectors, led to an industry-wide deterioration in portfolio quality during the year, with borrowers across value chains experiencing repayment pressure. Meanwhile, concessions granted to the tourism industry and interest rate caps imposed by the regulator to drive a reduction in market interest rates directly impacted the Sector's portfolio quality as well as risk-return dynamics.

Against this backdrop, the Bank's credit growth moderated to 9%, from 23% the year before. Despite rising impairments, we continued to support the country's SME sector while parallel importance was placed on strengthening and monitoring mechanisms. The Bank also adopted a cautious approach in lending to certain industries and customer segments.

Default Risk

The Bank's gross NPL ratio for the year increased to 4.8% from 3.6% of year 2018. However the ratio was par with the industry average of 4.7% by end December 2019. Understandably impairment charges on loans and advances also increased by 24% to LKR 18.6 Billion with pressure being seen primarily from the country's tourism, agriculture, consumer and construction related industries. Meanwhile, 64% of the Bank's portfolio comprised of borrowers in the rating categories of BBB and above as demonstrated alongside;

Rating Grade wise Distribution - 2019



Concentration Risk

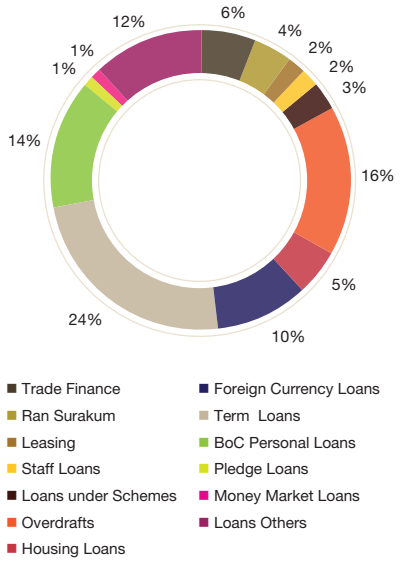
Concentration risk arises from high lending exposure to a counterparty/ group, sector, product or region. This risk is measured through the Herfindahl-Hirshman Index (HHI) while concentration is assessed against limits defined in the Risk Appetite Statement, specially for products, sectors, geographies and relatively significant customers. The exposure limits are reviewed and modified regularly to ensure continued applicability to changing industry dynamics.

Name Concentration: Large exposures to specific individual borrowers give rise to 'name concentration' risk and is monitored through the single borrower limit and the HHI. The Bank's portfolio is relatively granular in nature with no significant name concentration in private sector lending activities. However, as a state bank and a partner in national development, BoC understandably has considerable exposure to the Government and State-Owned-Enterprises (SOEs). These facilities typically carry an explicit guarantee from the Government Treasury and do not entail credit risk.

Product Concentration

The Bank's portfolio is well diversified in terms of its product exposure, with the largest exposure of term loans accounting for 24% of total advances, followed overdrafts and personal loans.

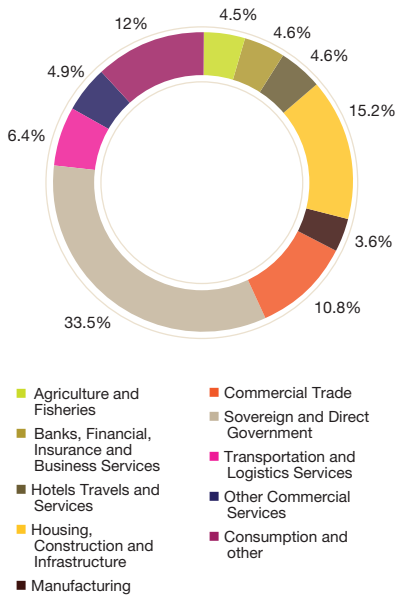
Product wise Concentration



Sector Concentration

Sovereign and Direct Government exposure amounted to 34% of the Bank's loan book, reflecting its tilt towards government lending. Excluding this sector, the Bank's portfolio continues to be diversified with the highest exposure stemming from Housing, Construction and Infrastructure (15%), Consumption (12%) and Commercial Trade (11%) in 2019. All exposures were maintained within the risk appetite limits during the year.

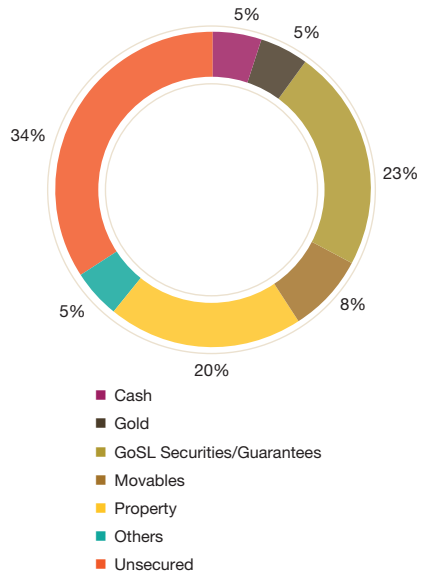
Sector Concentration



Collateral Exposure

In 2019, 66% of the Bank's lending was secured by collateral - mainly by Government securities/ guarantees and properties.

Collateral Exposure



Cross Border Exposure

The Bank's cross border exposure is relatively small, accounting for 5% of the balance sheet as at end-December 2019. This risk stems from BoC international operations in India, Maldives, Seychelles and the United Kingdom, which all operate with stringent risk management frameworks and policies; risk profiles are consistently monitored by the Board.

Market Risk

Market risk is defined as the potential losses arising from changes in earnings, market or future cash flows of a portfolio of financial instruments resultant from adverse movements in market variables such as interest rates, foreign exchange rates and share prices and commodity prices.

The Bank is exposed to 3 different types of market risks;

- Interest rate risk arising from the Bank's trading and non-trading books
- Foreign exchange risk stemming from foreign currency denoted transactions
- Equity risk - losses from volatilities in equity prices

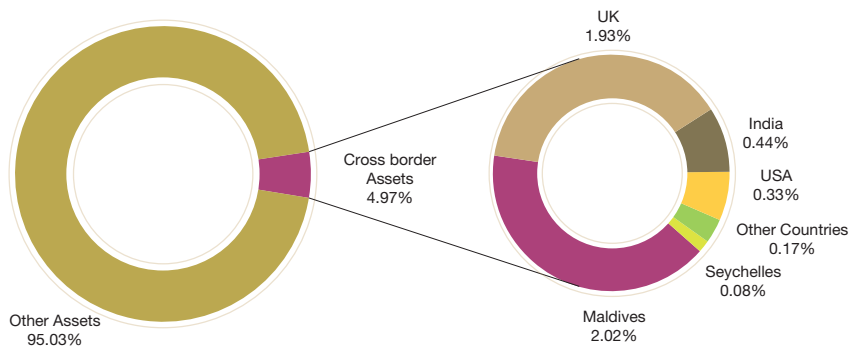
Market Risk Exposure

Market risk arises through below 1% of the Bank's risk-weighted-assets including the trading and non-trading books, foreign currency denoted transactions and equity investment portfolio.

Objective in 2019

Effective management of key market risk exposures given industry volatilities, particularly on the interest rate front.

Cross Border Exposure of the Bank



Risk Management

Market Risk Governance

At Board level, the IRMC provides oversight for the management of market risk, while at an executive level, the Asset and Liability Management Committee (ALCO) holds responsibility for implementation of the Bank's market risk management framework. ALCO responsibilities including monitoring maturity mismatches, liquidity requirements as well as price and volumes of advances and deposits to ensure that market risk exposures are maintained within the defined risk appetite.

Treasury operations are critical in market risk management and the Bank has established a middle office which monitors treasury transactions which may give rise to market risks; the middle office operates independent from the Treasury Unit and is governed by the Middle Office Manual of Operations approved by the Board of Directors.

Market Risk Management Framework

Policy framework	Risk Limits	Risk monitoring

- **Comprehensive framework of policies**

  Market risk management is founded upon several policies including the Asset and Liability Management Policy, Limit Management Framework, Foreign Exchange Risk Management Policy and Middle Office Operations Manual.
  This policy framework serves to provide guidance on the all market risk management aspects including effective monitoring of treasury operations, setting risk limiting thresholds on treasury operations and managing potential impacts stemming from market dynamics. The policies are reviewed and updated regularly by the Board in view of changing dynamics in the operating landscape.

- **Risk Limits**

  The Board, supported by the ALCO, is responsible for setting risk limits for treasury and investment related activities which are likely to give rise to market risk. Accordingly, the Board sets limits for variables such as foreign currency open position limits, counterparty limits, stop loss limits and dealer limits, portfolio limits, foreign exchange gap limits and monitors performance on a regular basis. The limits, are also regularly reviewed and updated by the IIRMD (with input from the ALCO) in line with market developments.

- **Risk Monitoring**

  A range of key indicators pertaining to market risk is monitored regularly by the IIRMD; these include interest margins and funding requirements in line with the Bank's growth aspirations. Interest rate risk is monitored through tools such as Value at Risk (VaR), Price Value for Basis Point (PVBP), duration, gap analysis, stress testing, and sensitivity analysis. Exchange rate risk is monitored through VaR, open position limits and net open positions.

Market Risk Performance in 2019

Interest Rate Risk

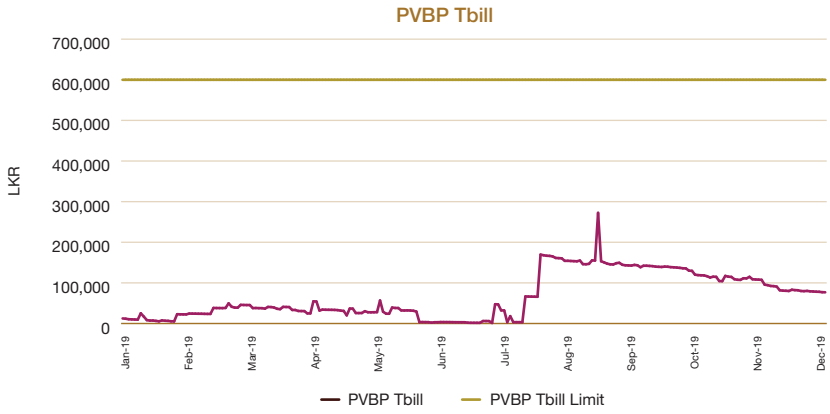
The Bank's exposure to Interest Rate Risk (IRR) arises from its lending portfolio, trading securities and deposit liabilities, the values of which fluctuate in interest rate volatilities and credit spreads.

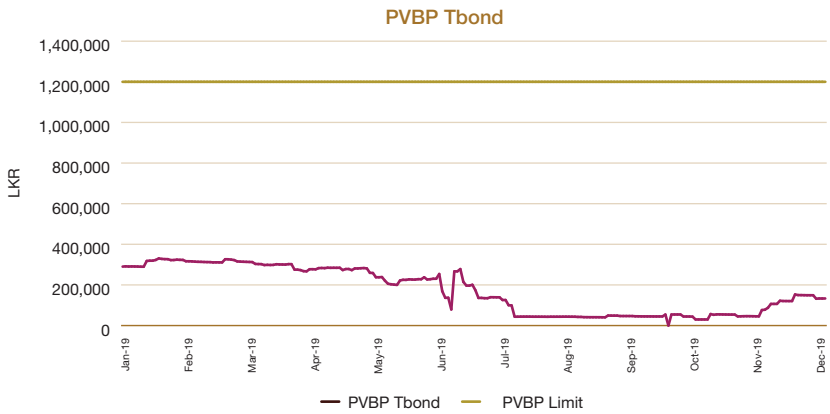
Interest Rate Risk Management

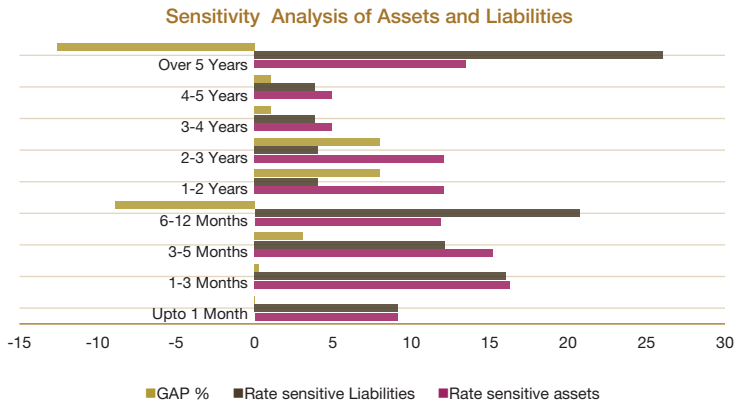
As a Bank, IRR is a considerable risk exposure to the Bank and it is managed through a comprehensive policy framework which clearly sets out prudential limits, interest gaps PVBP and VaR. Sensitivity analysis of assets and liabilities are managed by the Treasury unit in time buckets and monitored by the IIRMD, in order to assess the duration gap and exposure to IRR. We are also cognisant of the potential implications of changing economic indicators on the Bank's performance and capital which is assessed through regular stress testing on the banking and trading book.

Strengthening our market risk management framework

- Revised the limit management framework and enhanced the limit monitoring mechanism
- Conducted training programmes and developed a questionnaire to staff through e-learning portal
- Strengthened monitoring through widening the scope of market risk indicators
- Widened the scope of the stress testing mechanism to include a broader range of variables
- Enhanced reporting components in the daily and monthly risk reports
- Fully compliant with market conduct and practices for treasury operations of Licensed Banks in Sri Lanka.







During the year all interest rate risk indicators were maintained within the defined parameters. Meanwhile, the Bank's NIM widened marginally to 3.2% from 2.9% the year before reflecting smart repricing decisions and expansion in high-yielding segments.

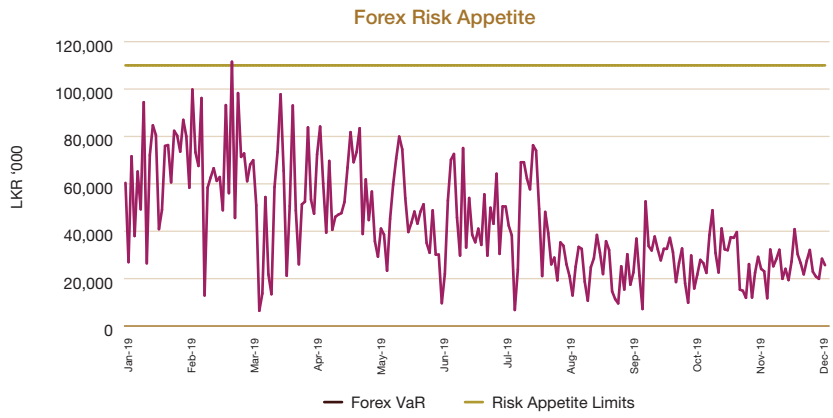
Foreign Exchange Risk

Foreign exchange (FOREX) risk is the potential impact to earnings and/ or capital stemming from adverse fluctuations in exchange rates.

Foreign Exchange Risk Management

FOREX transactions follow stringent internal policy guidelines and frameworks and external regulatory guidelines including approval mechanisms and limits set by CBSL. Internally a comprehensive limit structure, defining VaR limits prescribed by the IIRMD are in place to manage the foreign exchange risk of trading transactions. We also maintain volume limits on open positions for individual currency exposures and the aggregate exposure. The Bank also conducts VaR calculations and stress testing on the portfolios subject to forex risk.

Risk Management

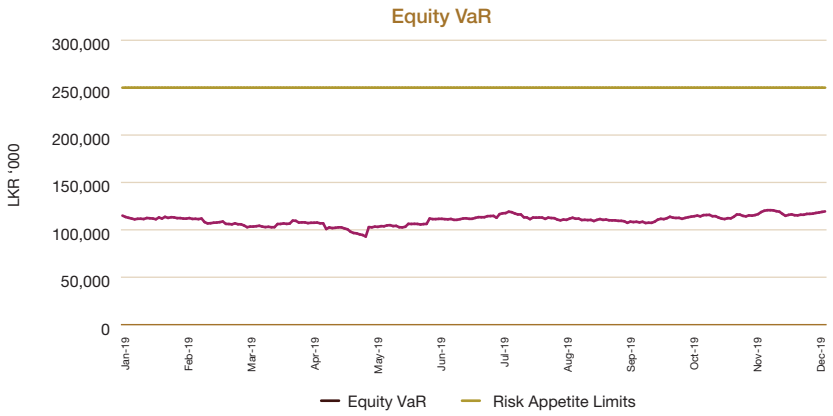


Equity Risk

Equity risks are losses arising from price fluctuations in equity investments held by the Bank. BoC's equity exposure stem from its trading portfolios and excludes strategic investments. As equity shares amounted to just 2% of the Bank's total assets as at end-December 2019, The Bank's exposure to equity risk is relatively limited.

Equity Risk Management

The Investment Committee ensures that the Bank's investment decisions and risks are in line with the Board's expectations and risk appetite limits. Meanwhile, the Bank's Research Department and Investment Committee consistently monitors movements in macro-economic indicators and policy developments that could impact market prices.



Liquidity Risk

Liquidity risk is the potential loss to earnings and/ or capital due to the inability to meet the Bank's contractual obligations as and when they are due.

The inherent maturity mismatch between the Bank's short-term deposit liabilities and longer-term maturities of its lending portfolio exposes it to liquidity risks, the management of which is critical to preserving financial stability.

Liquidity Risk Management

Clear guidelines on managing this risk is set out in the Liquidity Risk Management Framework which strives to ensure that adequate liquidity buffers are maintained to meet the Bank's contractual obligations as and when they fall due. The ALCO holds responsibility for managing liquidity risks and consistently monitors the Bank's liquidity position to ensure compliance to regulatory requirements and internal targets. Reporting requirements including regular updates to the IRMC and the Board, which enables the Board to ensure that liquidity indicators are maintained within the parameters defined in the risk appetite.

Approach to Liquidity Risk Management

- **Policy framework**

Key policies in place for liquidity management include the Liquidity Risk Management Policy and Asset Liability Management Policy. These policies serve to provide definitions and guidance on tools, measurement mechanisms, stress testing methodologies, contingency funding arrangements and mitigation measures.

- **Liquidity measurement**

In evaluation of liquidity risk, the Bank adopts both flow and fund approaches. The flow approach considers the mismatch between inflows and outflows in various time buckets based on the

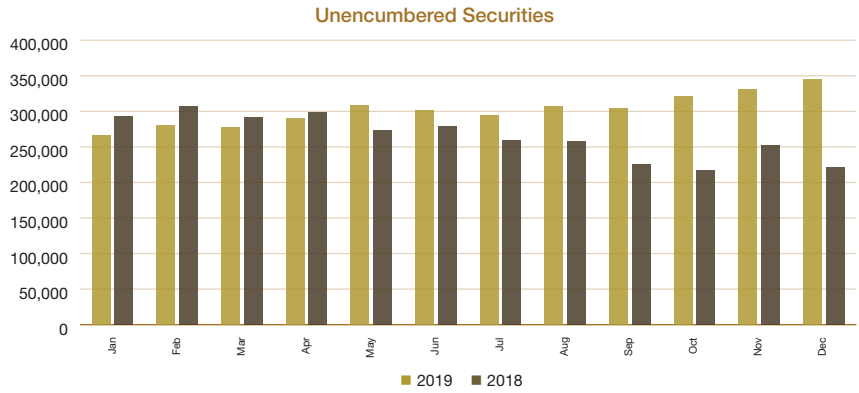
maturity of assets and liabilities, allowing the identification of potential liquidity stresses over time. The fund approach is based on a range of indicators at a specified date, including liquid assets ratio, liquidity coverage ratio, , net stable funding ratio and loans to deposit ratio are the measures used under fund approach.

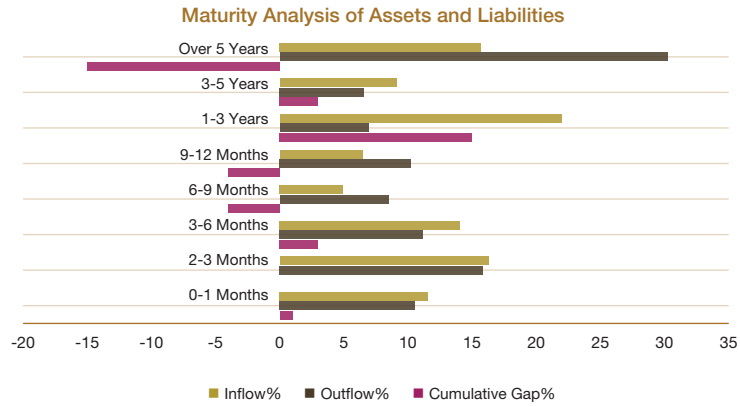
- **Contingency Funding Plan (CFP)**

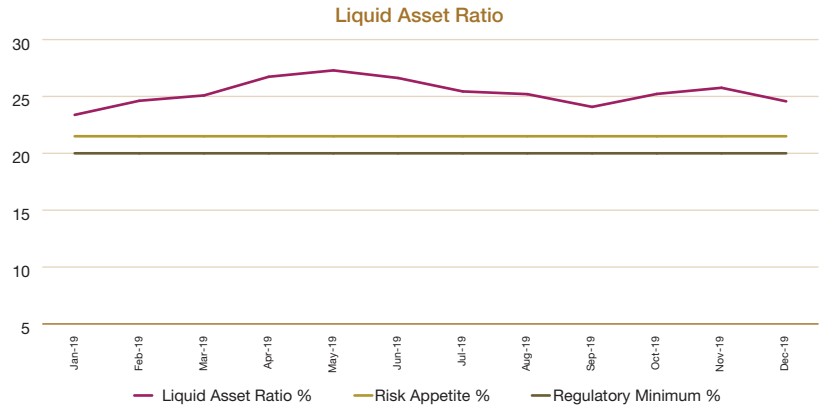
CFP which defines specific triggers and action plans with specific responsibilities is in place to ensure smooth continuity of operations in the event of liquidity stress. The Plan also serves to preserve stakeholder interest and maintain public confidence in the event of unforeseen pressure.

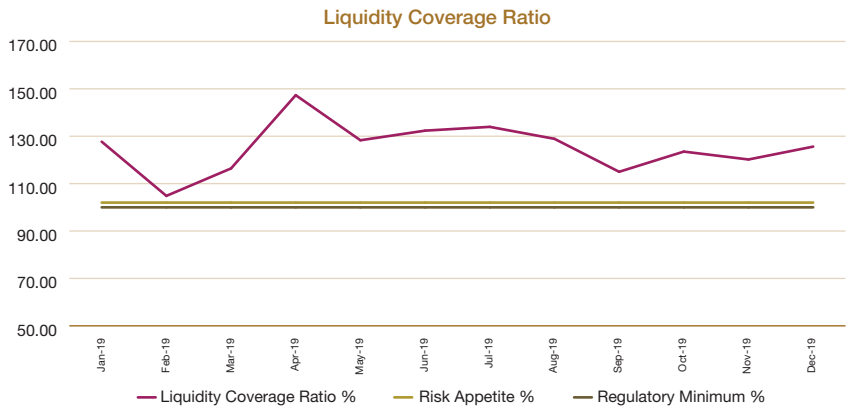
Liquidity Risk Review 2019

The Bank's liquidity position is supported by a diverse funding profile, strong deposit franchise and an adequate buffer of unencumbered securities. As at end-December 2019, deposits accounted for 84% of the Bank's total funding followed by borrowings and other liabilities (10%) and shareholders' funds (6%). Unencumbered securities available for funding amounted to LKR 345.0 billion as at end-December 2019. Meanwhile, all liquidity indicators were maintained comfortably with the parameters and limits defined by the Risk Appetite statement and in compliance with all relevant regulatory requirements.









Risk Management

	31 March 2019	30 June 2019	30 September 2019	31 December 2019
Statutory Liquid Asset Ratio	25.09%	26.62%	24.08%	24.57%
Net Stable Funding Ratio	135.51%	136.76%	133.44%	135.71%
Liquidity Coverage Ratio	116.42%	132.36%	115.05%	125.62%

Operational Risk

Operational risk is the loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes Legal risk but excludes Strategic and Reputation risk.

Operational Risk Governance

The Board of Directors, IRMC, Operational Risk Management Executive Committee (ORMEC), Fraud Risk Management Committee (FRMC), together with the IIRMD is responsible for ensuring that the Bank's operational risk exposures are maintained in line with the defined risk appetite. A comprehensive operational risk management framework provides guidance on the effective identification and management of operational risks, which is an organisation-wide responsibility given the pervasive nature of operational risks. The branches and business units, which are the 'First line of Defense' are responsible for the identification of risks at the point of origination. Meanwhile the second line of defense comprises the IIRMD, which is responsible for implementing the operational risk framework and monitoring risk performance against parameters defined in the risk appetite. Assurance is provided by the Audit and Compliance units on the adequacy and effectiveness of the operational risk management processes.

Approach to Operational Risk Management

- **Policy framework**

The policies relevant for operational risk management include the Operational Risk Management Policy, the Fraud Risk Management Policy and the IT Risk Management Policy which provides direction on the identification, assessment, mitigation and monitoring of operational risks. The policies clearly allocate Board and executive committee responsibilities in implementing the Bank's operational risk management framework.

- **Risk Identification and measurement**

Risk and Control Self-Assessments (RCSA) are administered to all business units by the IIRMD and these serve as an effective tool in the identification of operational risks. Exposure to operational risk is also evaluated through tools such as Key Risk Indicators, internal losses data and root cause analysis. Findings obtained from these measurement methods are inputs in devising actions plans for identified gaps and are reported by the IIRMD to the ORMEC, IRMC and ultimately the Board.

- **Risk mitigation**

The following risk mitigation tools ensure that the severity of the impact or the probability of occurrence is reduced.

(1) Identification of operational lacunas through ongoing process evaluation

(2) Alerting relevant business and support units regarding emerging operational vulnerabilities

(3) Organisation-wide measures to avoid risks which are unacceptable to the Bank's Risk Appetite

(4) Business Continuity Plans for all critical business units and support functions

(5) Disaster Recovery Centre established outside the Colombo city limits

(6) Obtaining Insurance to mitigate high severity non-controllable risks

Operational Risk Exposure

Operational risk originates from both the Bank's business and support units and is an inevitable element of the natural course of business activities, products and processes.

Objectives in 2019

- **Strengthening cyber security and focus on protecting the Bank and its customer from cyber threats.**
- **Minimising of operational risks was a concern with majority of workforce consisting less than 10 years' experience in the bank**

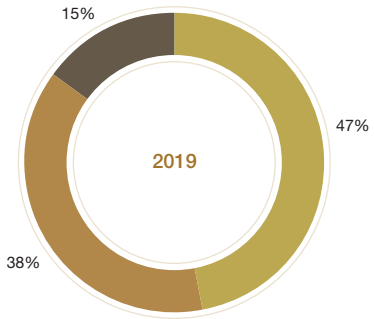
- **Reporting and monitoring**

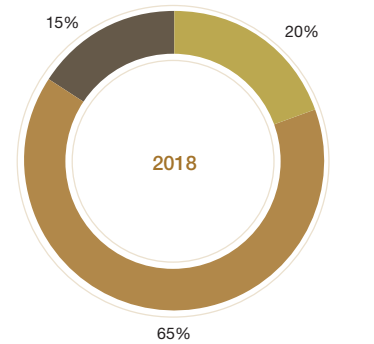
The IRMC and the Board is regularly updated on operational riks events/ losses and control failures. The Bank also maintains a database of operational losses allowing the identification of trends and root causes. Meanwhile a risk conscious culture is nurtured by engaging employees and propagating lessons learnt through a timely alert system.

Operational Risk Performance in 2019

The Bank's operational losses continued to be below the defined internal limits and the most significant operational losses arose from external frauds which primarily represent 47% of total operational losses. Vulnerabilities have been identified through root cause analysis and appropriate strategies have been deployed to address the lacunas during the year. Operational losses (by volume and value) are presented alongside.

Loss Data Analysis





- Internal Frauds
- External Frauds
- Clients, Products & Business Practices
- Execution, Delivery & Process Management
- DAM

Technology and Cyber Risks

Technology risk is the risks associated with the ownership, use, operation, involvement and adoption of IT within the Bank. This includes breakdowns and failures in IT systems, cyber-attacks, technological obsolescence, erosion of competitive position due to falling behind competitors and inadequate infrastructure to support business volumes among others.

With the Bank's increasing thrust towards digitisation and the rising prevalence of cyber security threats in the landscape, the importance of effectively managing technology risks have become increasingly important. During the year, considerable focus was placed on enhancing the Bank's cyber security and technology risk management framework with the following progress being made;

- Developed and updated Information Security related Policies, Guidelines, standards and procedures.
- Prepared the Cyber Security Framework for the Bank in alignment with leading Information Security/ Cyber Security standards and frameworks such as ISO 27001, Framework for Improving Critical Infrastructure Cybersecurity issued by National Institute of Standards and Technology, COBIT 5, CIS Critical Security Controls for Effective Cyber Defence.
- A detailed plan has been developed to monitor Information Security Management efforts/ activities which are done by different departments/ units.
- Prepared the Cyber Security Policy for Chennai Branch
- Prepared the Information Security Policy for Seychelles Branch
- Prepared the IT Risk Policy of Seychelles Branch
- Appointment of a dedicated Information Security Management Officer (ISMO) who reports to the Chief Information Security Officer(CISO).

Legal Risk

Legal risks are the potential losses to earnings and reputational damage arising from non-compliance with regulatory/ statutory provisions, uncertainty due to legal actions or uncertainty in the applicability or interpretation of relevant laws or regulation applicable to the bank.

The Bank's legal exposures are mitigated through ongoing review of legally binding agreements by the Compliance and Legal functions of the Bank. The Bank's policy framework, standards and internal procedures ensure the consistent and equitable treatment of all operational aspects, thereby effectively addressing potential legal risks. Periodic assessments are carried out by IIRMD to evaluate the legal risk of the bank.

Compliance Risk

Compliance risk is the potential loss in earnings and/ or impact on the Bank's reputation due to non-compliance with applicable laws, regulations, codes of conduct and standards of good practice.

The dedicated Compliance Officer is responsible for ensuring that the Bank is compliant with all relevant external regulations and internal guidelines. The Compliance Officer reports directly to the Board and his roles and responsibilities are clearly set out in the Board-approved Compliance Policy, which serves to provide guidance on how compliance risks are identified, monitored and managed by the Bank in a systematic and holistic manner.

Risk Management

Key responsibilities of the Compliance function;

- Advise the Board of Directors and Senior Management team on changes to the regulatory landscape and provide recommendations on implementing such changes
- Raise employee awareness on compliance
- Assessment of new products, business practices and/ or relationships for potential compliance risks
- Liaise with the regulator on all compliance related matters

During the year, there were no material instances of non-compliance pertaining to guidelines and/ or any social, economic, environmental regulations.

Strategic Risk

Strategic risk is the potential losses arising from the possible flaws in the Bank's future business plans and the possibilities of strategies being inadequate.

The Bank's revolving three-year corporate plan clearly sets out its medium term strategic aspirations and is designed with the inputs of the Corporate and Executive Management team. The Board approves the corporate plan subsequent to extensive discussions with the management team. Objectives and action plans are cascaded to all business units and branches and implementation of the plan is monitored against defined targets. Strategic risk is addressed through consistently monitoring developments in the external landscape, ongoing engagement with stakeholders and the organisation-wide assessment of emerging industry dynamics. Comprehensive scorecards are used to measure, monitor the Bank's strategic risk exposures, and is included in the annual ICAAP.

Reputational Risk

Reputational risks arise from the loss of confidence and negative perception of the Bank which can adversely impact earnings, assets, capital position and/ or brand value.

- During the year the Bank strengthened its Reputational Risk management framework by introducing a circular on the "Mitigation of Brand Reputational Risk" which clearly sets out the guidelines to be followed in incidents involving potential reputational damage.
- BoC is consistently ranked as one of the Sri Lanka's leading brands and has maintained its position as the leading banking brand in the country for several years.
- Brand attributes of trust and stability
- Established track record of nearly 8 decades
- Numerous awards and accolades *(refer page 89)*

A comprehensive score card is used to measure and monitor the Bank's reputational risk and is included in the annual ICAAP.

Capital Management

The internationally applicable Basel III capital standards is aimed at strengthening the quality and quantity of capital in Banks, thereby ensuring that Banks are protected against insolvency. The new capital requirements under Basel III guidelines came into effect from 01.07.2017. Further to that, as per the new revisions of the BASEL guidelines, the CBSL has announced the revised capital buffer requirements for banks based on new criteria for determining Domestic Systematically Important Banks (D-SIBs). Accordingly, banks have now been categorised into D-SIBs bucket 1, D-SIBs bucket 2, D - SIBs 3 and non D-SIBs. BoC has been classified as a D-SIBs (Bucket 2) and the capital requirement for the Bank will remain at 10% for Tier I and 14% for Tier II.

As a state-bank, BoC can not access the equity market for capital injections and therefore must rely entirely on internal profit generation and Government injections. During the year, we adopted a strategy of balancing dividend pay-outs with capital retention, resulting in the Bank's shareholders' funds increasing by 8% to LKR 142.3 billion during the year. Meanwhile, frequent capital injections by the Government in previous years have also strengthened the Bank's capital position.

	End-December 2019	End-December 2018
Tier I CAR	11.16%	10.31%
Total CAR	15.58%	14.58%

Internal Capital Adequacy Assessment Process (ICAAP)

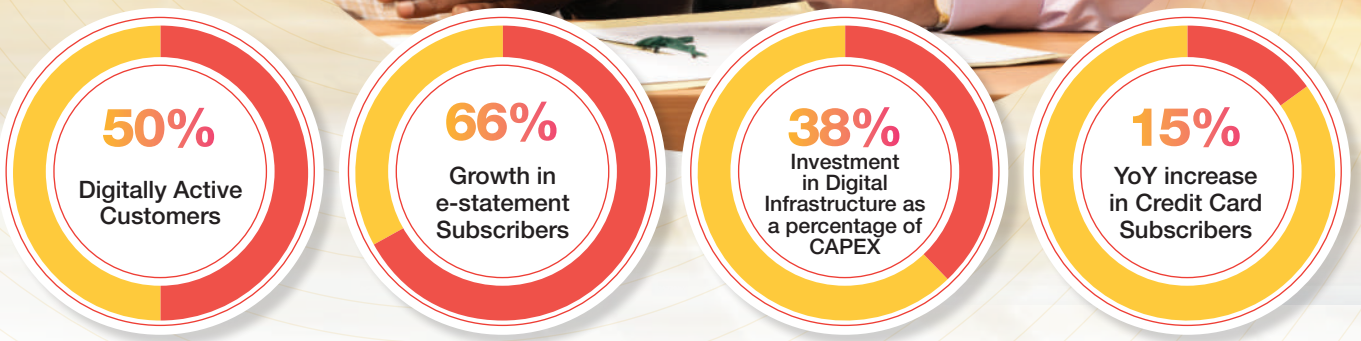
The ICAAP allows the Bank to assess its capital requirement based on its risk profile, ensuring that adequate capital is maintained to deliver its strategic agenda. Aligned with the Pillar II requirements, the Bank's ICAAP takes into consideration the key risks of credit, market, operational, liquidity, Interest Rate Risk in the banking book, reputational, compliance and strategic risk. The ICAAP Steering Committee which is headed by the General Manager is responsible for identifying these material risks as well as designing and implementing stress testing scenarios.

Stress testing is an important element of Pillar II (Supervisory Review) and showcases the sensitivity of the Bank's risk profile to a range of variables. The Board of Directors is responsible for ensuring that stress testing is conducted regularly and effectively in line with the Board-approved Stress Testing Policy. In addition to providing direction on capital allocation, the stress testing exercise facilitates the setting of risk appetite triggers, tolerance limits and formulation of contingency plans. During the year, we further strengthened our stress testing process in view of the challenging macro-economic front; accordingly, new stress scenarios and stress limits were introduced.

The results of the stress testing programme conducted during the year is given below;

Scenario	2019		2018	
	Moderate	Severe	Moderate	Severe
Increase in NPA				
Impact to Profit	**30.94%**	**49.03%**	40.88%	64.58%
Impact to CAR	**0.60%**	**1.10%**	0.81%	1.28%
Impact to Liquidity	**1.19%**	**1.44%**	1.19%	1.44%
Rupee Appreciation				
Impact to Profit	**7.01%**	**13.55%**	6.04%	10.45%
Impact to CAR	**0.13%**	**0.25%**	0.10%	0.18%
Impact to Liquidity	**0.01%**	**0.01%**	0.09%	0.18%
Loss from Operational risk				
Impact to Profit	**8.50%**	**14.13%**	2.71%	8.12%
Impact to CAR	**0.26%**	**0.53%**	0.25%	0.34%
Impact to Liquidity	**0.14%**	**0.22%**	0.05%	0.14%
Decrease in NIM				
Impact to Profit	**4.47%**	**22.43%**	5.31%	18.30%
Impact to CAR	**0.08%**	**0.42%**	0.08%	0.32%
Depletion of collateral				
Impact to Profit	**1.64%**	**2.46%**	1.88%	2.80%
Impact to CAR	**0.44%**	**0.62%**	0.59%	0.63%
Impact to Liquidity	**0.01%**	**0.01%**	0.08%	0.13%

Promoting digital literacy across the country



In recent years we have sought to widen our digitally active customer base through convenient and accessible platforms, thereby enhancing digital literacy across our extensive customer base.

NO. 395,900	6.8 million	NO. 20,000
B-app and Smart online Banking Subscribers	Debit Card Subscribers	Merchant with BoC Smart Pay

Strategic Report

Strategy and Resource Allocation

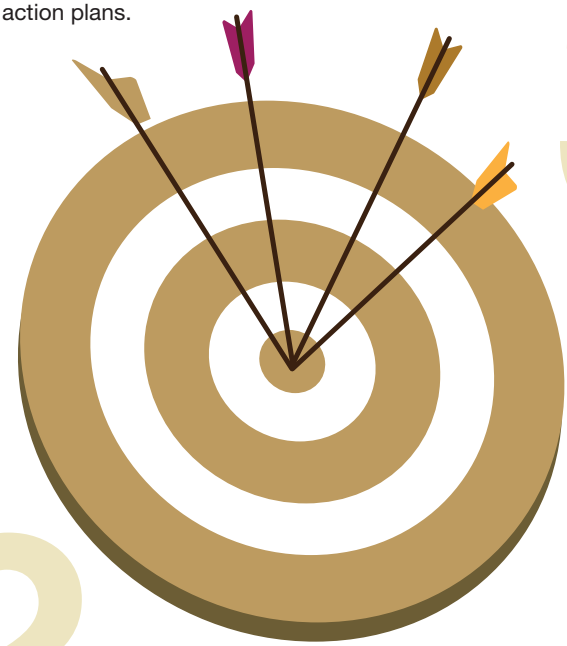
BoC annually engages in a comprehensive and organisation-wide review of its current business and competitive position with the objective of formulating a holistic strategy aimed at effectively responding to increasingly intensifying challenges and competition. This exercise culminated in the clear articulation of the Bank's current position, where we want to be over the medium to long-term and how we plan to get there. The structural change in the Bank's 2019 Annual Report aims to clearly reflect this approach and communicate our long-term strategic aspirations and how we intend to achieve them through defined strategies and action plans.

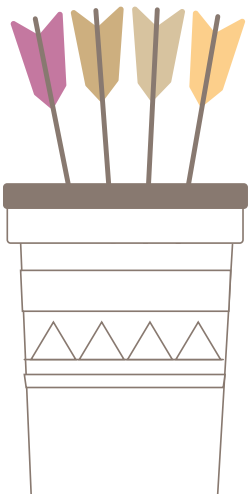
1

Where We are Now

The Bank's current market and competitive position was assessed through conducting a SWOT analysis which revealed potential threats that could erode the Bank's competitive composition over the medium-to-long term.

Refer page 64





2

Where we want to Be

Strategic priorities

- Excellence in Customer Service
- Leading the Digital Adoption
- Retaining Market Leadership
- Best in Sustainable Banking

Refer page 64

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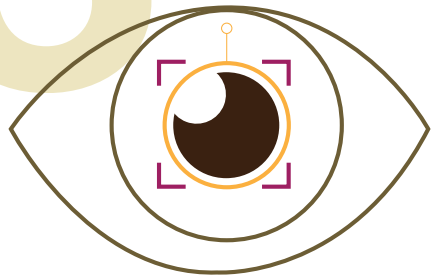


How we Plan to get there

Strategic enablers

- Service Care and Customer Tangibility
- Credit Culture and Quality
- Technology and Cyber Security
- Sustainable Business
- Brand Building
- Human Capacity Building
- Our Presence
- Good Governance, Ethics and Risk
- Process Streamlining and Innovation

Refer page 65 -115

Where we are now

S

Market leadership
63% customer penetration
19% of industry assets
22% of industry deposits
20% of industry loans

Brand strength
No.1 Banking brand associated with attributes of trust and credibility

Extensive branch reach
Unmatched network of 1,880 customer contact points

State-ownership
Trust associated with state-ownership

Multi-generational workforce
Combining industry experience with fresh perspectives

Strong balance sheet
Consistent asset growth coupled with strong funding profile

International presence
Three overseas branches, one limited service branch and one subsidiary

675 Corresponding relationships

W

Limited appeal to Gen Z and younger demographics

Challenges in rolling-out new technologies due to size of operations and limited agility

Challenge in integrating Legacy systems

Difficulty in maintaining consistencies in service quality across the network due to extensive spread and size

O

Growth in customers looking for convenience banking

Increase in financial literacy

Emerging sustainable business practices in addressing social and environmental challenges

Government's agenda in national development, digital literacy and sustainable finance

Island-wide growth in digital literacy in-line with the CBSL digital Financing road map

Growth in digital infrastructure in the country

T

Increasing competition from younger, agile banks and fintecs offering stronger digital propositions

Ever evolving Customer sophistication and need for convenient, seamless banking

Unprecedented changes in technology and risk of digital disruption

Challenges in attracting and retaining the right talent

Reduced brand loyalty among customers

Implications of climate change and natural hazards

Where we want to be

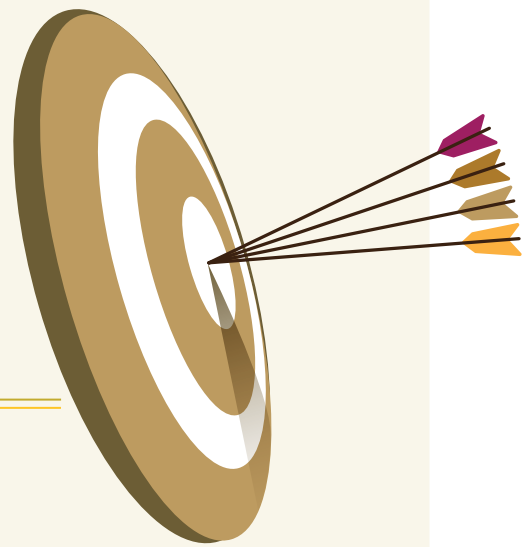
The Bank has identified four clear aspirations which will form the foundation of its competitive edge over the long-term. These objectives have taken into consideration, industry and external trends as well as the internal transformations required to successfully navigate the uncertainties presented by an increasingly challenging and dynamic operating landscape. These four aspirations are symbolic of "Where we want to be" over the long-term, thereby clearly defining the roadmap which would enable BoC to maintain its market leadership position while leveraging on its strengths to create sustainable, shared value.

Excellence in Customer Service
Ensuring a consistent and superior customer service across all our brick and mortar and virtual platforms

Leading the Digital Adoption
Transforming the experience of both the internal and external customers through adopting cutting-edge technology

Retaining Market Leadership
Leverage on the Bank's brand strength and unmatched customer penetration to maintain market leadership position through efficient and effective management of all assets, liabilities income sources and costs

Best In Sustainable Banking
Effectively address challenges prevalent in the economic, social and environmental sphere to proactive and meaningful solutions



How we plan to get there

In operation alising the Bank's strategic agenda, we have identified nine strategic drivers which clearly set out the short, medium and long-term action plans required. The following table provides a high level of overview of these strategic drivers, the resource allocated in 2019 and the trade-offs, we anticipate that will have to be made. The remaining sections of this Report is structured to provide more detail on the progress we made in actioning each of these drivers.

Strategic Driver	Initiatives/ progress made in 2019	Resources allocated	Capital trade-offs
Service Care and Customer Tangibility *Refer page 68 - 70*	• Launch of four new products targeting specific market segments • Consorted efforts on improving the soft skills of front office staff • Research to identify the customer perception on Bank's service quality • Customer education/ financial literacy programmes for 17,740 customers	65 training programmes conducted with 6,959 total participations on customer service and soft skill development LKR 18.5 million investment in customer engagement	Our intellectual capital will be strengthened as we nurture a culture of customer service and care across the organisation.
Credit Culture and Quality *Refer page 71 - 73*	• Strengthened internal collection/ recovery mechanisms through adopting automated/ digital solutions such as recovery workflows and introducing SMS alert facilities to both customers and employees • Special training programmes for employees on Credit appraisal and management and Recovering. • Recovery clinics and special Recovery campaigns • Redesign existing SME loan products to better address customer needs	98 programmes conducted with 5,010 participations on Credit management, evaluation and appraisal via 98 programmes Ongoing engagement with customers in partnering with them through challenging times	Over the short-term rising impairments have had an impact on the Bank's financial performance; however, our efforts to work with our customers and offer them flexible payment options during these challenging times has augured well for strengthening customer relationships. Meanwhile, ongoing investment in enhancing employee credit appraisal and management skills are likely to strengthen the Bank's intellectual capital.
Technology and Cyber Security *Refer page 74 - 77*	• Launch of QR code based mobile - payment app-BoC Smart pay • Launch Hana EZ app in Collaboration with KEB Hana Bank for Sri Lankan migrant workers in South korea • Investments in strengthening the Bank's IT and Security infrastructure • Corporate banking module for internet and mobile banking platforms - Smart online Banking Corporate module • Increased migration of customers to e-statements and digital platforms	LKR 1,697.9 million investment in technology and digital infrastructure development. Continuous innovations on launching new products	Ongoing investment in technology and digital infrastructure will accrue significant long-term benefits in enhancing customer experiences and driving productivity improvements. On the other hand, human capital can be utilised for value-adding activities such as new business generation and strengthening customer relationships.

How we plan to get there

Strategic Driver	Initiatives/ progress made in 2019	Resources allocated	Capital trade-offs
Sustainable Business *Refer page 78 - 86*	• Contribution to national development through tax payments, supporting national infrastructure projects, promoting entrepreneurship and driving financial inclusion • Investments in solar power generation and green buildings • Refined the Bank's CSR agenda to drive strategic and impactful initiatives mainly focused on child development and education and environmental conservation	Tax payments during the year amounting to LKR 17.1 billion LKR 77.8 billion disbursed to the SME and micro-financing sector via scheme loans Investment in CSR initiatives amounting to LKR 67.9 million	We see significant benefits in integrating the Bank's sustainability agenda to its business strategy. Despite having a short-term adverse impact on financial capital, investments in solar and green buildings will have a positive long-term impact on reducing the Bank's ecological footprint and carbon footprint. Ongoing investments in CSR initiatives will strengthen the Bank's community relationships and ultimately enhance its brand value, resulting increase in Intellectual Capital
Brand Building *Refer page 87 - 89*	• Investments in digital engagement to appeal to younger demographics • Review and revision of the Brand policy • Efforts to standardise the brand perception across all local and international customer touch points • Investments on Brand surveys	LKR 748.3 million investment in brand building initiatives	Our branding initiatives are targeted at leveraging on existing brand strength while refreshing and evolving the brand to appeal to a younger demographics, thereby expand the Bank's target market. Over the long-term this is expected to add to our intellectual capital and support business growth.
Human Capacity Building *Refer page 90 - 94*	• Concerted efforts on up-skilling of employees to suit new level of banking • Continuous training to newly recruits • Ongoing investment in training and development with focus on continuous professional development • Cordial industrial relations during the year • Increase employee awareness on work-life balance	LKR 233.3 million investment in training and development 47 Average hours of training per employer	Over the long-term increasing investment in automation and digitisation will lead to a change in the required skill profile of employees. In order to address this transformation, the Bank will be required to make ongoing investments in strengthening a specific set of skills, particularly related to IT and data management.

Strategic Driver	Initiatives/ progress made in 2019	Resources allocated	Capital trade-offs
Our Presence *Refer page 95 - 96*	• Continued expansion of our virtual channels • Further expansion of the brick and mortar network through the addition of 159 new customer contact points • Relocation of 22 No. of branches for better accessibility • Support to customers in migrating to digital channels through customer assistance and awareness	**LKR 1,697.9 million investments in furthering our digital footprint** **144 CRMs and CDMs added to network**	Further expansion of the Bank's physical and digital footprint will enable deeper customer penetration, allowing the Bank to enhance its social and relationship capital through acquiring new customers. Digital self-service channels will also support better customer experiences, enabling BoC to sharpen its edge in an intensely competitive market space, where digital offerings are playing an increasingly important role.
Process Streamlining and Innovation *Refer page 99 - 115*	• Seven workflow solutions introduced during the year • Availed digital signature pads to 47 branches to drive increased automation • Ongoing investments in automation and technology resulting in improvement in turnaround times	**LKR 49.0 million investment in workflow automation and DMS in 2019** **Seven new workflows automated during the year**	Productivity and efficiency improvements will support the Bank's long-term profitability through sustained reductions in the cost to income ratio. On the other hand, as reliance on human capital for repetitive processes gradually decline, employees can be directed towards more value adding activities such as business generation.
Good Governance Ethics and Risk *Refer page 97 - 98*	• Appointment of new Board of Directors and comprehensive induction programme carried out • Board engagement with the management in setting strategy • Reviewed and revised key policies • Employee training on anti-corruption and bribery	**4,819 No.of employees trained during the year on internal control and compliance via classroom training** **8,058 employees trained on compliance via distance education**	Strong and robust governance practices support the sustainable creation of shared value, positively impacting key capitals such intellectual capital, financial capital and social and relationship capital over the long-term.

1 Service Care and Customer Tangibility

Customers are at the heart of everything we do and increasing customer sophistication and competition has compelled us to rethink and enhance our value proposition to customers through offering innovative products and superior customer service.

Products and Services
Page 69

Customer Experience
Page 69

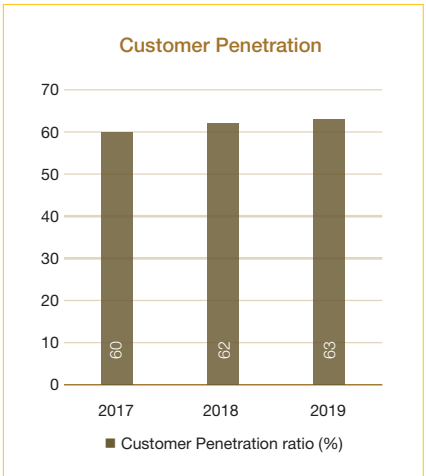
Responsible Banking Practices
Page 70

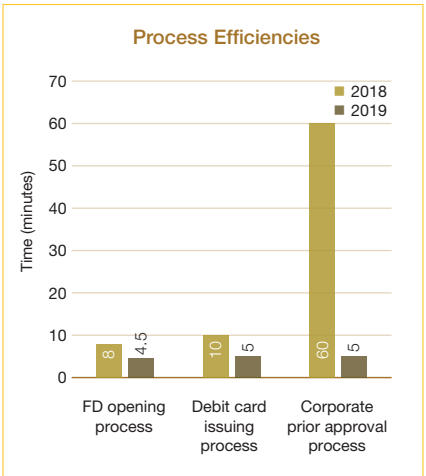
Customer Education
Page 70

Initiatives in 2019

- Launch four new products targeting specific market segments
- Customer Satisfaction Survey conducted by the Bank's Research Unit
- Customer education/ financial literacy programmes for 17,740 customers

How We Performed





Capital Impacts/ Value Created

Social and Relationship Capital	Enhance customer relationships
Intellectual Capital	Strengthen tacit knowledge base through nurturing a service culture
Intellectual Capital	Enhanced process efficiencies through DMS workflow automation
Financial Capital	LKR 18.5 million investment in customer engagement

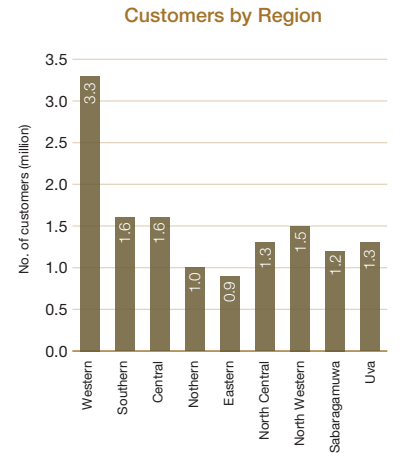
Our Customers

63%

Customer Penetration

13.7 million

Customer Relationships



Customers by Gender

51%

49%

Products and Services

Our base of over 13.7 million customers represent diverse demographic profiles, industry sectors and geographies. Our product proposition caters to the diverse needs of our large customer base through a wide array of investment, transactional and lending products. We continue to invest in understanding customer requirements through proactive customer engagement and designing solutions to cater to emerging customer needs.

Purpose	Individuals	SMEs	Corporates	Government institutions
Invest and save excess funds	Time deposits, other investment products and debentures			
	Savings accounts			
Transact with and manage funds	Current accounts for daily transactions			
	Cash management solutions			
Lending solutions	Personal loans			
	Home loans			
	Education Loan			
	Overdrafts and Leasing facilities			
	Scheme loan			
		Commercial loans including Project loans		
	Term loans and Trade finance			
			Syndicate funding	
Payment solutions	Debit/ Credit and Travel Cards			
	Mobile banking			
	Online banking facilities			
International services	Inward and outward remittances			
	Correspondent banking and Trade services			

New products launched/ refined and relaunched in 2019 included,

- Smart Saver - Personal foreign currency savings, offering multi-currency solutions for the first time in the industry
- 'Sansada' special account for Associations and Clubs
- Smart Lady-Special investment plan for ladies
- QR based mobile payment solution BoC Smart pay app

Customer Experience

Cohesive efforts are underway to provide a consistent customer experience across our extensive network of customer touch points. Time taken to perform over the counter transactions at Branches are monitored allowing the identification of process bottlenecks and remedial action taken to improve turnaround times. Strategic focus on implementing Document Management System (DMS) and workflow automation have led to significant improvements in turnaround times, positively impacting the customer experience.

1 Service Care and Customer Tangibility

Process Efficiencies Obtained via DMS and workflow Automation

	Manual Process	Automated Process
Recovery monitoring module - overdrafts	7 days	1 day
FD opening process	8 minutes	4 - 5 minutes
Account transfer process	5 days	3 days
Debit card issuance	10 minutes	5 minutes
Covering approval process	30 minutes	5 minutes
Corporate prior approval process	60 minutes	5 minutes
Single view solution	15 minutes	less than a minute

The quality of the customer experience and overall customer satisfaction is tracked through regular customer surveys conducted by the Bank's Research Unit. Findings of these engagements are key in formulating our customer service strategy.

- Attending quickly for change requests by customer
- Delivering an efficient and effective service within the expected time
- Time taken to provide the service
- Attractiveness of marketing materials

- Helping customers at peak hours
- Physical appearance of the Branches
- Parking facilities at Branches

Customer satisfaction survey results of Western province customers 2019.

Responsible Banking Practices

As a state-owned, Domestic Systemically Important Bank which controls more than 19% of the Banking sector assets, we are cognisant of the role we play in maintaining public confidence in the financial system. To this end, the Bank is deeply committed to engaging in responsible and sustainable banking practices. BoC adopts the CBSL Customer Charter which clearly defines customer obligations and standards for fair banking practices. Relevant information such as interest rates, maturity periods and other terms and conditions are clearly communicated to customers in the language of their preference. During the year there were no incidences of non-compliance to regulations/ voluntary codes pertaining to marketing communications and breach a customer privacy and loss of customer data.

Customer Education

As a Bank with a strong rural presence, we are aware of the role we can play in nurturing financial discipline and literacy in the communities we operate in. Our business verticals conducted several ongoing customer education programmes and progress made during the year is as follows;

Customer Awareness Programmes

Programme name and details	Target group	No. of participants
SME Customer Awareness Programmes - By BoC - in collaboration with Ceylon Chamber of Commerce	Micro, Small and Medium Entrepreneurs (both customers and non-customers of BoC)	946
	Programme to strengthen the SME sector	344
Financial Literacy Programmes	Low income earning individuals	1,450
Awareness campaign for migrant employees	185 campaigns targeting migrant workers, their families and intended migrant workers	15,000

Way Forward

- Product rationalisation and re-launch to appeal the customer sentiments
- New products targeting e-commerce transactions
- Ongoing efforts to offer consistent customer experience across touch points
- Efforts to improve internal and external Branch architecture to improve customer convenience
- Special drive for digital adoption to reduce floor level customer rush

2 Credit Culture and Quality

The moderation in economic conditions in 2019 led to an industry-wide deterioration in portfolio quality, compelling the Bank to take proactive action to strengthen its collection and monitoring mechanisms.

Credit Governance Page 72

Credit Management Page 72

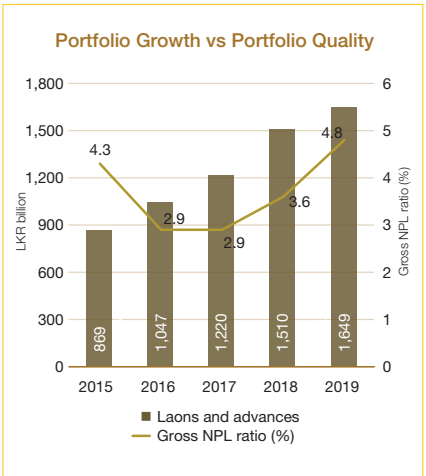
Credit Awareness Page 72

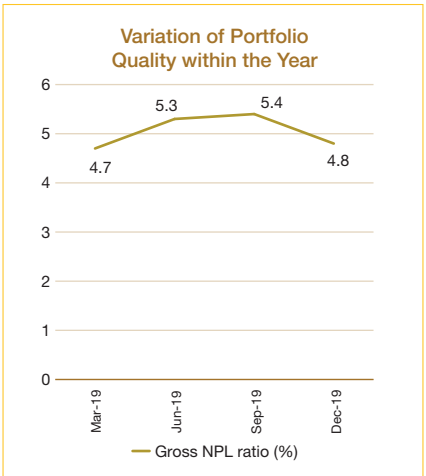
Recoveries Page 73

Initiatives in 2019

- Strengthened internal collection/ recovery mechanisms through adopting automated/ digital solutions such as recovery workflows and SMS alerts to branches/ customers
- Established project financing unit
- 5,010 participations for training provided on credit appraisal and management
- Introduce stringent follow up process for recovery (Recovery diary)
- 3,785 participations for training on Recovery
- Recovery clinics and special recovery campaigns conducted on each province
- New business opportunities in trade finance
  - Conformation adding service for third party LCs
  - Stand by LC arrangement with international banks

How We Performed





Capital Impacts/Value Created

Human Capital	Enhance employee credit related skills through targeted training
Intellectual Capital	Nurturing a credit conscious culture
Financial Capital	Adverse impact on financial capital stemming from rising impairments
Social and Relationship Capital	Strengthen customer relationships through offering guidance, flexible repayment options

2 Credit Culture and Quality

Portfolio Quality

The industry witnessed a broad-based deterioration in portfolio quality, with the average gross NPL ratio increasing to 4.8% in December 2019, from 3.6% the previous year. Cash flow stresses were evident across key economic sectors including tourism, agriculture and construction.

In this backdrop, BoC performed better than its industry peers to record a gross NPL ratio of 4.8% as at end of year 2019.

4.8%

Gross NPL ratio

The Bank has built LKR 99.0 billion impairment provision reserve in compliance with SLFRS 09 - expected credit loss method.

Impairment reserve coverage as a percentage of Gross Loan is 6%

Credit Governance

Clearly defined governance structure ensure the effective segregation of responsibilities for credit appraisal, collections, review and monitoring. Processes, tools and mechanisms are defined through policies and procedure manuals ensuring the effectiveness of the collection and recovery mechanisms.

A dedicated Credit Committee (at Executive level) is responsible for formulating, reviewing and revising policies and procedures for granting credit facilities. The Committee also monitors portfolio exposures, concentration risks and portfolio quality indicators on a regular basis. The Bank's Credit Management is supported by a suite of comprehensive policies, clearly defined authority limits and procedures.

Credit Management

Following the Easter Sunday attacks the Government introduced a moratorium for Tourism Sector which was badly affected. The Bank spent considerable amount of time and resources in helping its customers during the difficult time.

Dedicated Relationship Managers engage proactively with all corporate customers and during the year focus was placed on providing advisory services and guidance to support customers through challenging times. Measures adopted included proactive monitoring, regular customer visits, restructuring of facilities, awareness programmes and workshops, knowledge sharing with exporters/ importers and advisory role on cash flow management.

However, this did not allow the Bank to deviate from its strategic direction towards achieving efficient credit approval process via increase digitisation and developing skilled Credit Officers through special and focused training. Also, two workflow automations went live during the year for covering approval and corporate prior approval processes by significantly reducing operational times of those.

The Corporate segment also identified potential customers in booming sectors in the economy such as ship and boat manufacturing, wellness tourism, electrical equipment manufacturing etc. and started working closely with the emerging businesses in these segments.

Credit Awareness

Organisation-wide measures were taken to enhance employee credit appraisal and management skills and nurture a risk-conscious culture across the Bank.

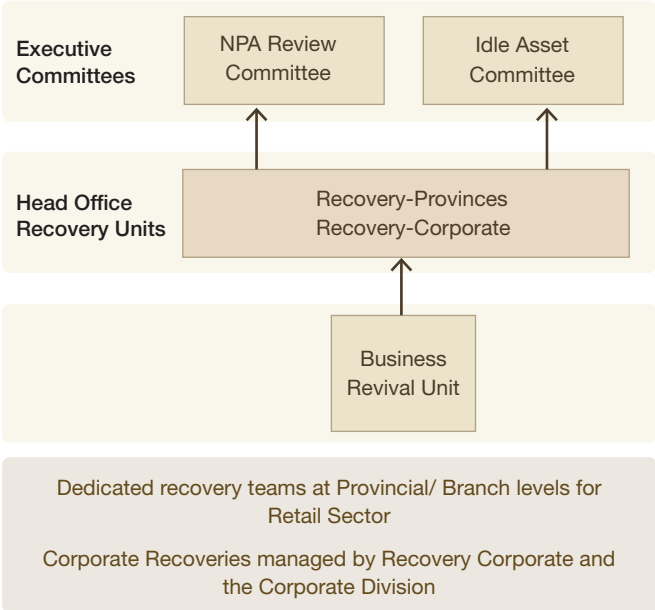
We also made considerable investments in upskilling the credit appraisal and credit management skills of our employees through several targeted training programmes held both at Head Office and provincial level;

Upgrading Skills on Credit Management and Recoveries

Programme objective and Details	No. of programme	No. of participations
Training on lending	92	4,966
Special training programme on credit	01	06
Overseas training programme on credit	04	09
Elements of advance credit appraisal	01	29
Programme on collection and recovery	51	3,780
Special programme on recovery	02	05

Recoveries

A clearly defined line of command is in place for Recoveries, with dedicated teams for Retail and Corporate exposures. This structure is graphically illustrated below.



Our approach centres on supporting and partnering our customers during periods of difficulty and during the year, we dedicated considerable time towards proactively engaging with genuine defaulters and offering guidance in rehabilitating their businesses. We also sought to reschedule/ restructure certain facilities offering flexible repayment schemes. Several of our branches also conducted workshops with customers to identify wilful and genuine defaulters in order to develop tailor-made action plans in recovering dues.

Also, special recovery campaigns/ workshops were organised by Head Office jointly with the province staff at provincial level and over 150 field visits were made which enabled close engagement with customers who were faced with cashflow stress. We also deployed additional resources to the recovery teams and incentivised employees for recoveries by introducing the concept of 'daily recovery champions'.

In line with the Bank's digitisation agenda, numerous automated/ digital solutions were also introduced during the year in order to streamline the collection and monitoring framework. These initiatives included the following;

- Digitalised recovery history for Retail loans through the Core Banking System, thereby strengthening the framework for early warning systems
- Daily SMS alerts to the Branches regarding all due collections
- SMS and other selected digital communications on high-risk facilities to relevant Senior Area Managers and AGMs.
- Introduction of leasing recovery workflow information card

In addition to the above, we also introduced a Recovery Leader Board through which collection KPIs are shared across the Bank. Monitoring was also strengthened through the introduction of Recovery Diaries, providing detailed information on the stage of recovery/ mediation for all NPA facilities.

Way Forward

- **Partner the Government in strengthening the SME sector through providing moratoriums in line with proposed guidelines**
- **Introduction of CRIB based Credit Scoring Model for Retail customers**
- **Ongoing investment in upskilling employees on credit evaluation and management**
- **Growth in syndicate facility**

3 Technology and Cyber Security

Our goal is to transform the customer experience through embracing emerging technologies which enable automation, increase efficiencies deep data analytics and seamless banking.

IT Governance and Strategy
Page 75

Seamless banking
Page 75

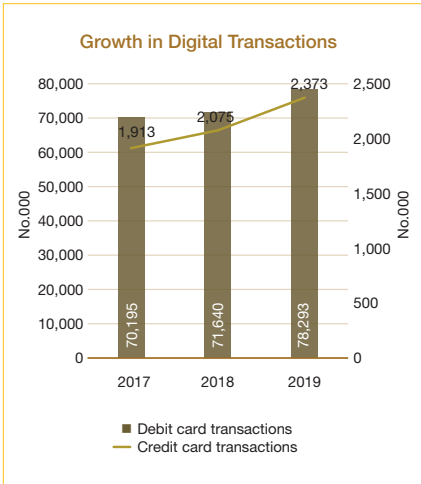
IT Infrastructure
Page 76

IT Security
Page 77

Initiatives in 2019

- Launch of QR code based mobile-payment app, BoC Smart Pay
- Corporate banking module under new internet and mobile banking platform
- RPA introduce to hold debit card on customer request
- Commenced establishment of a state-of-the-art data centre
- Strengthened the IT Security infrastructure
- Introduce privilege access management solution and Mobile Device Management (MDM) Solution
- Upgrade endpoints of Branch network

How We Performed



143%	Growth in smart online banking subscribers
66%	Growth in e-statement subscribers
137%	Growth in smart pass book subscribers

Capital Impacts/ Value Created

Financial Capital	LKR 1,697.9 million investments in digital infrastructure
Social and Relationship Capital	Enhance customer experience
Intellectual Capital	Process efficiencies and productivity improvements
Manufactured Capital	Expansion of IT system required to introduce virtual channels

Growth in digitaly active customers

16%YOY

Average daily transaction volumes

ATM/ CDM/ CRM transactions:	244,525
Debit card transactions:	214,502
Credit card transactions:	6,501
Smart Online Banking and B app transactions:	22,870
BOC Smart pay:	243

50%

Digitally active customers

IT Governance and Strategy

Digital transformation is central to the Bank's long-term strategy and our agenda is driven through decisive leadership, timely investments and organisational culture change. At Board level, the Information and Communication Technology Committee has oversight responsibility for the Bank's digital strategy and relevant policies while formulating and implementation is driven through the IT Department and Product and Banking Development Division.

Our long-term digital strategy is aligned to the Government of Sri Lanka's National Digital Policy and the Digital Road Map launched by Central Bank of Sri Lanka. Key elements of our digital transformation are as follows;

Delivery Channels
Offering accessible channels which allow customers to transact with the Bank at their convenience

Seamless Banking
Integrated solutions which facilitate a seamless experience across delivery platforms

Digital Interaction
Transforming customer engagements through digital interactions

Automation
Automating workflows through RPA technology to drive increased resource efficiency and accuracy

Analytics and Data Enrichments
Data analytics and enrichmentsJ to facilitate better decision making and effective risk management

Paperless Banking
Reduce paper consumption and improve process turnaround times through Document Management System (DMS)

Responsive Banking

Smart Banking

Seamless Banking

Digital propositions offered by banks are emerging as a key source of competitive advantage and BoC has continued to make inroads in enhancing its digital offering to customers. Our digitally active customer base increased by 16% to 6.8 million during the year. During the year also we made significant progress by introducing QR based BoC smart pay payment app and further developing our mobile app, card proposition and other self-service platforms as summarised below.

3 Technology and Cyber Security

New digital products/ features added during the year

QR code based mobile payment app - BoC Smart Pay

BoC introduced a QR code based mobile payment app 'BoC Smart Pay' catering for low value transactions and bill payments. This initiative is aligned with the CBSL's long-term goal of digitalising low value payments and reducing the use of physical cash.

BoC Smart Pay: 65,000 customers and 20,000 merchants

Card proposition

- Customer migration
- Introduced e-commerce enabled debit cards

Credit card subscribers 117,750 - YoY 15% increase
Debit card subscribers 6.8 million - YoY 51% increase

VISA

Software upgrades

- Commenced implementation of a new Trade Finance software
- Development of new financial reporting system

Smart Passbook

The Smart Passbook is a digital value addition providing access to transactions and balance history on a real time basis through smart mobile devices.

In 2019, modifications were made to launch this facility for our Overseas Branches as well.

Customers: 375,096 (137%)

Corporate proposition

In 2019, the Bank implemented the corporate banking module of the internet and mobile banking platforms.

Partnering the eco - system

Investments in setting up an Internet Payment Gateway with Government institutions.

Refer page 95 for further information on our digital delivery channels

Refer page 75 for further information on our digital interactions

B-app and Smart Online Banking

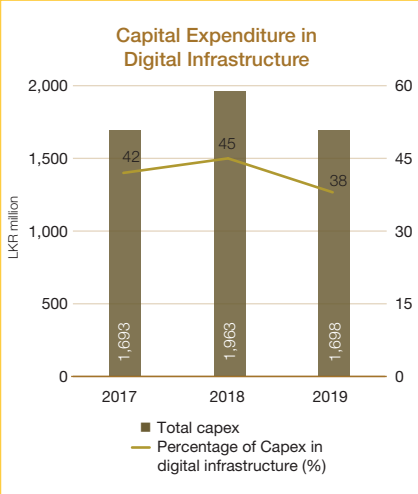
During the year enhanced security features were added to these platforms.

B-app and smart online Banking: 395,900 subscribers (143%)

IT Infrastructure

Investments in digital infrastructure have dominated the Bank's capital expenditure in recent years; in 2019 such investments accounted for 38% (or LKR 1,697.9 million) of annual capex. Key areas of IT investment during the year included,

- **State-of-the-art Data Centre:** Establishment of a new tier III data centre commenced during the year and plan to complete in 2020
- **Enhanced the CRM network** with the addition of 143 new CRMs during the year.
- **Backup communication links for Overseas Branches** provided to Male and Chennai Branches with the objective of improving availability and band with.
- **Consolidated Data Backup System** to facilitate regular backups for an array of systems.
- **Upgrade endpoints of branch network** with 1,000 personal computers replaced in 2019.
- **Enhance Disaster Recovery Facilities for** critical systems including card application and inward remittance systems etc.
- **Dual links for all Branches**



IT Security

The Bank's increasing thrust towards digitisation have led to a parallel increase in the exposure to related IT vulnerabilities. As a financial institution we have access to confidential customer data and continually seek to minimise exposure to cyber and other IT risks through comprehensive policies, upgrading infrastructure and strengthening network security among others. The effectiveness of our IT security infrastructure and approach to managing IT risks is regularly evaluated through vulnerability assessments, penetration testing and disaster recovery drills.

Key initiatives taken in 2019 to enhance IT Security include the following;

- **Completion of the Security Operations Centre (SOC):** The Bank's SOC aims to detect, analyse, and respond to cyber security incidents. Upon discovery, any issues are addressed in partnership with the Bank's IT Security team.
- **Data Loss Prevention Solution (DLP):** DLP software products use business rules to classify and protect confidential and critical information so that unauthorised end users cannot accidentally or maliciously share data whose disclosure could put the organisation at risk. During the year we commenced the procurement process to acquire a DLP solution with data classification.
- **Advance Threat Protection (ATP) for servers and end points:** Advanced Threat Protection aims to defend against sophisticated malware or hacking-based attacks targeting sensitive data. The solution monitors critical activity and enforces configurations to assess risk and maintain system integrity. It also features built-in file-integrity monitoring, device control, and memory protection to block unauthorised change and ability of application white listing to execute only authorised software.
- **Vulnerability assessment and Penetration test** conducted by an independent third party
- **Internal vulnerability assessments** conducted by the BoC IT Security team four times a year
- **IT infrastructure security review for Overseas Branches** conducted for the Chennai Branch during the year

In addition to the above, the Bank has introduced secure authentication for card payments, Mobile Device Management solutions and privilege access management. During the year there were no major vulnerabilities, external threats and/ or substantiated complaints regarding breaches of customer privacy and loss of customer data.

Way Forward

As Sri Lanka's largest financial institution, we believe we have an important role to play in supporting the aspirations of the country's National Digital Policy and the CBSL Digital Road Map. As such, in addition to the Bank's business strategy, our future investments in IT will be aligned to the key pillars set out by the Digital Road Map as listed below;

Smart Money	Facilitate utility bill payments through dynamic QR code solutions Link to the common POS switch and QR code system NFC enabled ATM network
Smart Transportation	Electronic transport card for public transport/ parking

In addition to the above, key areas of focus for 2020 includes the update of the Windows Operating System, further enhancing digital solutions to customers, particularly through expanding the digital delivery channels and strengthening the IT security infrastructure.

4 Sustainable Business

With social and environmental challenges becoming increasingly pervasive, we have come to realise the significance of the role we can and should play in addressing income inequalities, impacts of climate change and other emerging issues. The Bank's cohesive and strategic approach to Sustainable Business enables us to contribute to the achievement of the SDGs while creating long-term value for our stakeholders.

BoC's approach to Sustainability
Page 79

Sustainability Governance
Page 79

Social Sustainability
Page 82

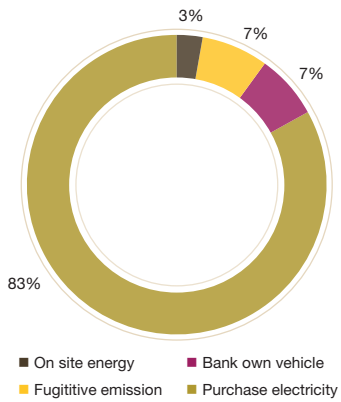
Environmental Sustainability
Page 83

Initiatives in 2019

- LKR 17.1 billion tax payment to the Government along with substantial funding disbursed towards national infrastructure development
- LR 77.8 billion disbursed to the SME and micro-financing sectors via scheme loans
- LKR 70.8 million investment in solar projects of the Bank
- Refined the Bank's CSR agenda to drive strategic and impactful initiatives focused mainly on education, environmental conservation and good health and wellbeing
- Achieved full compliance to social and environmental regulations and standards

How We Performed

Scope wise breakdown of GHG Emission 2019



Capital Impacts/ Value Created

Financial Capital	Securing funding via DFIs to lend towards economically, socially and environmentally sustainable initiatives
Social and Relationship Capital	Contributing towards island-wide socio-economic empowerment
Social and Relationship Capital	Investment in Strategic CSR initiatives
Natural Capital	Climate action through lending to renewable energy

BoC's approach to Sustainability

BoC adopts a strategic and systematic approach in embedding its sustainability objectives to its business strategy and daily operations. The Bank's approach to Sustainability is clearly outlined in a Board-approved Sustainability Policy, which is reviewed annually. As one of Sri Lanka's most impactful organisations, the Bank is cognisant of the role it can play in propagating sustainability across geographies and communities. Our policy is centred on the tenet that "Sustainability is a Lifestyle" and focuses on the three main dimensions of economic, environmental and social sustainability.

Precautionary Principle: While the Bank has not formally adopted the Precautionary Principle, environmental and social factors are given due consideration when conducting feasibility studies and appraising investments. The Bank has started implementing ESMS policy guidelines in its credit evaluation.

Key objectives of the Sustainability Policy are as follows;

- Integrate sustainability into key business decisions and initiatives
- Uplifting society's most needed segments
- Financial inclusion
- Promote ethical finance
- Promote green economic growth
- Maintain healthy supplier relationships and responsible supplier contracts

Refer **web.boc.lk** for further information

Sustainability framework at BoC

Economic

- Driving financial inclusion
- Contribution to Government
- Partner in national development projects

Environmental

- Manage carbon footprint
- Propergating environmental literacy
- Promoting renewable energy
- Conservation related CSR initiatives

Social

Strategic CSR

Philanthropy

Employee relations

Corporate Values	Stakeholder Engagement	Impacts, Risks and Opportunities	Policy coverage	Management and Governance	Disclosure
Operating philosophy of the Bank including communication and relevance of values	*Stakeholder identification* *Stakeholder interaction* *Stakeholder feedback* *Response*	*Identifying impacts* *Assessment of risks and opportunities* *Monitoring and review*	*Sustainability Policy* *HR policy* *Communication policy*	*Clearly defined governance structures and procedures* *External frameworks*	*Track sustainability performance* *Global reporting frameworks for sustainability reporting* *External assurance*

Sustainability Governance

While the Board provides oversight on all Sustainability-related matters, responsibility for developing the policies lies with the Sustainability Committee, which is chaired by the General Manager. The Committee is represented by DGMs of the key business verticals and support functions including Chief Financial Officer, Chief Risk Officer and Chief Marketing Officer among others.

The mandate of the Sustainability Committee includes,

- Develop and timely revisions of Sustainability Policy
- Evaluate, promote and approve sustainability initiatives in line with the Sustainability Policy
- Regularly monitoring the progress of the sustainability projects
- Integrate sustainability considerations into the Bank's overall strategy and daily operations

4 Sustainable Business

The Bank's Sustainability Unit is responsible for operationalising and co-ordinating all sustainability initiatives, initiated by the Bank as its own projects. The Unit also engages in sustainability reporting aspects and actively engages with internal and external stakeholders in operationalising the Bank's sustainability agenda.

Refer **web.boc.lk** for further information

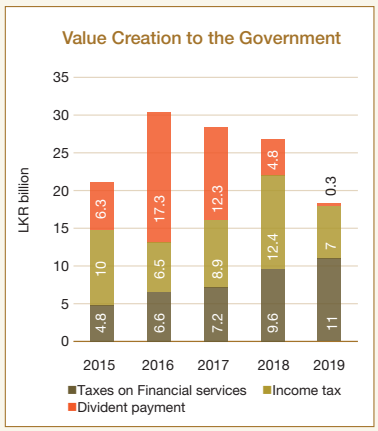
Economic Sustainability

Economic Contribution

As Bankers to the Nation, BoC's growth strategy is closely aligned to that of the country's development agenda and it is an unmatched contributor to the country's socio-economic progress. The Bank's strategy and long-term goals are therefore formulated with due consideration given to the broader economic benefits stemming from its operations; these extend beyond financial return to encompass several socio-economic priorities; BoC's contribution to the country's economic development is summarised below.

Contribution to Government Revenue

As a single entity, the Bank is one of the largest contributors to national revenue and its value creation to the Government takes the form of income tax, financial VAT, NBT, Debt Repayment Levy (DRL) as well as dividend payments. In 2019 total value creation to Government amounted to **LKR. 18.1 billion**



Partnering National Development

As a key lender to the Government, we continue to finance large scale infrastructure projects with long gestation periods undertaken by the Government of Sri Lanka. Also we equally fund for private sector for their large scale development projects

LKR 28.3 billion for road development projects

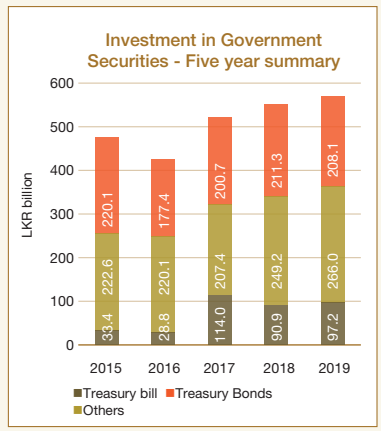
LKR 2.1 billion for power generation projects

LKR 24.0 billion for transport sector

LKR 37.6 billion for tourism sector

Investments in Government Securities

The Bank supports the Government's funding requirements through investments in Government securities of Sri Lankan Government. In 2019 total Government security investments amounted to **LKR 571.3 billion or 24%** of its total assets.



Driving Financial Inclusion

Promoting financial inclusion through providing access to affordable funding is central to the Bank's economic objectives. Financial inclusion is facilitated through the Bank's extensive network of customer contact points, micro-financing facilities targeted at the country's most underserved segments and ongoing investments in financial literacy and capacity building programmes. The progress made during the year is summarised below;

Developing Entrepreneurship

The Bank is a Participatory Financial Institution (PFI) in **33 credit** schemes aimed towards developing micro, small and medium entrepreneurs. In 2019, BoC disbursed **LKR 77.8 billion** via scheme loans to the micro and SME sectors of which **LKR 3,475.2 million** was channelled to the Northern and Eastern provinces.

- Agriculture and Agro processing
- Animal husbandry
- Aqua culture
- Renewable energy
- Others

LKR 77.8 billion disbursed to the SME Sector via scheme loans

51,164 loans disbursed during the year 2019 for SMEs via scheme loans

- **Customer contact points in economically disadvantaged areas**

The Bank's network extends to the most rural areas in the country, enabling it to support the the country's hitherto unbanked segments through lending and investment solutions. Meanwhile, the Branch on Wheels concept features a mobile banking unit which allows rural customers to perform a range of banking transactions without visiting a branch. As at end-December 2019, the Bank operated 159 branches and 412 contact points in economically disadvantaged areas and 11 Branch on Wheels serving marginalised communities.

Sri Lanka's Local International Bank

We seek to position the Bank as Sri Lanka's Local International Bank through widening our footprint in regional economies and strengthening our international relationships.

3
Foreign branches

675
Correspondent relationships

LKR 524.7 billion
Remittances facilitated

Foreign currency
24%

- **Disbursements under development loan schemes and other credit schemes**

BoC is a PFI in over 33 credit schemes which channel funds to underserved segments of society. These include; but not limited to schemes catering to SMEs that have previously not borrowed from a bank (SMELoC), women-led SMEs, agriculture, fishery and dairy sector SMEs and entities outside the Western Province. During the year, the Bank disbursed LKR 20.0 billion through over 33 funding schemes, benefitting a base of over 36,276 individuals, acting as PFI for those schemes

New development loan schemes in 2019

- City Ride: loan scheme for private bus owners and transport providers of export companies
- Rekawarana: for day care centres and elders' homes
- Mini-taxi electric three wheeler scheme
- Special credit packages for the tourism industry

- **Micro-finance lending**

The Bank has partnered with several Government institutions and other agencies in channelling funds to the country's micro enterprise sector through credit schemes. The '*Mithuru*' micro-financing programme is the Bank's own initiative, through which Mithuru groups and societies are formed for mutually guaranteed lending. Funds are disbursed primarily for entrepreneurial ventures and are aimed towards communities which otherwise do not have access to formal funding. The Bank also supports these enterprises through facilitating market linkages to sell their products through organising *'Mithuru pola'* markets.

4 Sustainable Business

'Mithuru' Micro - Finance Scheme

LKR 83.7 million disbursed during 2019 **among 906 Groups and 195 Societies**

Other funding schemes

LKR 13.8 billion Trust receipts loans for havesting commodities

LKR 10.0 billion lending through pledge loans for small agri farmers

Refer **web.boc.lk** for further information

Contributing to social sustainability in the normal course of business

- Driving socio-economic empowerment
- Infrastructure and livelihood development

Strategic philanthropy

- Education
- Environment
- Health and well-being
- Livinghood development and other

4 QUALITY EDUCATION

- **Financial literacy and customer education**

The Bank conducts numerous ongoing financial literacy and capacity building programmes aimed at both its customers and the broader community. This includes workshops for individuals pursuing foreign employment, '*Vyaaparika Hamuwa*' for the SME sector and workshops for school students and youth.

Refer to page 70 for further information

Social Sustainability

As discussed in last year's Annual Report, in 2019 the Bank refined its social sustainability agenda with the objective of driving more meaningful and impactful initiatives. Accordingly, our approach to promoting social sustainability is 2-pronged. It includes contributions to social development stemming from its normal business operations as well as strategic CSR/ philanthropy activities. Strategic CSR projects follow a branch-wide evaluation model in which all 10 administrative provinces are guided to initiate projects broadly aligned to SDGs. Projects are monitored by the Bank's Sustainability Unit on an ongoing basis to ensure effective deployment of resources and fulfillment of project objectives.

Refer to page 83 and 86 for further information

Strategic Philanthropy

Education

- **You are a Leader Programme**

Conducted as an ongoing programme in partnership with Asset Radio Broadcasting (Private) Limited (Neth FM radio station), this unique initiative aims to nurture future leaders through conducting workshops for students from selected schools, parents as well as special teacher training programmes. In 2019, the Bank invested LKR 6.0 million on this programme, with a total beneficiary base of over 1,200.

- **Nanajaya Scholarships**

Carried out as an ongoing programme since 2003, the programme aims to support high-performing and deserving youth in pursuing their higher education through a monthly endowment. In 2019, we granted 242 such scholarships for students who have obtained the highest marks in the A/L examination representing each stream. Conducted similar to the '*Mahapola Scheme*', scholarships cover higher educational expenses up to four years (for merit scholarships) and up to three years (for regular scholarships) to A/L completed students. During 2019, the Bank has disbursed LKR 11.4 million worth scholarships.

- **Hapana Scholarships**

Conducted as an ongoing initiative since 2002, the Bank offered 2,035 scholarships during the year for high-performers at the Grade five scholarship examination. The Bank also commenced a programme to support differently-abled students through which 25 students receive a scholarship of LKR 15,000 and a monthly allowance of LKR 1,000 until he/ she faces O/L examination. Total amount spent in 2019 is LKR 30.7 million. During the year, 44 '*Hapana*' Seminar programmes have also conducted and 17,143 students and 12,355 parent have been benefited.

'Hapana' Scholarships

Island rankers - Special cash price

Other top performers with RKG A/C - LKR 15,000 cash price, Certificate, and a Gold medal

All scholarships Past finalists - Valuable gift pack with a Certificate

Health and Wellbeing

To prevent spreading of Chronic Kidney Disease (CKD)
Water purification plants - Jaffna/ Galporuyaya

- Reverse osmosis based water purification plants installed in Trial Cancer Hospital, Jaffna and Community Center at Galporuyaya, Giridurukotte in order to provide purified drinking water to communities suffering from CKD
- At Galporuyaya total of 115,000 L of water has distributed so far.
- Trial hospital – approximately 250 beneficiaries per day

Commitment to road safety
BoC Yalu Para

Banking partner of the Little Hearts Project

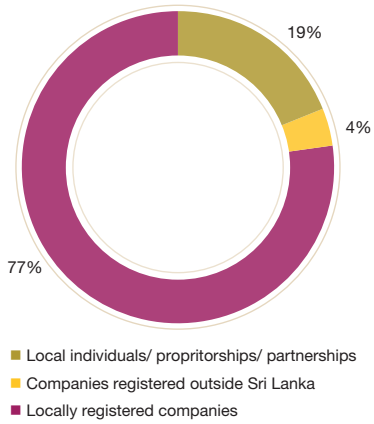
- Official Banking Partners to the 'Little Heart' projects
- Staff of Bank of Ceylon donated LKR 7.0 million to the Little Hearts Fund
- Aggressive campaign lunched via island wide Branches to encourage public to donate to 'Little Hearts'

Refer **web.boc.lk** for further information

Partnerships for Synergies

Our Supply Chain: Our network of 1,282 suppliers include, stationary suppliers to Head Office and Branches, software and hardware suppliers as well as utility and other capital item providers. All efforts are made to procure from local parties whenever possible. Approximately, 19% of our suppliers represent micro-enterprises, and our partnerships with them have contributed towards expanding their businesses, leading to socio-economic empowerment. During the year, around LKR 10.7 billion payments have been made to suppliers and no incident was found in relation to child or forced labour and incidents of loss of association of collective bargaining and right to freedom during the year.

Suppliers Benefited During 2019



In propagating our sustainability agenda along our value chain, we conduct supplier spot audits to ensure compliance to basic environmental and social standards. During the year, six such supplier audits were conducted.

Participation in industry forums: Membership in associations:

- Asia Pacific Rural and Agricultural Credit Association (APRACA)
- Association of Compliance Officers of Banks, Sri Lanka
- Association of Banking sector Risk Professionals, Sri Lanka
- Bar Association of Sri Lanka
- Bio Diversity Sri Lanka
- Institute of Bankers Sri Lanka
- International Chamber of Commerce, Sri Lanka
- Sri Lanka Banks Association (Guarantee) Limited
- The National chamber of Commerce, Sri Lanka
- The Ceylon Chamber of Commerce
- The Finance Ombudsman of Sri Lanka (Guarantee) limited

Environmental Sustainability

Our Approach

The Bank's approach to managing its natural capital and contributing towards long-term environmental sustainability is clearly set out in its Sustainability Policy. Our approach centres on minimising the direct environmental impacts of our operations while contributing towards the sustainable use of natural resources through responsible lending practices and supplier evaluations. Areas of focus include;

- 'Green Banking' – minimising the ecological footprint and carbon footprint of our operations
- Promoting environmental literacy
- Promoting renewable energy among customers
- Philanthropic CSR activities supporting environmental conservation

The Bank has also obtained the ISO 14064 - 1 certification in year 2018, the first state Bank to do so, demonstrating its commitment towards GHG emission management. Compliance with environmental laws and regulations are assessed through the support services division. There were no incidents of regulatory non-compliance with environmental laws during the year.

4 Sustainable Business

Energy and Climate Consciousness

The Bank's direct energy consumption is significant given its extensive branch reach. Our energy sources are purchased electricity, fuel and renewable energy generated through our solar powered branches. Our long-term objective is to reduce dependence on fossil fuel-based energy sources through increasing reliance on renewable sources and driving energy efficiency through and instilling energy conscious behaviour among employees.

At Head Office, energy managers have been assigned to each floor who hold responsibility for minimising unnecessary wastage. Notices throughout the Bank on reducing water and energy usage serves as a reminder to employees. Conventional lighting in the Bank's Head Office is gradually being converted to energy-efficient LED lighting with motion sensors. The Bank continued with its green building concept and the solar conversion project during the year which aims to enhance the energy efficiency of its operations.

Energy usage - 2019

	Unit	2019*	2018*	Change
Electricity consumed	Mwh	**24,328**	21,135	3,193
Fuel consumed	Liter	696,559	732,101	(35,542)
Renewable sources	Mwh	2,370	885	1,485

Green House Gas (GHG) Emission - 2019

	Unit	2019*	2018*	Change
Direct (scope 1) GHG emissions (Gas, Fuel Oil)	tCO2e	2,974	2,902	2%
Indirect (scope 2) GHG emissions (Electricity, Stream)	tCO2e	14,220	10,354	37%
GHG emission intensity ratio	tCO2e/ Total employee	1.7	1.5	20%
CO2 emission reduced as a direct results of specific reduction initiative solar power usage	tCO2e	1,385	757	83%

** Calculated based on estimated and extrapolated data on last years assessment. Also please note that energy and emission are only reported for Sri Lankan operations.*

Renewable Energy Generation

In 2015, the Bank launched an ambitious project to convert its Branches to solar power and since then has made steady progress on reducing its dependence on fossil fuels. Commencing with the Tissamaharama and Kilinochchi Branches, we have since then progressed to converting 41 branches to solar power by end-December 2019 with another 10 in the pipeline. Progress made on this project in 2019 is as follows;

41
Solar powered branches

10
Branches in the pipeline

Power generation

2.4 million kWh of renewable energy

1,855 kWh supplied to national grid

10% electricity requirement fulfilled

Investments

LKR 70.8 million
In 2019

LKR 288.0 million
Investment to date

Green Buildings

Two of our Branches have been awarded the prestigious GREENS rating by the Green Building Council of Sri Lanka. The Trincomalee Branch was awarded the GREENS Platinum rating in 2018 and the Kekirawa Branch was awarded the GREENS Gold rating in 2017. The Bank currently has three - Branches constructed based on the guidelines of the Green Building Concept with 12 more Branches are in the pipeline.

Carbon Footprint

The implications of climate change are increasingly pervasive across the globe, with natural disasters and erratic weather conditions having wide ranging impacts across value chains, communities and industry sectors. For BoC, the implications stem primarily from the impact on its lending portfolio, particularly sectors such as Agriculture and Tourism to which it has significant exposure. Although we are yet to quantify these impacts, we are increasingly cognisant of the heightened likelihood and impact of this risk factor. As such, we are committed to consistently reducing the carbon footprint of our internal operations and are driving organisation-wide efforts to achieve this objective. Year 2018 the Bank was able to successfully verify its third-party quantified organisational carbon footprint though an accredited independent verifier in accordance with the ISO 14064-1 Standards for quantification and reporting of Green House Gas (GHG) emission and removals. BoC remains the only state Bank in the country to have obtained this globally recognised sustainability credential. This year due to unfortunate situation arising as a result of the COVID-19 lockdown in the country the Bank was not able to finalise its independent verification of GHG data and therefore, GHG emission was based on estimated/ extrapolated data from the previous year assessment (values to be verified against the ISO 14064-1 Standards)

Waste Management

Used paper and e-waste are the main types of waste generated by the Bank's operations. Saving paper is encouraged throughout the organisation and used paper is recycled through registered recyclers. E-waste is also disposed responsibly through third party recyclers approved by the Central Environmental Authority. During the year the Bank has recycled 19,768 Kgs of waste papers.

Meanwhile the Bank's digitisation strategy and resultant customer thrust towards digital channels have contributed towards a reduction in its paper consumption. BoC DIGI centers were also expanded up to three during the year. Many automation initiatives and internal process efficiencies carried out during the year have also resulted in a significant reduction in paper use.

Refer to page 98 for further information

Sustainable Lending Practices

Our reach and size places us in a position to significantly impact the environment through our lending practices. This includes direct lending for environmentally friendly projects and the inclusion of environmental considerations as part of our credit appraisal criteria. The Bank offered dedicated credit products for the installation of solar panels, developing environmentally friendly packing materials using biodegradable products, waste-to energy projects, wind power projects and other renewable energy projects. During the year, total lending towards renewable energy projects amounted to LKR 1,507.7 million. We also seek to propagate environmentally friendly business practices among our clients by encouraging sustainable practices such as energy conservation, green businesses, waste management and recycling, and during the year LKR 67.5 million funding has disbursed among SME customers via scheme loans for this purpose.

Progress made on the Bank's green lending initiatives during the year are as follows;

Lending category	Value (LKR million)
Renewable energy	1,507.7
Facilities granted for process improvements in driving reduction in environmental footprint and other green business	67.5

Loan schemes operated during 2019 for 'Green Financing'

1. E-Friends -II
2. RSPGLOC Project
3. Green loans
4. Rivi Bala Savi
5. Special Credit scheme for solar power systems and other loans

4 Sustainable Business

Environmental and Social Screening

The Bank introduced a comprehensive Environmental and Social Management system in 2018, and since then it has been screening all development lending via ADB special credit line based on ESMS guidelines. Training has been conducted for Branch Managers and Credit Officers on the ESMS and the Bank is in the process of implementing ESMS for its entire loan portfolio. Progress made during the year is listed alongside; As at 31 December 2019, 681 credit officers have been trained for the ESMS evaluation based.

681
Officers trained on ESMS criteria

115
facilities screened

LKR 673.5 million
disbursed after screening for ESMS

Engaging communities in Environmental Conservation

Schools/ Municipal Councils/ Recyclers
3R concept based waste Management project

Funded 3R waste management project alone with waste collection center for,

- Anula vidyalaya, Colombo
- Kaluthara Balika vidyalaya, Kaluthara

Schools/ UDA/ Recyclers
Digradable Waste management project

Funded to establish degradable waste Management plants in;

- Minuwangoda President College
- Kelaniya Darmaloka Vidyalaya
- Wattala St. Annes College

Twin Tree Project

Total of 7,740 native trees to the area have been planted by parents marking their child birth. All trees were sponsored by BoC. North Western Provincial Health Officers have also joined hands with BoC for this project.

Green Net Project

10,000 trees have been planted with the objective of connecting the Southern Province with tree tops once these trees grow up. 1,200 students from 273 schools participated for this project.

Kumbuk Arana Project

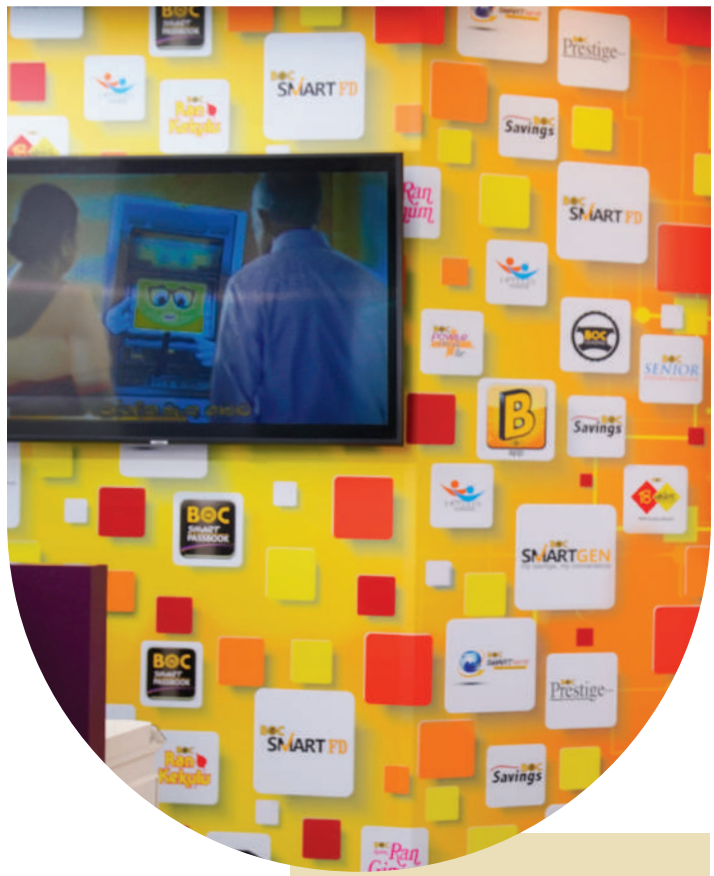
2,600 'Kumbuk' trees have been planted alone the river basing of the Kalu ganga. 1,650 children and 1,300 public have partnered with the Bank in planting these trees.

Way Forward

- Continued efforts on partnering the country's economic development in line with our economic sustainability pillar
- Further investments in green buildings and solar energy generation
- Continued focus on propagating environmental sustainability through our lending practices
- Expand environmental conservation to a larger audience through strategic CSR initiative

Ongoing investments in strategic CSR initiatives with a view to driving meaningful and impactful change

5 Brand Building



As one of Sri Lanka's most trusted brands, the BoC brand is one of our most valuable assets, contributing towards market penetration and customer retention. In recent years, we have understood the need to revive and evolve our brand for which concerted efforts are now underway.

Strength of our Brand
Page 88

Brand Guidelines and Perception
Page 88

Branding Initiatives
Page 88

Awards and Accolades
Page 89

Initiatives in 2019

- Investments in digital engagements to appeal to younger demographics
- Review and revision of the Marketing and Brand policy
- Initial efforts to standardise the brand perception across all local and international customer touch points
- Engaged the Research Unit in conducting a brand perception study

How We Performed

Ranked the No.1 brand in the banking sector

Ranked 2nd most valuable brand in the country

BANK OF CEYLON
BoC
Bankers to the Nation

21%
increase in brand value in 2019

First Bank to cross
LKR 50 billion
brand value

Capital Impacts/ Value Created

Financial Capital	LKR 748.3 million investment in brand building
Social and Relationship Capital	Appeal to new customer segments by enhancing brand perception

5 Brand Building

Strength of our Brand

The BoC brand is one of the strongest in the country, as frequently attested by independent domestic and international branding agencies. The brand is associated with attributes of stability, trust and confidence, which have supported lower customer acquisition costs and high retention. In 2019, BoC was once again ranked as the strongest banking brand, a position it has held consecutively for over 11 years and the 2nd most valuable brand in the country. Previously recognised as the country's strongest brand, BoC relinquished its position to the country's leading telecommunications brand in 2019; a reflection of the unprecedented growth of the telco industry and escalating competition from fintechs. Having identified the potential competition from these dynamics, we have implemented a cohesive brand-building strategy to regain our position over the medium term. Meanwhile, BoC emerged as the first Sri Lankan bank to cross LKR 50 billion in brand value, representing an increase of 21% over the previous year.

BANK OF CEYLON
Bankers to the Nation

No. 1 banking brand in Sri Lanka
2nd most valuable brand in Sri Lanka
Brand Finance Sri Lanka Top 100

Strongest bank in Sri Lanka
The Asian Banker

Among the World's top 1000 banks since 2012:
The Banker Magazine UK

[1] *Brand Finance, 2019*

Brand Guidelines and Perception

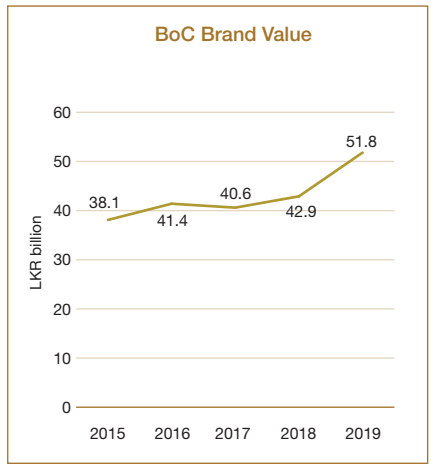
Brand guidelines

The Bank's brand guidelines are clearly set out in a Board-approved brand policy; the marketing department is currently in the process of developing a brand manual to ensure the consistent application of brand guidelines across Branches and all engagement platforms. During the year, we also reviewed and revised the Bank's Marketing Policy.

Evaluating brand perception

During the year, the Bank's dedicated research unit conducted a comprehensive brand perception survey, which revealed the following;

Rejuvenating and evolving the brand to be innovative while maintaining its essence



Branding Initiatives in 2019

We understand the importance of refreshing and repositioning our brand to appeal to younger demographics while maintaining our strong position among our traditional customer segments. Branding initiatives in 2019 were targeted towards achieving several such specific long-term objectives pertaining to BoC's brand perception.

- Building brand visibility across all market segments
- Effectively communicating the Bank's values and its contribution towards the national development
- Upgrade and transformation of 40 Branches in 2019 to provide a consistent customer experience
- Appeal to the younger demographics and drive changes in brand perception through promoting our digital solutions, consistent engagement through social media and other innovative engagement platforms such as "Class ekata Y" and "You are a Leader Programme"

Refer to page 82 for further information

- Achieve brand standardisation and consistency at all local and international touch points
- Effectively communicating the Bank's Sustainability and CSR agenda on the public domain

Way Forward

- Maintain No.1 position in the banking industry
- Emerge as the first preference for banking among the youth
- Brand standardising across all customer touch points
- Effective communication to showcase the Bank's activities as a responsible corporate citizen.

Awards and Accolades

No. 1 Banking Brand in Sri Lanka

Most valuable Banking Brand in Sri Lanka 2019 - Brand Finance

Excellence in Performance

Top 1000 Banks in the World - The Banker Magazine (UK)

Most admired companies of Sri Lanka - 2019, International Chamber of Commerce Sri Lanka

Human Resources Awards

The Asia's Best Employer Brand - Employer Branding Institute - India

Sri Lanka Best Employer Brand - Employer Branding Institute - India

Award for Excellence in Training - Sri Lanka Best Employer Brand - Employer Branding Institute - India

Best HR Organisation to Work for - Global HR Excellence

Annual Report Awards

Gold Award - State Banks Annual Reports Awards 2019 CA Sri Lanka

Winner
Public Sector Banking Institutions SAFA Best Presented Annual Report Awards - 2019

Gold
33rd ARC Awards, Written Text: Banks International

Bronze
33rd ARC Awards, Financial Data: Banks International

Certificate of Merit - CMA Excellences in Integrated Reporting Awards 2019

Sustainability

Top Ten Best Corporate Citizen - Best Corporate Citizen Sustainability Awards - 2019

Best Green Excellence - Energy Asia's Green Future Leaders Awards 2019

Best Green Excellence - Solar Asia's Green Future Leaders Awards 2019

Best Green Excellence - Energy Sri Lanka Green Future Leaders Awards 2019

Leadership in Environmental Sustainability - Green Building Council of Sri Lanka

Outstanding Green commitment Award - 2019 Green Building Council of Sri Lanka

Technnovation Awards 2019

Gold
Best Acquire for US Dollar Online payments

Silver
Best Bank for Retail payments

Silver
Most Popular Electronic Payment Products (B App)

Merit
Best Common ATM Acquirer (A)

6 Human Capacity Building

"Today's knowledge is tomorrow's business" was the underlying motto guiding our efforts in enhancing our employee value proposition through ongoing focus on building capacity and creating a conducive work environment for all 8,503 of our employees.

Talent Attraction Page 91

Industrial Relations Page 92

Diversity and Inclusion Page 92

A Skilled Workforce Page 93

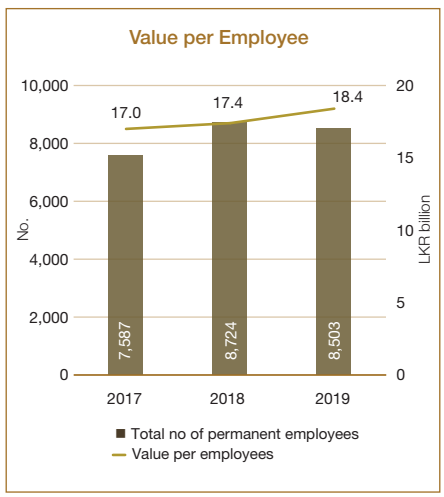
Initiatives in 2019

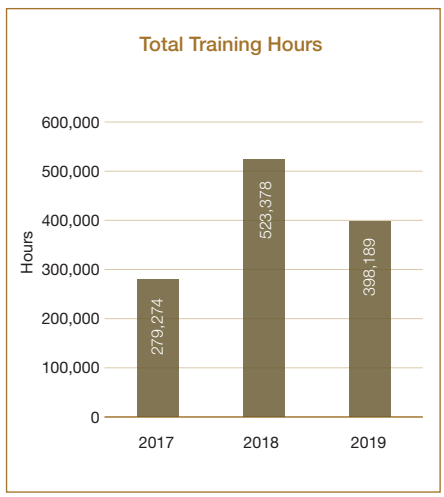
- Concerted efforts to drive attitudinal change among employees to serve customers better
- Ongoing investment in training and development with focus on continuous professional development, upskilling and reskilling
- Cordial industrial relations during the year
- Raising employee awareness on work-life balance

Capital Impacts/ Value Created

Financial Capital	Total value created to employees 18.4 billion
Intellectual Capital	Nurtured organisational capital through LKR 233.3 million investment in training
Social and Relationship Capital	Facilitating better customer experiences through continuous improvement in knowledge and skills of our human capital

How We Performed





Managing our Team

A dedicated HR Policy Committee chaired by the General Manager is responsible for formulating and recommending policies for Board approval through the Human Resource and Remuneration Subcommittee, which assists the Board in providing oversight into all HR related aspects. HR strategy driven and implemented by the HR department is developed in line with the Bank's Corporate Plan which is approved by the Board.

BoC's approach to managing its talent is clearly articulated through comprehensive policies that covers all aspects relating to human resources. The Bank complies with the Shop and Office Employees Act in terms of labour practice and decent work and all employee agreements and contracts are inclusive of human rights considerations. At BoC, all employees are treated equally in recruitment, promotions and reward schemes.

Key HR Policies and Codes

Attraction

Recruitment policy
Salary and non-salary benefit schemes

Retention

Training and development
Reward and recognition
Promotion and career advancement
Performance management

Administration

HR policy
Communication
Code of ethics and employee handbook
Employee welfare schemes
Employee disciplinary code

Preferred Employer

The BoC Team of 8,503 employees is the catalyst in driving the Bank's strategic agenda and facilitating the customer experience. A strong reputation for employee development, opportunities for career progression and a conducive work environment has enabled the Bank to emerge as one of the sector's most preferred employers.

Refer page 89 for HR Awards

As the country's leading financial sector brand and a state-owned organisation, the Bank is in a strong position to attract employees. Entry level positions at BoC such as Trainee Staff Assistants and Management Trainees attract an overwhelming number of applicants whenever vacancies are advertised.

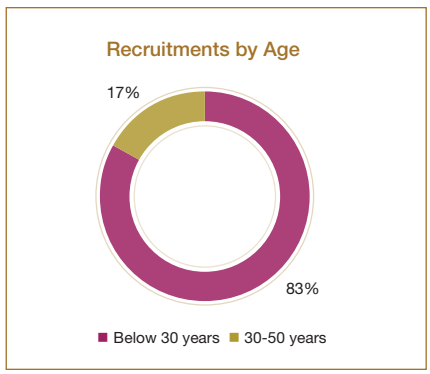
Talent attraction

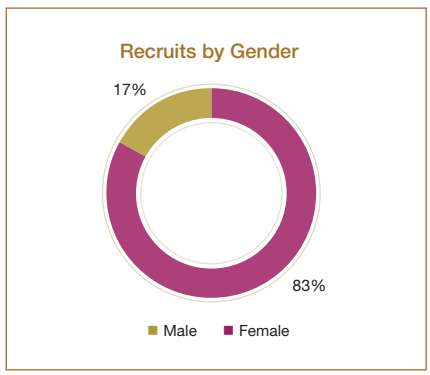
Movements in team profile

12 new employees in 2019

Recruitment by Age and Gender

	Below 30	30-50
Recruitment by age	10	2
	Female	**Male**
Recruitment by gender	10	2





Recruits by Region

	No.	Rate
Western	08	67%
Southern	-	-
Sabaragamuwa	-	-
Uva	02	17%
North Western	01	8%
Central	-	-
North Central	-	-
Eastern	-	-
Northern	01	8%

The Bank's recruitment process is well structured and transparent. Staff requirements at divisional level are recommended by the HR Policy Committee to the Board of Directors for approval. Approved vacancies are advertised to the public through newspapers in all three languages and on the Bank's website. The selection process for candidates includes a written examination and an interview with an interview panel determined by the General Manager. Successful candidates, for any new vacancy including promoties undergo a comprehensive induction programme.

Recruitments were limited in 2019, as the Bank filled many vacant positions in the previous year. Profile of new recruits is presented alongside.

Compensation and Benefits

An attractive compensation plan is offered by the Bank that includes gross salary, employer provident and trust fund contributions, medical assistance schemes, pension scheme, widow, widower and orphanage fund (eligibility criteria apply), discretionary bonus and incentives. The Bank contributes 12% and 3% to BoC Provident Fund and ETF respectively. Also, all permanent employees are eligible to non-contributory pension scheme. Employees also qualify for housing loans, vehicle loans, computer loans, solar power loans, investment loans and unified general loans at concessionary rates, education assistance and professional subscription re-imbursements (eligibility criteria apply). Compensation which includes salary and non-salary benefits

6 Human Capacity Building

is based on collective agreements with trade unions which are negotiated every three years.

Employee Engagement

A year-round activity calendar consisting of sports, cultural and religious activities are conducted to drive employee motivation and nurture a sense of camaraderie.

BoC Annual Inter-Provincial sports meet 2019

Special Events Conducted by the Welfare Department during the year

- NIC issued under mobile service - 700 participants
- 80th anniversary blood donation campaign at Head Office-200 participants
- Lecture on Psychological impact of digital technology on children's cognition - 350 participants
- Awareness programmes on first aid - 300 participants
- Medical camp for cancer detection and prevention for female employees - 51 participants
- Lecture on common problems with Mobile Phones and Solutions by Telecommunication Regulatory Commissioner - 250 participants

Industrial Relations

All permanent employee at BoC are covered by collective agreements with 99% belonging to one of six trade unions. BoC provides accredited employee representation of the trade unions facilities, funding and other infrastructure for trade union activities with seven employees released for full time trade union work. We maintain cordial and co-operative relationships with trade union representatives, ensuring that only significant issues are raised to the Bank's Management. There were no work disruptions due to trade union activities during the year.

Notice of six months is provided to employees prior to implementation of any significant operational changes that could affect them. The notice period and provisions for consultation and negotiation are specified in the relevant collective agreements.

Diversity and Inclusion

As an equal opportunity employer BoC does not have any from of discriminate on any grounds (gender, age or ethnicity) when recruiting, promoting or determining remuneration. With one of the highest female representation, 60%, in the financial services industry, BoC offers a conducive work environment for women. We have a high return-to work after parental leave ratio and have taken measures to ensure mothers with infants are deployed to the nearest branch. The ratio of basic salary between women and men continued to remain 1:1. No any from of discrimination reported during the year.

A quota of up to 1% for differently abled employees is mandated by our recruitment policy. To bridge language barriers among our workforce, Sinhalese/ Tamil classes were conducted for employees during the year.

A Safe Workplace

The Bank's work environment does not give rise to major health and safety risks, however priority is given to employee wellness and safety. Collective agreements cover health and safety topics that include employee entitlements under the medical assistance scheme. The Bank's health and safety goals are delivered as follows;

- Comprehensive medical cover
- In-house doctor, nurse and pharmacy at Head Office
- Gymnasium, yoga and aerobics facilities
- Training and security for employees performing duties at the vulnerable areas of the Bank
- Annual fire drills

Gender Parity at BoC

Policy/ governance framework supporting gender parity

- **Equal opportunity policy**
- **Disciplinary procedure**
- **Grievance handling policy**
- **Welfare Society for Women**

Parental Leave 2019

	Female
Employees:	
Entitled to parental leave	5,142
Took parental leave	515
Returned to work after leave	515
Number of employees still employed after 12 months of their return to work after parental leave	380
Return to work rate of employees taking parental leave	100%
Retention rate of employees taking parental leave	91%

Gender representation by department

Male	Department	Female
10	Risk Division	14
71	Finance and Planning Division	72
80	IT Division	43
135	Product and Banking Development Division	139

Promotions by Gender

508

313

Promoting work-life balance: A key area of focus in 2019 was the propagation of a healthy work-life balance among our employees, with a view to creating, a more satisfied and motivated workforce. Several professional counsellors and medical doctors were invited to conduct lectures for employees to raise their awareness on work-life balance, while an opportunity was also given for employees to air their personal grievances to the counsellors.

A Skilled Workforce

BoC has a dedicated training centre located at Maharagama with seven Faculty Members and 115 Associate Faculty Members. Internal specialists from the Bank and external resource persons are engaged to conduct training to employees on an ongoing basis. While the Bank utilises its in-house facilities for most of its training needs, staff are also sent for specialised local and foreign external training programmes. We also conducted training via e-learning specially on risk, compliance and BCP awareness. Employee life-long learning is supported through providing opportunities for Toastmaster/ Speech craft programmes as well as management development and leadership programmes across different levels.

In addition to ongoing training programmes, the following were conducted during the year;

Training Programme	No of training Hours	No of Participations
In-house training	325,513	42,034
External – local	28,632	3,579
External – foreign	44,044	223
e-learning	-	23,925

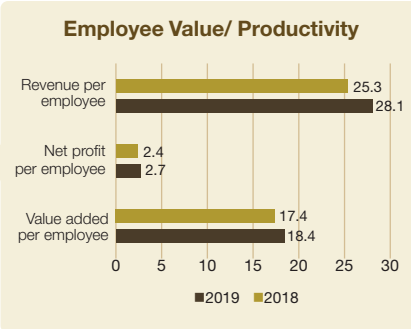
	Average Training Hours	
	Male	Female
Corporate Management	45	32
Executive Management	29	22
Senior Management (CM/ SM/ BM/ AM)	4	6
Executives (AM/ EC/ JEO)	7	18
Banking Trainees and other	2	3

Training Outcomes

Investment in training: **LKR 233.3 million**

Total training hours: **398,189 hrs**

Average training hours per employee: **46.8**



Performance Management and Succession Planning

A structured performance management system is in place ensuring equitable treatment for all employees in determining increments and promotions. KPIs are cascaded from the Bank's corporate strategy and 100% of permanent employees go through performance appraisals twice a year.

Career progression is guided by a transparent and clearly communicated promotions policy. Employees are eligible to apply for a promotion once they have completed the required service in the current position. During the year, 821 employees were promoted while all vacancies were filled internally except for entry level positions. Written succession plans for Key Management Personnel (AGMs/ DGMs) was carried out in 2018 and expanded to include the Branch staff in 2019. The success of BoC's development of its employees is demonstrated through 100% of all

6 Human Capacity Building

positions being filled through internal promotions or transfers except for two positions in Corporate Management. External recruitments are carried out only for entry level positions or specialist roles for which career bankers may not be special trained/ developed.

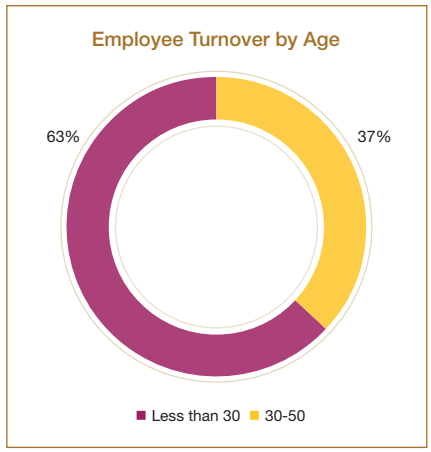
The Bank recognises the outstanding Branches/ employees via BoC Spirit awards and Century Score Card method. High performing Branches/ employees receive cash and non-cash benefits.

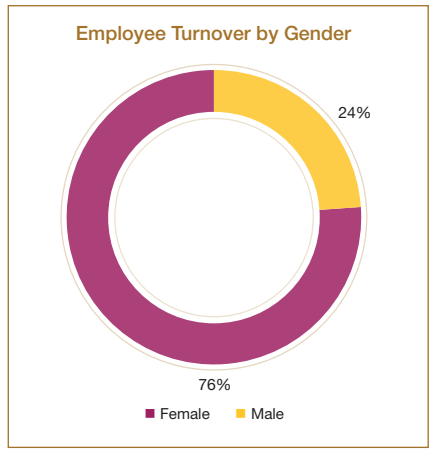
Talent Retention

The Bank's employee turnover rates have been consistently low over the years and was 0.8% in 2019. This is a testament to our employee value proposition characterised by significant investment in training and development, cordial trade union relations, succession planning and employee engagement initiatives.

Turnover by Age and Gender

	Below 30	30 - 50
Turnover by age	43	25
	Female	**Male**
Turnover by gender	52	16





Turnover by Region

	No.	Rate (%)
Western	39	1.0
Southern	4	0.5
Sabaragamuwa	4	0.7
Uva	6	1.3
North Western	4	0.6
Central	2	0.3
North Central	2	0.3
Eastern	2	0.4
Northern	5	0.9

Way Forward

- Driving attitudinal change through engagement and training programmes to facilitate better performance and an improved customer experience
- Increased use of digitisation and technology in driving our training and development agenda
- Focus on upskilling employees to suit new era of Banking
- Focus on increasing employee productivity

7 Our Presence

The Bank's market presence is fortified by its extensive physical reach of 1,870 customer contact points across the island as well as a growing network of virtual channels including online and mobile banking and BoC smart pay app.

Physical Presence
Page 96

Digital Presence
Page 96

Virtual Presence
Page 96

Driving Digital Literacy
Page 96

Initiatives in 2019

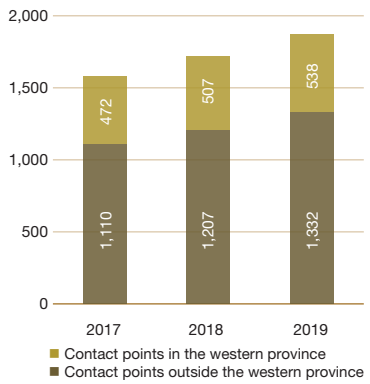
- Continued expansion of our digital footprint with the addition of 143 CRMs and 67 Smart Zones across the island
- Further expansion of the brick and mortar network through the addition of 159 customer contact points
- 22 branch relocations for better access
- Ongoing support to customers in migrating to digital and virtual channels through training/ awareness programmes

Capital Impacts/ Value Created

Financial Capital	LKR 2,505.5 million in expanding physical infrastructure
Financial Capital	LKR 1,697.9 million in expanding digital infrastructure
Manufactured Capital	159 contact points added
Social and Relationship Capital	Increased customer convenience and accessibility

How We Performed

Distribution of Customer Contact Points



Additions to the network in 2019

14	Branches and Limited Service Branches
05	Branch on wheels
143	CRMs
01	CDMs
15	Bill payment kiosks
67	Smart Zones

7 Our Presence

Physical Presence

With one of the most extensive banking networks in the country BoC provides access to its services through 1,880 direct customer contact points that enables the Bank to penetrate 63% of Sri Lankans. During the year we added six branches and 144 CDMs and CRMs to our network. The concept of Branch on wheels has also proved to be popular and we have expanded by having one for each province. The Bank also has a presence in 5,487 schools across the island. During the year the Bank also further strengthened its international presence by opening an extension office of the Male Branch in Hulumale.

Refer to page 81 for information on how our physical presence helps drive our financial inclusion agenda

Investment in Physical Infrastructure
LKR 2,505.5 million

Three BoC branches per 100,000 persons

Five BoC ATM/ CRM machines per 100,000 persons

63% Customer Penetration in Sri Lanka

131 contact points in economically underprivileged areas

Our Presence

581 branches including **three in overseas locations**

11 Branches on wheels

14 Regional Loan Centres

15 SME Centres

1,197 CDMs, CRM and ATMs

Refer to page 22 for a full list of branch locations

Digital Presence

Digital footprint

	Added in 2019	Total as at end-2019
ATMs	-	772
CDMs	01	164
CRMs	143	261
Bill payment kiosks	15	64
DIGI centers	3	4

1,265
Digital contact points

From the perspective of overall strategy, the Bank's channel strategy will focus more on digital and virtual platforms, while consolidating its brick and mortar model. With customers increasingly demanding ubiquitous channels and increased connectivity driving demand for self-service platforms, we are cognisant that banks which are unable to respond to these dynamics will see an erosion of competitive edge over time. To capture and retain the 'digital', millennial customers BoC continues to leverage technology to build omni-channels, thereby improving accessibility and convenience. In 2019, the Bank invested LKR 1,697.9 million in strengthening its digital reach - particularly expanding Smart Zones which consist of ATMs, CDMs, CRMs and bill payment kiosks. These zones have allowed customers to perform a range of transactions instantly without queuing in Branches. We continue to see accelerated adoption of self-service channels among our customers; in 2019 total percentage of digitally active customers of the Bank accounted for 50% of the Bank's total customers compared to 34% the year before.

Virtual Presence

BoC's virtual platforms constitute BoC Smart pay app, Smart online banking and B-app and these platform allows 24 x 7 x 365 day banking to our valuable customers irrespective of their place of stay and provide greater convenience to them in their day to day banking services.

Enhancing Digital Literacy

BoC continues to command the largest digital banking footprint in the country and has played a vital role in enhancing digital adoption in the country's peripheries. The Smart Zone concept has been a key driver of enhancing digital literacy across the island, with nearly 255 (73%) BoC Smart Zones located outside the Western Province. The Bank has also appointed dedicated personnel at Branches to assist customers in using the self-service channels.

Province	No. of BoC Smart Zones	Computer literacy rate (%)*
		2019
Western	96	43.4
Southern	49	29.5
North Western	34	29.3
Central	35	28.6
Sabaragamuwa	24	25.2
Uva	23	20.8
North Central	37	20.7
Northern	36	19.6
Eastern	17	16.0

**Source: Department of Census and Statistics, Sri Lanka*

Way Forward

- Align with the Government's National Digital policy and Digital Road Map from CBSL in propagating technology - enabled banking across the island
- Further expansion of the digital footprint
- Increase investment in developing and promoting virtual channels
- Widen the overseas presence

8 Process Streamlining and Innovation

The Bank is committed to identifying and eliminating process bottlenecks through the use of technology with the objective of enhancing the customer experience, driving internal efficiencies and improving employee productivity

Process Automation
Page 98

Paperless Banking
Page 98

Connecting Opportunities
Page 98

Product Rationalisation
Page 98

Initiatives in 2019

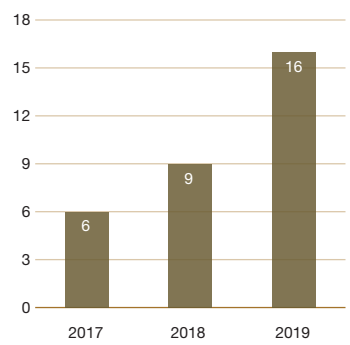
- Seven workflow solutions introduced during the year
- Piloted paperless banking in four Branches
- Installation of digital pads to 47 Branches to drive increase automation
- Increased migration of customers to e-statements and digital platforms

How We Performed

Promoting Innovations

INNOVBANK
International Symposium on Innovative Banking

No. of Key Workflows Automated as of Year End



Capital Impacts/ Value Created

Financial Capital	Cost efficiencies as reflected by the ongoing improvement in cost to income ratio
Intellectual Capital	Improved process turnaround times
Social and Relationship Capital	Enhanced customer service through improved turnaround times
Natural Capital	Reduction in paper consumption

8 Process Streamlining and Innovation

Document Management Systems (DMS)

1.1 million CASA account opened during the year

244,445 Fixed Deposits opened during the year

546,944 customers on boarded during the year

Process efficiencies

Personal loan approval time reduced by 95%

Home loan and business loan approval time reduced by 14%

Corporate prior approval processing time reduced by 92%

CASA account opening time reduce by 40%

Debit card issuing time reduced by 50%

Process Automation

The Bank continued to invest in automating repetitive, time-consuming, manual processes using Robotic Process Automation (RPA) technology. In 2019, seven workflows were introduced bringing the total to 16 which includes Overdraft Recovery, creation of fixed deposits, issuance of debit cards and covering approval.

Meanwhile, digital pads have been given to 47 Branches enabling the digital onboarding of customers with the digital signature stored in the core banking system. Given the high volume of daily transactions processed by the Bank, the full - roll out of this technology is expected to generate significant benefits in terms of driving efficiencies and reducing paper consumption.

Paperless Banking

In addition to driving process efficiencies and enhancing customer experience, the Bank's increasing thrust towards digitalisation and automation is also aimed at reducing its overall paper consumption. Since BoC commenced the implementation of Document Management Systems (DMS) in 108,941 A4 sheets has been saved primarily through online loan applications, account opening and workflows of debit card issuing.

In 2019, BoC also piloted a comprehensive paperless banking programme in four of its Branches. This involved the complete automation of account opening, central auditing, temporary and permanent overdraft functions and introduction of slipless transactions among others. Our medium to long-term objective is to expand this programme across the branch network driving an 80% reduction in paper consumption.

Other initiatives in place for reducing paper consumption include the following;

- Migration of customers to e-statements - achieved 66% growth in 2019
- Migration of customers to digital platforms - 16% increase in digitally active customer base
- Driving reductions in cheque usage by moving 90% of bulk cheque payments to standing orders. This is also in line with the Central Bank's long-term objective of reducing cheque usage in the country.

Connecting Opportunities

"The INNOVBANK Symposium"

In a unique, first-of-its-kind initiative, BoC unveiled the 'Innovative Banking' symposium in November 2019 under the theme 'Innovative Banking in a Smart World.' The symposium seeks to bring together thought leadership on banking innovation through inviting novel thinkers and Fintech innovators to present research papers, concept papers and proposals on emerging new technologies. Key categories include, Fintech Solutions in Banking, Business Process Re-engineering in Banking, Innovative Financial Products and Services, Artificial Intelligence and MIS and Big Data among others.

Product Rationalisation

The Bank also consider research feedback on its product and services, and continuously work on review and upgrade on their products and services for better customer experience. Accordingly, product re-launch and upgrade with new products frills takes place across the year. During the year BoC Smart online and mobile banking platforms were upgraded with new service features.

Way Forward

- Further investments in work flow solutions including workflows for permanent overdraft facilities and credit card application process
- Introduce palm top solutions - particularly for agency banking
- Partner the Government in the implementation of the e-KYC system
- Migrate the loan collection module to a DMS system

9 Good Governance, Ethics and Risk Management

As a state-owned entity operating with a mission which extends beyond profit generation, robust governance practices and ethical conduct and Risk Management are critical to BoC's value creation process and stakeholder interactions. This section details the activities under Good Governance and Ethics while Risk Management is discussed under the Risk management report on page 44.

Corporate Governance
Page 100

Sustainability and Stakeholder Relations
Page 107

Board Activities in 2019
Page 107

Board Subcommittee Reports
Page 109

Initiatives/ Developments

- Appointment of new Board of Directors in January 2020
- Reviewed the Corporate Plan for 2019-2021
- Strengthened the Bank's IT and Cybersecurity Risk Management Framework
- Reviewed and revised several key policies, Charters and Committee Terms of Reference
- Enhanced the Bank's sustainability policy and governance mechanisms

Board Attendance - 2019

Name of the Director	Board	Audit Committee	HR & RC	IRMC	NCGC	ICTC
Mr Ronald C Perera, PC – Chairman, Independent Non-Executive Director	22/22	N/A	N/A	N/A	3/3	N/A
Mr K A Vimalenthirarajah Non-Independent, Non-Executive, Ex officio Director	18/22	5/6	1/1	5/5	3/3	N/A
Mr Kumar Mayadunne Independent Non-Executive Director	21/22	6/6	1/1	5/5	N/A	N/A
Mr P A Schaffter Independent Non-Executive Director	19/22	4/6	1/1	4/5	3/3	N/A
Mr S Nilam Jayasinghe Independent Non-Executive Director	9/12	5/5	N/A	N/A	N/A	N/A
Total No. of Meetings	22	6	1	5	3	N/A

Capital Impacts/ Value Created

Intellectual Capital	Values-based culture
Intellectual Capital	Strengthen risk management frameworks
Social and Relationship Capital	Proactive stakeholder engagement

9 Good Governance, Ethics and Risk Management

Corporate Governance

Chairman's Message

In ensuring the creation of long-term stakeholder value and consistent contribution to the national economy, the Bank's operations are underpinned on a solid foundation of robust corporate governance practices, which begins with the Board of Directors and extends to every employee. Our corporate governance framework drives competent leadership and judicious empowerment while ensuring accountability and propagation of a strong culture across the organisation.

Board Changes

A new Board was appointed in January 2020, with Directors combining a diverse range of public and private sector experience, industry insights and skills (Refer Board profiles on page 25 of this Report). All appointed Directors underwent a comprehensive and structured induction process, enabling familiarisation with the strategy and operations of the Bank. As a relatively young and vibrant Board, we are keen to facilitate the Bank's creation of long-term value while capitalising on the opportunities presented by a dynamic operating landscape including developments in technology, increasing consumer sophistication and rising disposable incomes.

Compliance

This Report sets out our approach to governance in practice and how the Board in office in 2019, worked and discharged its duties during the year. It also demonstrates the status of compliance with the corporate governance regulations under the Banking Act Direction No 11 of 2007 for Licensed Commercial Banks issued by CBSL. The Bank has also voluntarily adopted the revised Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka in December 2017.

The Board of Directors are guided by a Code of Business Conduct and Ethics for Directors while employee practices are governed by a separate Employee Code of Ethics, on which annual declarations of compliance are obtained.

I hereby confirm that I am not aware of any material violations of any of the provisions set out in the Bank's Code of Ethics by Key Management Personnel.

Way forward 2020

As Sri Lanka's leading financial intermediary, the Board firmly believes that BoC has a pivotal role to play in supporting the country's anticipated economic revival. As such, we are committed to fostering rural economic empowerment and equitable wealth distribution while supporting the country's SME sector and the Bank's strategy and activities will be directed towards the achievement of these objectives.

Kanchana Ratwatte
Chairman

24 March 2020

Approach to Corporate Governance

Governance Framework

BoC's Governance Framework has been carefully designed to address the varying needs of the Bank's diverse stakeholders, particularly given its status as a state-owned systemically important bank. The framework aims to address potential trade-offs between long-term and short-term outcomes while ensuring an appropriate balance of power and accountability across the Bank. Extending beyond mere compliance, the Bank views corporate governance as an enabler which leads to greater transparency, accountability, robust risk management and effective leadership. The framework is built on the following external and internal steering instruments;

External Instruments

- Bank of Ceylon Ordinance No.53 of 1938 (referred to as "Ordinance") and its amendments
- Banking Act No.30 of 1988 and its amendments
- Banking Act Direction No.11 of 2007 on Corporate Governance for Licensed Commercial Banks
- Circulars applicable to the Bank issued by the Government
- Continuing listing requirements of the Colombo Stock Exchange
- Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka in December 2017

Internal Instruments

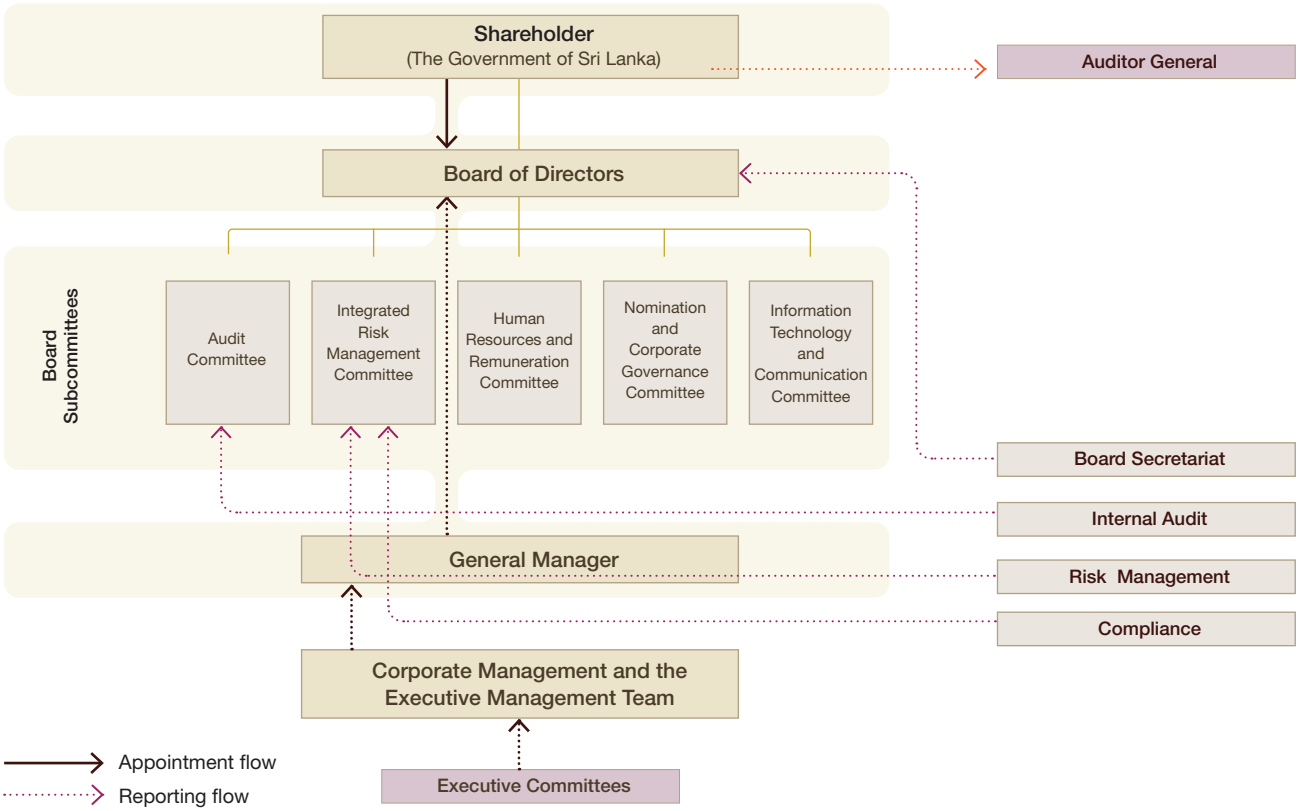
- Board Charter
- Subcommittee charters
- Codes of conduct and ethics
- Comprehensive policies and procedures
- Subsidiary Management Charter
- Customer Charter

Internal Mechanisms

- Stakeholder engagement
- HR and People management
- Strategic and corporate planning
- Risk Management
- IT and Cyber Security Governance

Governance Structure

The consistent application of the Bank's governance aspirations is ensured through a well-defined governance structure comprising multi-level governance bodies, specific roles and responsibilities and clear reporting lines. The Board of Directors serves as the highest governing authority and is empowered to delegate the oversight responsibilities of specific functions to Subcommittees as it thinks appropriate. Day-to-day management of the Bank has been delegated to the management team led by the General Manager. The Governance Structure is graphically illustrated below;



Board Subcommittees

The Board Subcommittees operate within a defined mandate as outlined in the Committee Charters. The Committee chairpersons are responsible for the effective functioning of the committees and to report and make recommendations to the Board on the respective activities.

Executive Committees

The management of the day-to-day operations have been delegated to the Corporate Management team led by the General Manager. Several executive level committees have been established with specific responsibilities and clearly defined mandates.

9 Good Governance, Ethics and Risk Management

Subcommittee	Mandate
BOARD SUBCOMMITTEES	
Audit Committee	Reviews the Bank's financial reporting process including internal controls, internal and external audit (Refer Audit Committee Report on page 109)
Integrated Risk Management Committee	Oversight responsibility for all areas of risk management including credit, market, operational, liquidity, cyber/ IT and strategic risks and ensures compliance with the entirety of the risk management policy framework and compliance with laws and regulations. (Refer IRMC Committee Report on page 111)
Human Resources and Remuneration Committee	Responsible for Remuneration policy, setting objectives and evaluating performance of Key Management Personnel (KMP) and determining the Bank's HR policy. (Refer HR and Remuneration Committee Report on page 113)
Nomination and Corporate Governance Committee	Responsible for implementing procedures to select/ appoint key management persons and evaluating their sustainability, review code of ethics and improve corporate governance practices. (Refer Nomination and Corporate Governance Committee Report on page 114)
Information and Communication Technology Committee	Oversight responsibility for IT products, services, policies, practices and infrastructure. (Refer Information and Communication Technology Committee Report on page 115)
EXECUTIVE COMMITTEES	
Assets and Liabilities Management Committee (ALCO)	Reviews the funding strategy, liquidity management, assets mismatch as well as market risk exposures, management of liquidity risk and interest rate risk as primary objectives and manages various financial risks of the Bank.
Branches Division Credit Committee	Provides quality and quick service to the customers by expediting the requests of high net-worth customers and streamlining the credit administration process while managing credit risk.
Business Continuity Coordinating Committee	Managing and coordinating all aspects of the Business Continuity Management process.
Business Continuity Implementation Committee	Effective implementation of the Bank's Business Continuity Plan.
Business Continuity Management Alternative Committee (BCMAC)	Serves temporarily, immediately after any disaster, until the other Business Continuity Management Committees are established.
Committee Dealing with Forged Cheques and Fraud	Makes recommendations to respective authorities for writing off unrecoverable balances on forged cheques and frauds after considering all possible ways of recovering the same.
Corporate Information Security Committee	Provides direction and support for the Bank's information security initiatives, including ensuring the application of processes specified in the Information Security Policy (ISP), review and communication of information security plans, conduct investigations of security breaches and drive the Bank's information security.
Corporate Management Committee	The highest management level committee of the Bank which is responsible for making vital operational decisions which do not fall under the purview of the other management committees. It also reviews the Bank's entire performance, with a view to formulating strategies and issuing directions to manage deviations.
Corporate Strategic Review Committee	Assist the management to streamline the process of planning, implementing and monitoring of corporate strategies of the Bank
Credit Committee	Reviews and approves large ticket size credit proposals. And maximise risk adjusted rate of return by maintaining credit risk exposures within acceptable parameters
Damage Assessment and Restoration Committee (DARC)	Assesses damage to Bank Property and Restoration.
HR Policy Committee	Implementation of the Board's human resource policies and making recommendations to Board of Directors where necessary
Idle Asset Committee	Monitors the process of disposal of properties vested in the Bank as per the Ordinance, Debt Recovery Act and internal instruction circulars.

EXECUTIVE COMMITTEES	
Internal Capital Adequacy Assessment Process Steering Committee	Responsible for the development and implementation of the ICAAP process across the Bank.
Investment Committee	Responsible for investment decisions including long-term strategic investments, short-term investments and disposal decisions. (excluding investments in equity of subsidiaries and Government securities)
Committee for Investment in Government Securities	Assist the management in the discharge of its statutory duties and its oversight responsibilities in relation to investments in Government securities.
IT Steering Committee	Implementation of the Bank's IT strategy including approving project plans, monitoring project progress and drive teams for implementation.
Marketing Committee	Plans appropriate marketing strategies with a view to championing novel marketing concepts, planning and executing CSR programmes and creating an effective communication platform to build the Bank's image.
Non-performing Assets Review Committee (NPAC)	Reviews stressed loans and advances and recommends risk mitigation strategies and recovery mechanisms.
Operational Risk Management Executive Committee	Responsible for all operational risk management matters of the Bank and facilitates the addressing of cross-functional risk issues.
Reward and Recognition Policy Committee (RRPC)	Recognising and rewarding high-performing employees for their contribution to the Bank.
Scholarship Programme Selection Committee (Review Committee)	Select appropriate/ suitable and required overseas programmes for the Bank.
Scholarships Committee	Select training programmes and seminars/ workshops, visits and nominate suitable participants for overseas training opportunities.
Sustainability Committee	Implementation of the Bank's Sustainability Strategy including coordinating sustainability initiatives.
Technical and Operational Committee	Assists in taking appropriate measures to mitigate losses that may arise due to disruptions to operate

Effective Leadership

Board of Directors

The Board composition is clearly set out in the Ordinance and relevant amendments, which states that the Board can have up to six (6) Non-Executive Directors. Directors are appointed by the relevant Minister to whom state banks are assigned and a representative of the Ministry in charge of the subject of Finance holds an Ex officio position on the Board. Independence of Directors is assessed based on the criteria set out in the Banking Act Direction No.11 of 2007 on Corporate Governance. A new Board was appointed in January 2020, following changes in the political landscape and as at the date of sign-off of this Report, the Board comprised of five Directors.

Please refer to page 25 for profiles of Directors.

Board Composition

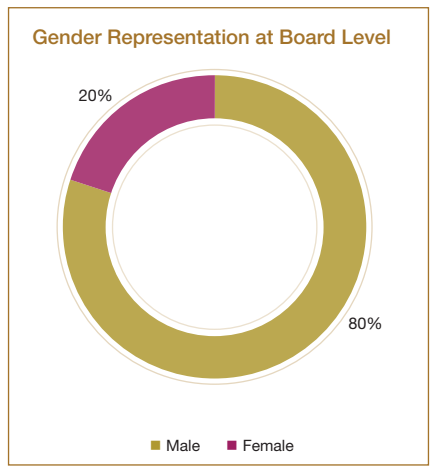
Directors possess a combination of diverse skills and industry experience, representing both the public and private sectors. This enhances the depth of discussions, enabling a constructive dialogue with the management team and contributing towards the effectiveness of decision making. There is sufficient financial acumen on the Board, with three out of the five Directors currently holding memberships in professional accountancy bodies. The Board is also relatively young in its age representation, with three Directors below the age of 50 years.

Board Responsibilities

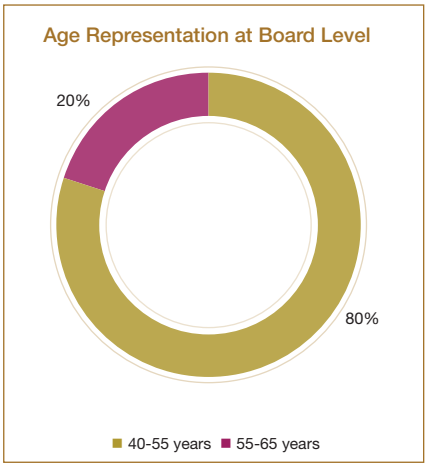
The Board of Directors serves as the custodian of the Group's corporate governance framework and holds ultimate responsibility for the sustainable creation of value. Board responsibilities and powers are clearly outlined in the

Skill Composition

Corporate leadership				3
Finance and economics				3
Public administration				3
Digital and IT			2	
Legal		1		



9 Good Governance, Ethics and Risk Management



Board Charter and includes setting strategic direction, establishing robust governance and risk management practices, ensuring regulatory compliance, safeguarding the Bank's reputation and presenting a balanced and fair assessment of the Bank's financial performance and position. The Board Charter is reviewed regularly and revised to ensure relevance to strategic aspirations and value creation.

Segregation of Duties

Appropriate balance of power is ensured through clarity in roles and effective segregation of responsibilities. The role of Chairman is separate from that of the Chief Executive Officer (referred to as the General Manager); the Chairman is a non-executive Director and provides leadership to the Board while the General Manager provides executive leadership and does not hold a Board position.

The major role/ responsibilities of the Chairman and General Manager are given below;

Chairman

- Leading the Board and ensuring its effectiveness
- Facilitating effective participation of all Board members
- Maintaining effective communication with the shareholder, the Government of Sri Lanka
- Ensuring that adequate information is available to all Directors
- Setting the ethical tone at the top

General Manager

- Execution of the strategic agenda set out in the Bank's corporate plan in line with the financial and non-financial targets set by the Board
- Monitoring and reporting the Bank's performance to the Board
- Ensuring that the Bank operates within the approved risk appetite

Board Appointments and Succession

As a state-owned bank, appointments to the Board are made by the Government of Sri Lanka through the Minister responsible for state banks. The Central Bank of Sri Lanka approves the appointments made if the required criteria for fitness and proprietary are met. Director resignations and removals are also referred to the same Minister while the Central Bank of Sri Lanka and the Colombo Stock Exchange are kept duly informed of any such changes to the Board.

Board Induction

Upon joining the Board, Directors are provided a structured induction and comprehensive information pertaining to the Bank's governance framework and operations among others. The General Manager conducts a comprehensive presentation detailing the Bank's history, business model, organisational structure, business verticals and support functions. One-on-one meetings and departmental visits are scheduled as may be necessary to familiarise Directors to the Bank's operations. The comprehensive induction pack provided to Directors includes the following information:

- Overview of the Bank - including profile, vision and mission, ethics and corporate values, core areas of operation, information on the branch network and details on subsidiaries and associates
- Details on the governance framework including governance and organisational structures, responsibilities of the Board and Subcommittees among others.
- Regulatory framework including relationships with the regulators and line ministry, and Government audit requirements
- Details of the Corporate Management team, management committees and delegated authority limits
- Board support framework including access to the Board Secretariat, board procedures etc.

Board Training and Access to Information

All directors have access to complete and timely information which supports the effective discharge of their responsibilities. In line with the Policy for Directors' Access to Independent Professional Advice, Directors are also given the opportunity for external expert input at the Bank's expense. In 2019, Directors underwent a training on Conflict of Interest. An electronic board paper system is used to provide access to board papers and relevant information is circulated via this system allowing adequate time for Directors to prepare for the meetings. Meanwhile, the Management Team may be invited to Board meetings as and when required, to provide any input to facilitate decision making.

Company Secretary

The Bank's Secretary to the Board/ Secretary, Bank of Ceylon, Ms Janaki Senanayake Siriwardane has been appointed as prescribed by requirements of the Banking Act and relevant amendments. The Company Secretary plays a key role in implementing the Bank's Corporate Governance framework and ensuring that Board procedures are followed in line with applicable laws, rules and regulations. The Secretary regularly reviews the Bank's governance framework in view of emerging best practices, regulatory changes and stakeholder interests. All Directors have access to the advice and services of the Secretary to the Board.

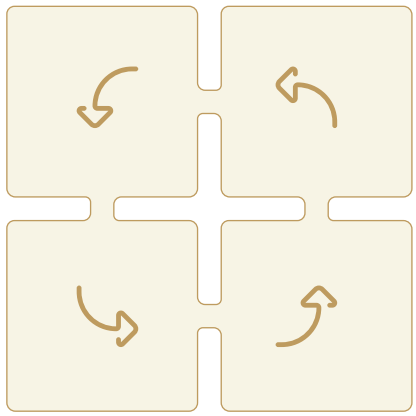
Board Contribution in 2019

Monitoring Performance

- Regular performance updates including monthly financial performance of the Bank and quarterly updates on subsidiary performance
- Recommendations and feedback from Subcommittees
- Funding, capital and liquidity plans

Risk Oversight

- Approval of risk appetite and monitoring risk dashboards on an ongoing basis
- Strengthen the Bank's cybersecurity and digital resilience
- Monitoring risk profile of subsidiaries
- Approval and review of policy framework



Sustainability and Stakeholder Relations

- Reviewed and updated the Bank's Sustainability Policy
- Maintained strong relationships with all stakeholders

Guidance on Strategy

- Constructively challenge the management at Strategy session and mid-year Corporate Plan review

Values-based Culture

- Setting the right tone at the top
- Oversight on corporate culture

Monitoring Performance

Regular updates are provided to the Board of Directors ensuring that performance is maintained in line with the Bank's strategic aspirations and long-term objectives. Updates provided to the Board include monthly financial statements, reports on performance and stability, performance against strategic objectives, recommendations and highlights from Subcommittee meetings as well as quarterly subsidiary performance updates.

Oversight over Subsidiaries

The Bank's Subsidiary Management Charter ensures the consistent application of sound governance and risk management practices across the Bank's ten direct and indirect subsidiaries. Regular performance updates and risk dashboards are presented to the parent entity to evaluate potential losses/ risks stemming from subsidiaries and recommend corrective action. The Board reviews the subsidiary risk dashboards on a periodic basis, ensuring that the risk profiles are maintained within the defined parameters. BoC's Compliance Officer is also responsible for overseeing the compliance of the subsidiaries. Bank representatives also typically hold at least one Board position in the subsidiary boards, ensuring that the parent entity's interests are preserved.

Setting Strategy

The Strategic Plan is formulated by the Management Team in line with the Board's strategic aspirations. Board provides their input at Strategic Planning session held in an off-site location, which is held with the participation of all Directors and representatives of the Management Team. The Board constructively challenges the ideas put forward by the Management Team, facilitating in-depth discussions and more effective decision making. The Board also attended the mid-year Strategic Plan review for 2019.

Risk Oversight and Control

The Board provides oversight for the Bank's risk management and internal control frameworks and is responsible for formulating a solid foundation of policy frameworks. Policies are reviewed at least annually and updated to ensure relevance to emerging dynamics and internal changes. Key changes to the Group's policy framework during the year are listed alongside.

Policies Introduced/ Revised in 2019

- **Revisions to the Board Charter and Subcommittee TORs**
- **Revisions to the Subsidiary Management Charter**
- **Revisions to the Sustainability Policy**

9 Good Governance, Ethics and Risk Management

Corporate Governance Policy: During the year the Bank initiated the formulation of the Corporate Governance Policy, clearly detailing the Governance Structure, Responsibilities of the Board of Directors, Meetings and relevant procedures. Code of Business Conduct and Ethics for Directors, Board Evaluation and Management of the Bank's subsidiaries among others; the policy is in the finalisation stage and approvals are in the pipeline.

Risk Management: The Board also holds apex responsibility for safeguarding the Bank's assets through effective risk management. The Board is supported by the Integrated Risk Management Committee (IRMC) and Audit Committee in the discharge of its risk management and internal control responsibilities respectively. The scope of both committees is clearly outlined in the respective committee charters and are in line with the requirements of the Code of Best Practice on Corporate Governance and Directions on Corporate Governance issued by CBSL.

The Bank's risk management framework is built on the internationally recognised three lines of defense model, ensuring the effective segregation of duties in risk identification, measurement, monitoring and management.

The Board approves the Bank's risk appetite and regularly assess the principal risks facing the Bank. Risk appetite dashboards and performance against these defined parameters are reviewed regularly at the IRMC meetings to ensure that the Board is satisfied with the Bank's risk profile and mitigating tools in place to effectively address these risks. *(Please refer to page 44 - Risk Management Review and page 112 - IRMC Report for further information)*

Digital Resilience

BoC has embraced advances in digital technology to drive internal efficiencies in operations, enhance competitiveness and transform the customer experience. While this is likely to strengthen the Bank's competitive position over time it has also exposed the Bank to a potential increase in digital and cyber security risks, underscoring the need to effectively manage such risk exposures. During the year, considerable focus was placed on enhancing the Bank's cyber security and technology risk management framework:-

- Addition of cybersecurity as an item on the Board meeting agenda.
- Developed and updated Information security related Policies, Guidelines, Standards and Procedures.
- Prepared the Cyber Security Framework for the Bank in alignment with leading Information Security/ Cyber Security Standards.
- A detailed plan has been developed to monitor Information Security Management efforts/ activities which are done by different departments/ units.
- Appointment of a dedicated Information Security Management Officer (ISMO) who reports to the Chief Information Security Officer (CISO).

Refer to page 59 for further information

Building a values-based Aulture

The Board sets the right tone at the top and plays a pivotal role in propagating a values-based culture which underscores integrity and transparency. As a Bank whose mission extends beyond profit generation to encompass social and public interest objectives, creation of a values-based culture is a vital element in nurturing and reinforcing relationships with stakeholders. The following frameworks facilitate the propagation of such as a culture and provides a strong foundation for employees to conduct themselves in a responsible and ethical manner.

Corporate Values

- **Being customer centric**
- **Respecting all forms of diversity**
- **Committing towards high level of ethics, governance and professionalism**
- **Focusing towards agility and innovation**
- **Being accountable for all our actions**

Code of Business Conduct and Ethics	Directors' Code of Business Conduct and Ethics: The Board is bound by this Code of Ethics and are required to submit an annual confirmation on their compliance with the provision of the code. The Code aims to propagate a strong culture of integrity, transparency and anti-corruption while encouraging Directors to act in the best interest of the Bank. Employee Code of Ethics: Applicable to all employees, this clearly sets out the Bank's expectations in dealing with internal and external stakeholders, behaviour, bribery and corruption.
Whistleblowing Policy	A Board-approved Whistleblowing policy encourages employees or non-employees to report complaints pertaining to suspected theft/ fraud, corruption, misuse of Bank's assets or any other actions that are considered unethical or illegal. Complaints are directed and overseen by the Chief Internal Auditor while complaints made against employees of the DGM grade or above are submitted to the Chairman of the Audit Committee.
Anti-corruption	The Bank takes a zero-tolerance approach to Bribery and Corruption and is committed to acting professionally, fairly and with integrity in all its business dealings and relationships wherever the Bank operates and implementing and enforcing effective systems to counter bribery. The Bank's policy with regards to Anti-Corruption and Bribery is clealry communicated to all employees during the induction programmes and reinforced through regular training and awareness sessions.

Sustainability and Stakeholder Relations

Sustainability at BoC

The Bank's approach to Sustainability is clearly outlined in a Board-approved Sustainability Policy which was further strengthened during the year under review. Our policy is centred on the tenet that "Sustainability is a Lifestyle" and focuses on the three main dimensions of economic, environmental and social sustainability and United Nation - Sustainable Development Goals are integrated to our sustainability framework. The Board provides oversight on all Sustainability-related matters while responsibility for implementing the policy lies with a Sustainability Committee, which is chaired by the General Manager. The Bank takes the Precautionary approach into account when evaluating major investments; accordingly, social and environmental factors are given due consideration when conducting investment appraisals. The Bank also have voluntary signed up for the Sustainable Banking principles launched by the Sri Lanka Banks Association.

Refer to page 79 for further information

Key aspects of our Sustainability Policy

Integrate sustainability into key business decisions and initiatives

Uplifting society's most needed segments

Financial inclusion

Ethical finance

Stakeholder Interaction

The Bank's Communication Policy provides guidance on maintaining effective and relevant communication with internal and external stakeholders, nurturing open and sustainable relationships. The Policy is reviewed by the Nomination and Corporate Governance Committee. Platforms through which the Bank maintains communication with its stakeholders is briefly outlined below while further detail is provided on page 128 of this Report.

Shareholder	Employees	Customers
Engagement with the Government (our sole shareholder) is facilitated through the permanent representative on the Board as the Ex officio Director appointed from the Ministry in charge of the subject of Finance. The Annual Report is presented to the Parliament through the relevant Ministry.	The Bank maintains an open-door policy with all employees while engagement is also facilitated through cordial relations with trade unions, multi-level staff meetings, grievance handling mechanisms and a year-round calendar of cultural, entertainment and sporting events.	Engagement with customers is maintained through branches, Relationship Managers and multi facet digital channels while customer satisfaction surveys are also conducted on a regular basis.

Contribution to the Industry Dialogue:
The Bank continues to play an active role in industry associations and forums, contributing its insights towards creating a conducive operating environment and resolving challenges. Key associations in which the Bank and/ or its employees holds membership are given below;

- Asia Pacific Rural and Agricultural Credit Association
- Association of Banking Sector Risk Professionals, Sri Lanka
- Institute of Bankers of Sri Lanka
- International Chamber of Commerce Sri Lanka
- The National Chamber of Commerce, Sri Lanka
- Sri Lanka Banks Association (Guarantee) Limited
- The Ceylon Chamber of Commerce
- Bio Diversity Sri Lanka
- The Financial Ombudsman of Sri Lanka (Guarantee) Limited
- Association of Compliance Officers of Banks, Sri Lanka
- Bar Association of Sri Lanka
- Association of Board and Company Secretaries of Banks in Sri Lanka

Activities in 2019

Board Meetings

The Board convened 22 times in 2019. The Secretary, BoC/ Secretary to the Board ensures that all procedures are duly followed in setting meeting agendas, circulating information, conducting Board meetings and maintaining minutes. Efforts are made to ensure that the Board dedicates adequate time to consider matters critical to the Bank such as corporate planning, risk management, compliance and governance matters. Key processes carried out to ensure the effectiveness of Board meetings are as follows :

9 Good Governance, Ethics and Risk Management

Start of the year	Calendar is set for Board meetings and Subcommittee meetings and notice is given to Directors through an Annual Calendar.
Agenda	• The Secretary, BoC/ Secretary to the Board sets the agenda under the authority delegated by the Chairman. • Directors are free to submit proposals to the agenda for discussion at Board meetings. • Matters arising from internal/ external developments may be added to the agenda.
Board paper compilation and circulation	Board papers are prepared and electronically circulated to Directors through a secure portal at least 7 days prior to the meeting. This ensures sufficient time to review matters which are to be discussed and seek additional clarifications if required.
Board Meeting	• Board meetings have certain standard items amongst which are performance updates, risk dashboards and recommendations from Subcommittees. • Members of the Management Teams are invited to Board/ Subcommittee meetings to provide additional clarification if required.
Post-meeting	• The Secretary BoC/ Secretary to the Board prepares the minutes and circulates among Directors through a secure e-Solution within 10 days of the meeting. • Draft minutes are circulated to the Senior Management Team the day following the meeting. • Minutes are adopted at the subsequent Board meeting. • Follow up action is taken on outstanding matters.

Assessing Board Effectiveness

The Bank has a structured process for assessing Board effectiveness through a self-appraisal mechanism. Each Director is required to complete a performance evaluation form, subsequent to which responses are aggregated and presented to the Board. Subcommittees also carry out a similar evaluation. Given the changes to the Board during the reviewed period, assessments were not conducted in 2019.

Appraisal of the General Manager:

The Board evaluates the performance of the General Manager (GM) and KMP annually, based on the financial and non-financial targets outlined in the Corporate Plan. The Nominations and Corporate Governance Subcommittee supports the Board in this endeavour. The criteria are agreed with the GM/ KMP at the beginning of the year, ensuring clarity in the Board's expectations. The appraisal takes into consideration dynamics in the operating landscape as well as feedback received from the appraisee.

Director and Executive Remuneration

The Bank's Remuneration Philosophy reflects its broader commitments to its stakeholders and strives to reward sustainable performance on a long-term basis.

Directors' remuneration is determined by the Directors' Remuneration Policy which reflects the particulars of the circulars and letters issued by the Government of Sri Lanka and the provisions of the Ordinance and its amendments. No Director is involved in determining his/ her remuneration.

Remuneration for GM and KMP is based on the Board-approved Remuneration Policy for Key Management Personnel. Compensation practices emphasise achievement of agreed deliverables with the aim of nurturing a performance-driven culture. The Board HR & RC makes recommendations to the Board on the GM/ KMP remuneration, based on which the Board approves and provides feedback to the relevant Minister who grants final approval in accordance with the provisions of the Ordinance and its amendments. The remuneration of the GM and KMP are reviewed every three years.

Remuneration Structure

BoC's reward structures are designed to offer fair and competitive remuneration. Due consideration is given to achieving the optimal mix between fixed and variable pay depending on the role and responsibilities. Key elements of the Bank's remuneration composition are given below;

Fixed Remuneration	Variable Remuneration	Other non-cash benefits
Base salary and other fixed components- determined on role and employee grade	Incentive bonus	Post-employment benefits Loans under special schemes Credit cards

Please refer to page 188 for details on Director Remuneration, page 370 for KMP Remuneration and page 113 for the Report of the Board HRRC.

Board Subcommittee Reports

Audit Committee Report

Committee Composition during 2019

From 1 April 2019 to 1 July 2019

(1) **Mr Kumar Mayadunne**
Chairman/ Independent Non-Executive Director
(2) **Mr K A Vimalenthirarajah**
Member/ Non-Executive Ex officio Director
(3) **Mr P A Schaffter**
Member/ Independent Non-Executive Director

From 2 July 2019 to 27 November 2019

(1) **Mr S Nilam Jayasinghe**
Chairman/ Independent Non-Executive Director
(2) **Mr K A Vimalenthirarajah**
Member/ Non-Executive Ex officio Director
(3) **Mr Kumar Mayadunne**
Member/ Independent Non-Executive Director
(4) **Mr P A Schaffter**
Member/ Independent Non-Executive Director

New Committee for 2020

Pursuant to the reconstitution of the Board in January 2020, the following Directors were appointed to the Audit Committee w.e.f. 21 January 2020:

(1) **Mr Lalith P Withana**
Chairman/ Independent Non-Executive Director
(2) **Ms Visakha Amarasekere***
Member/ Non-Executive Ex officio Director
(3) **Mr G Harsha Wijayawardhana**
Member/ Independent Non-Executive Director
(4) **Mr Hasitha Premaratne**
Member/ Independent Non-Executive Director

Secretary to the Committee

The Secretary, Bank of Ceylon/Secretary to the Board who is an Attorney-at-Law and a Deputy General Manager, functions as the Secretary to the Committee.

Regular Participants

- Chief Internal Auditor
- Chief Risk Officer
- Compliance Officer
- Assistant General Manager (Province/Branch and Credit Audit)
- Assistant General Manager (Investigations)
- Assistant General Manager (Information Systems Audit)
- Assistant General Manager (Risk Management)
- Internal Auditor
- IT Risk Officer
- Representatives of the Auditor General (the External Auditor of the Bank)

Attend upon invitation.

- General Manager
- Chief Financial Officer
- Deputy General Manager (Finance and Planning)
- Any other member of Corporate or Executive Management/ Any other Staff Member

Meetings held in 2019: 06

(Attendance given on page 99 of this Report)

Quorum: Two members or majority of the members whichever is higher

Role of Committee

Audit Committee Charter

The Terms of Reference of the Audit Committee are governed by the Audit Committee Charter, approved and adopted by the Board.

The Committee also ensures that the scope and coverage of its functions addresses the requirements of the Banking Act Direction No. 11 of 2007 on "Corporate Governance for Licensed Commercial Banks in Sri Lanka" and its subsequent amendments issued by the Central Bank of Sri Lanka.

Principal Focus

The Audit Committee primarily focuses on assisting the Board in fulfilling its duties by providing an independent and objective review of the Bank's financial reporting process.

Medium of Reporting

The proceedings of the Audit Committee meetings are tabled and ratified at the Board meetings, where all key issues, concerns, actions taken, outcomes achieved or pending, and follow-up initiated, are clarified, discussed and Board approval obtained thereof.

Areas of focus and activities in 2019

Financial Reporting

- Reviewed the monthly, quarterly and annual unaudited/audited Financial Statements to ensure that they are prepared and published in accordance with the requirements prescribed by the supervisory and regulatory authorities and applicable Accounting Standards.

Regulatory Compliance

- Reviewed compliance with mandatory banking and other statutory requirements.
- Reviewed the progress of action taken in relation to the findings of the statutory examinations carried out by regulators.

Internal Controls

- Reviewed the adequacy and effectiveness of the internal control mechanism of the Bank in line with Section 3(8) (ii)(b) of the Banking Act Direction No.11 of 2007 through the Internal Control Matrix updated for 2018.
- On a regular basis and when specific events or cases warranted, conducted root cause analysis and made improvements to the systems, procedures and internal controls.

Internal Audit

- Reviewed the independence, objectivity, and performance of the internal audit function as well as the adequacy of the Department's resources.
- Approved the Internal Audit Plan and reviewed the effectiveness of the implementation of the Plan throughout the year.
- Reviewed significant internal audit findings and management's responses thereto, with a view to taking timely corrective action.
- Monitored the progress of the initiatives taken by the Internal Audit Department to improve Internal Control Monitoring Process. i.e. Cluster Internal Control Officer System, Internal Audit Rating Leader Board System, Desktop Message Publishing System and Island-wide Internal Control Awareness Programmes.
- Monitored the compliance with the Banking Act Direction no. 11 of 2007 on Corporate Governance issued by Central Bank of Sri Lanka on Internal Audit Charter and Audit Committee Charter.

External Audit

- The external audit of the Bank is carried out by the Auditor General in terms of the Constitution of the country. The Committee ensured that the external audit is carried out effectively and independently and maintained a continuous rapport with the representatives of the Auditor General in relation to the audit approach and procedure.

The Committee wishes to record an appreciation for the past Chairmen and the members of the Audit Committee who functioned in year 2019 for the valuable service that has been rendered by them.

Board Subcommittee Reports

Audit Committee Report

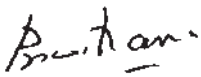
Way Forward

The Audit Committee will foster a positive and effective internal control environment by committing to achieve the objectives set out in the Audit Committee Charter during 2020 and beyond.

Conclusion

The Committee wishes to draw attention to the fact that none of the members currently serving on the Committee were present during the period covered by this report, i.e., the year ended 31 December 2019. The report, therefore, is based on records, the authenticity of which has been verified and established beyond doubt. The present Committee, therefore, is completely convinced that this report is accurate and free of material misstatements.

On behalf of the Audit Committee.



Lalith P Withana
Chairman,
Audit Committee

24 March 2020

**Note:*

- *Mr A C M Fernando Independent Non-Executive Director was appointed to this Committee as a member w.e.f. 24 April 2020.*
- *Mr R M P Rathnayake who is the new Ex officio Director on the Board was appointed to this Committee as a member on 12 May 2020 in place of Ms Visakha Amarasekere, who ceased to be the Ex offico Director.*
- *Accordingly, the current Audit Committee comprises of Mr Lalith P Withana (Chairman), Mr R M P Rathnayake, Mr G Harsha Wijayawardhana, Mr Hasitha Premaratne and Mr A C M Fernando.*

Board Subcommittee Reports

Integrated Risk Management Committee Report

Committee Composition during 2019

From 19 March 2019 to 27 November 2019

(1) **Mr Kumar Mayadunne**
Chairman/ Independent Non-Executive Director

(2) **Mr K A Vimalenthirarajah**
Member/ Non-Independent Non-Executive Ex officio Director

(3) **Mr P A Schaffter**
Member/ Independent Non-Executive Director

New Committee for 2020

Pursuant to the reconstitution of the Board in January 2020, the following Directors were appointed to the Integrated Risk Management Committee w.e.f. 21 January 2020:

(1) **Mr Hasitha Premaratne**
Chairman/ Independent Non-Executive Director

(2) **Ms Visakha Amarasekere***
Member/ Non-Independent Non-Executive Ex officio Director

(3) **Mr G Harsha Wijayawardhana**
Member/ Independent Non-Executive Director

(4) **Mr Lalith P Withana**
Member/ Independent Non-Executive Director

Secretary to the Committee

The Secretary, Bank of Ceylon/Secretary to the Board who is an Attorney-at-Law and a Deputy General Manager, functions as the Secretary to the Committee.

Regular Participants

- General Manager
- Chief Risk Officer
- Compliance Officer

Attend upon invitation

- Any other members of the Board/ Corporate Management/ Any other Staff Member

Meetings held in 2019: 05

(Attendance given on page 99 of this Report)

Quorum: *02 members*

Role of Committee

The main role and responsibility: To assist the Board in fulfilling its oversight responsibilities for all aspects of risk management. In this connection the Committee focuses on and reviews credit, market, liquidity, operational and strategic risks through appropriate risk indicators and management information.

Reviewing and/or recommending the following which are identified in the Charter of the Integrated Risk Management Committee:

- Policies, programmes and Management Committee Charters relating to risk management and compliance.
- Risk limits and policies that establish appetite for credit, market, liquidity, operational and other risks, as recommended by the Chief Risk Officer.
- Adequacy and effectiveness of all Management Level Committees to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.
- Risk management reports on the risk profile of the Bank, as well as current market and regulatory risks and actions undertaken to identify, measure, monitor and control such risks.
- Corrective action to mitigate the effects of specific risks in case such risks are beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements.
- Adequacy and effectiveness of risk identification, measurement, monitoring and mitigation relating to credit, market, liquidity, operational and compliance risks.

Integrated Risk Management Committee Charter

The Terms of Reference of the Integrated Risk Management Committee are governed by the Integrated Risk Management Committee, approved and adopted by the Board.

The Committee also ensures that the scope and coverage of its functions addresses the requirements of the Banking Act Direction No. 11 of 2007 on "Corporate Governance for Licensed Commercial Banks in Sri Lanka" and its subsequent amendments issued by the Central Bank of Sri Lanka.

Principal Focus

To assist the Board in fulfilling its oversight responsibilities for all aspects of risk management. In this connection the Committee focuses on and reviews credit, market, liquidity, operational and strategic risks through appropriate risk indicators and management information.

Medium of Reporting

The proceedings of the Integrated Risk Management Committee meetings are tabled and ratified at the Board meetings and Board approval obtained thereof.

Areas of focus and activities in 2019

- Reviewed and/or recommended the following policies/manual based on which the risk profile of the Bank is assessed:
- Internal Capital Adequacy Assessment Process Policy
- Group Risk Management Policy
- Integrated Risk Management Policy
- Credit Risk Rating Policy
- Credit Risk Management Policy
- Market Risk Management Policy
- Operational Risk Management Policy
- Fraud Risk Management Policy
- Loan Review Mechanism Policy (LRM) of the Bank
- Foreign Exchange Risk Management Policy
- Limit Management Framework for year 2019
- Middle Office Operations Manual
- IT Risk Management Policy
- Information Security Policy
- Stress Testing Policy
- Revised Credit Portfolio Risk Management Policy
- Reviewed and revised the Integrated Risk Management Committee Charter.
- Recommended the adoption of revised Terms of References of the Fraud Risk Management Committee.
- Recommended the adoption of the following policies in respect of Bank's overseas operations
- Country Risk Management Policy of Chennai Branch.
- Capital and Liquidity Management Policy for Maldives operations.
- Policy for Record retention for the Bank of Ceylon Maldives operations.
- Reviewed Compliance Policy of Maldives Branch.
- Reviewed Policy on prevention of Money Laundering and Combating Terrorist Financing of Maldives Branch.
- Risk Assessment Policy of Seychelles Branch.
- Customer Acceptance/On Boarding Policy of Seychelles Branch.
- Record Management Policy of Seychelles Branch.
- Transaction Monitoring Policy of Seychelles Branch.
- Reviewed Policy on Anti- Money Laundering (AML) and Combating Terrorist Financing (CFT) of Seychelles Branch.

Board Subcommittee Reports

Integrated Risk Management Committee Report

- Recommended the Criteria for rating based lending of the Bank.
- The Independent Integrated Risk Management Division of the Bank assessed the risks of the Bank on a monthly basis and summary reports were submitted before the Committee. The Committee reviewed them and submitted its recommendation to the Board immediately through minutes of the meeting and specific recommendations.
- Risk Appetite and Limit Setting for 2019 was established.
- Monitored quantitative and qualitative risks which have gone beyond the limits and made the necessary recommendations.
- Recommended the adoption of the Internal Capital Adequacy Assessment Process (ICAAP) for the year 2019.
- Reviewed the comprehensive Compliance Reports submitted by the Compliance Officer.
- Improved the Risk Management Dash Board to support the subsidiaries to manage the risk functions better.
- Evaluated and monitored subsidiary Risk Management Dash Boards and made the necessary recommendations to overcome various risks faced by the subsidiaries.
- Monitored Key Risk Indicators in the Branch network, critical businesses and support divisions.
- Reviewed stress testing results on a quarterly basis.
- Special emphasis was placed on IT Risk and associated Cyber Security Risk and initiated and followed-up on various measures to safeguard the Bank from Cyber-attacks. (such as the IT Security Network Infrastructure of the Bank, the Enterprise Immune System etc.)
- Reviewed the Policy on Prevention of Money Laundering and Combating Financing Terrorism.
- Reviewed the Compliance Policy of the Bank.
- Recommended the adoption of the Business Continuity Management Policy and the Business Continuity Plan of the Bank.
- Monitored the maintenance of the minimum Capital Adequacy Ratio as per Basel III guidelines.
- Adoption of the risk management frameworks for Chennai Branch, Seychelles Branch and Male' Branch.
- Monitored the Risk Aggregation report of the Bank on a quarterly basis.
- Reviewed the decisions of the Committee dealing with Forged Cheques and Frauds on a quarterly basis

The Committee wishes to record an appreciation for the Chairman and the members of the Integrated Risk Management Committee who functioned in year 2019 for the valuable services that has been rendered by them.

Way Forward

In the year 2020, the Integrated Risk Management Committee will assist the Board in fulfilling its oversight responsibilities for all aspects of risk management. The Committee will focus on and review risks such as credit, market, liquidity, operational and strategic risks through appropriate risk indicators and management information.

Also the Committee will establish risk limits and policies that establish appetite for credit, market, liquidity, operational and other risks, as recommended by the Chief Risk Officer.

Conclusion

Acting collectively, the members of the Integrated Risk Management Committee in 2019 has evaluated its performance for effectiveness and efficiency.

The Committee continually reviews the various risks encountered by the bank and strives to promote a robust risk governance framework, a well-developed and explicit risk management policy covering determination of risk appetite, application of up –to-date methodologies for measuring financial risks, developing in-house expertise and ensuring that risk reporting accurately communicates risk exposures and results of stress tests or scenario analyses, data analytics and peer bank analysis.

The Committee is cognisant of the fact that it needs to be vigilant and attuned to its risk combat strategy with the advancement of technology, increased vulnerability with macroeconomic shocks and volatility, and industrywide frauds and Cyber-crimes beginning to pose greater threats.

Increasing awareness among staff over the need for managing risks, ensuring compliance and training staff are important components of this approach. The Committee is of the view that the Bank is on the right path towards meeting the challenges of Risk Management and compliance safeguarding the interests of Bank's stakeholders.

The Committee wishes to draw attention to the fact that none of the members currently serving on the Committee were present during the period covered by this report, i.e., the year ended 31 December 2019. The report, therefore, is based on records, the authenticity of which has been verified and established beyond doubt. The present Committee, is of the view that this report is accurate and free of material misstatements.

On behalf of the Integrated Risk Management Committee

Hasitha Premaratne
Chairman,
Integrated Risk Management Committee

24 March 2020

**Note:*

- *Mr R M P Rathnayake, the new Ex officio Director on the Board was appointed to this Committee as a member on 12 May 2020 in place of Ms Visakha Amarasekere, who ceased to be the Ex officio Director on the Board.*
- *Accordingly, the current Integrated Risk Management Committee comprises of Mr Hasitha Premaratne (Chairman), Mr R M P Rathnayake Ex officio Director, Mr G Harsha Wijayawardhana and Mr Lalith P Withana.*

Board Subcommittee Reports

Human Resources and Remuneration Committee Report

Committee Composition during 2019

The members of the Committee, during the year under review, were as follows:

From 19 March 2019 to 27 November 2019

(1) **Mr K A Vimalenthirarajah**
Chairman/ Non-Independent Non-Executive Ex officio Director

(2) **Mr Kumar Mayadunne**
Member/ Independent Non-Executive Director

(3) **Mr P A Schaffter**
Member/ Independent Non-Executive Director

New Committee for 2020

Pursuant to the reconstitution of the Board in January 2020, the following Directors were appointed to the Human Resources and Remuneration Committee w.e.f. 21 January 2020:

(1) **Mr Kanchana Ratwatte**
Chairman/ Independent Non-Executive Director

(2) **Ms Visakha Amarasekere**
*Member/ Non Independent Non-Executive Ex officio Director**

(3) **Mr Hasitha Premaratne**
Member/ Independent Non-Executive Director

Secretary to the Committee

The Secretary, Bank of Ceylon/ Secretary to the Board who is an Attorney-at-Law and a Deputy General Manager, functions as the Secretary to the Committee.

Attend upon invitation

- General Manager
- Deputy General Manager (Human Resources)
- Any other member of Corporate or Executive Management

Meetings held in 2019: 1

(Attendance given on page 99 of this Report)

Quorum: *02 members*

Role of Committee

Terms of Reference of the Committee

The main responsibilities of the Committee, which are mainly based on the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank of Sri Lanka and incorporated into the Committee Charter, are as follows:

- Determining the Remuneration Policy (salaries, allowances and other financial payments) relating to Key Management Personnel (KMP) of the Bank.
- Setting goals and targets for the General Manager (GM) and KMP.
- Evaluating the performance of the GM and KMP against the set targets and goals periodically and determining the basis for revising remuneration, benefits and other payments of performance based incentives.
- Reviewing staff matters referred to it by the Board.
- Determining the Human Resource Policy and Organisational Structure of the Bank.

Principle focus

- This Committee focuses on assisting the Board in the Human Resource matters primarily on the evaluation of the KMPs.

Medium of Reporting

- The proceedings of the Committee meetings are tabled and ratified at Board meetings and approval of the Board is thus obtained for implementation of the recommendations made by the Committee.

Areas of focus and activities in 2019

- Carried out the performance evaluation of the Key Management Personnel (KMP) including the General Manager for the year ended 2018 based on the targets set at the commencement of the year in line with the Corporate Plan.

  (Due to changes to the Board composition the evaluations for 2019 could not be carried out through this committee. However, the performance was reviewed by the Board against the set targets at the time of preparation of the Corporate Plan for 2020-2022.)

- Reviewed and revised the Remuneration Policy for the Chairman and Directors.

  (In the case of Bank of Ceylon, the remuneration of Directors is determined in accordance with the circulars and instructions issued by the Government of Sri Lanka, the sole shareholder of the Bank. The provisions in the Bank of Ceylon Ordinance No. 53 of 1938 and its amendments, are also taken into consideration in this regard. The Remuneration Policy is prepared, based on the above, which is reviewed as and when new regulations are issued by the Government. The details of the remuneration given to Directors, are disclosed in the Annual Report on a yearly basis.)

- Reviewed the Committee Charter.
- The concerns raised by the Central Bank of Sri Lanka in their Statutory Examination Report coming under the purview of this Committee were reviewed and necessary follow up action was taken.

(Remuneration of KMP are revised once in three years and next revision is in 2021 and accordingly this was not discussed.)

The Committee wishes to record an appreciation for the Chairman and the members of the Human Resource and Remuneration Committee who functioned in year 2019 for the valuable services rendered by them.

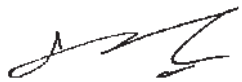
Way Forward

The Committee will continue to encourage the use of best practices in Human Resource in the Bank.

Conclusion

The Committee wishes to draw attention to the fact that none of the members currently serving on the Committee were present during the period covered by this report, i.e., the year ended 31 December 2019. The report, therefore, is based on records, the authenticity of which has been verified and established beyond doubt. The present Committee, therefore, is completely convinced that this report is accurate and free of material misstatements.

On behalf of the Human Resources and Remuneration Committee



Kanchana Ratwatte
Chairman,
Human Resources and Remuneration Committee

24 March 2020

**Note:*

- *Mr A C M Fernando Independent Non-Executive Director was appointed to this Committee as a member w.e.f. 24 April 2020.*
- *Mr R M P Rathnayake new Ex officio Director on the Board was appointed to this Committee as a member on 12 May 2020 in place of Ms Visakha Amarasekere, who ceased to the Ex officio Director on the Board.*
- *Accordingly, the current Human Resources and Remuneration Committee comprises of Mr Kanchana Ratwatte (Chairman), Mr R M P Rathnayake Ex officio Director, Mr Hasitha Premaratne and Mr A C M Fernando.*

Board Subcommittee Reports

Nomination and Corporate Governance Committee Report

Committee Composition during 2019

The members of the Committee, during the year under review, were as follows:

From 19 March 2019 to 27 November 2019

(1) **Mr Ronald C Perera**
Chairman/ Independent Non-Executive Director

(2) **Mr K A Vimalenthirarajah**
Member/ Independent Non- Executive Ex Officio Director

(3) **Mr P A Schaffter**
Member/ Independent Non-Executive Director

New Committee for 2020

Pursuant to the reconstitution of the Board in January 2020, the following Directors were appointed to the Nomination and Corporate Governance Committee w.e.f. 21 January 2020:

(1) **Mr Hasitha Premaratne**
Chairman/ Independent Non-Executive Director

(2) **Ms Visakha Amarasekere***
Member/ Non Independent Non-Executive Ex officio Director

(3) **Mr G Harsha Wijayawardhana**
Member/ Independent Non-Executive Director

Secretary to the Committee

The Secretary, Bank of Ceylon/ Secretary to the Board who is an Attorney-at-Law and a Deputy General Manager, functions as the Secretary to the Committee.

Attend upon invitation

- General Manager
- Any other member of the management as decided by the Committee

Meetings held in 2019: 03

(Attendance given on page 99 of this Report)

Quorum: *02 member*

Role of Committee

Nomination and Corporate Governance Committee Charter

The Terms of Reference of the Nomination and Corporate Governance Committee are governed by the Nomination and Corporate Governance Charter, approved and adopted by the Board.

The Committee also ensures that the scope and coverage of its functions addresses the requirements of the Banking Act Direction No. 11 of 2007 on "Corporate Governance for Licensed Commercial Banks in Sri Lanka" and its subsequent amendments issued by the Central Bank of Sri Lanka.

Principal Focus

The Nomination and Corporate Governance Committee assist the Board in ensuring compliance with Corporate Governance principles as required by law or otherwise in addition to assisting the Board with regard to the appointment of the Chief Executive Officer/ General Manager and the Key Management Personnel.

Medium of Reporting

The proceedings of the Nomination and Corporate Governance Committee meetings are tabled and ratified at the Board meetings and Board approval obtained thereof.

Areas of focus and activities in 2019

- Recommended the adoption of a Policy on Appointment of Directors to the Board of Bank of Ceylon.

  According to the aforesaid Banking Act Direction No. 11 of 2007, this Committee has to implement a procedure to select/ appoint new Directors. However, in the case of Bank of Ceylon, which is fully-owned by the Government of Sri Lanka, the appointment of Directors is carried out by the Minister under whose purview the Bank falls, as provided in the Bank of Ceylon Ordinance No. 53 of 1938 and its amendments. As such this Committee does not play any role in connection with the appointment of Directors.

  However, this Committee recommended to the Board an internal Policy on Appointment of Directors to the Board of Bank of Ceylon in view of the need for raised levels of competence, responsibility, commitment and dedication in the current context where globalisation, digitalisation and regulations are bringing complex matters before the Board. This was adopted by the Board and shared with the appointing authority.

- Recommended the Policy on Appointment of Directors to the subsidiaries of Bank of Ceylon.
- Recommended the eligibility criteria, qualifications and other key attributes and competencies for the selection of the General Manager/ Chief Executive Officer of Bank of Ceylon.
- Reviewed the Succession Plan for Corporate Management and Executive Management (Key Management Personnel).
- Ensured that KMP are fit and proper persons to hold their offices when officers were promoted or appointed as KMP.
- Reviewed and revised the Charter of the Nomination and Corporate Governance Committee

  The Committee wishes to record an appreciation for the Chairman and the members of the Nomination and Corporate Governance Committee who functioned in year 2019 for the valuable service that has been rendered by them.

Way Forward

The Committee will strive to promote the best practices in Corporate Governance in the Bank.

Conclusion

The Committee wishes to draw attention to the fact that none of the members currently serving on the Committee were present during the period covered by this report, i.e., the year ended 31 December 2019. The report, therefore, is based on records, the authenticity of which has been verified and established beyond doubt. The present Committee, is of the view that this report is accurate and free of material misstatements.

On behalf of the Nomination and Corporate Governance Committee

Hasitha Premaratne
Chairman,
Nomination and Corporate Governance Committee

24 March 2020

**Note:*

- *Mr A C M Fernando Independent Non-Executive Director was appointed to this Committee as a member w.e.f.12 May 2020.*
- *Mr R M P Rathnayake the new Ex officio Director on the Board was appointed to this Committee as a member on 12 May 2020 in place of Ms Visakha Amarasekere, who ceased to be the Ex officio Director on the Board.*
- *Accordingly, the current Nomination and Corporate Governance Committee comprises of Mr Hasitha Premaratne (Chairman), Mr R M P Rathnayake Ex officio Director, Mr G Harsha Wijayawardhana and Mr A C M Fernando.*

Board Subcommittee Reports

Information and Communication Technology Committee Report

Committee Composition during 2019

The members of the Committee, during the year under review, were as follows:

From 01 April 2019 to 27 November 2019

(1) **Mr P A Schaffter**
Chairman/ Independent Non-Executive Director

(2) **Mr Kumar Mayadunne**
Member/ Independent Non- Executive Director

(3) **Mr K A Vimalenthirarajah**
Member/ Non Independent Non- Executive Ex officio Director

New Committee for 2020

Pursuant to the reconstitution of the Board in January 2020, the following Directors were appointed to the Information and Communication Technology Committee w.e.f. 21 January 2020:

(1) **Mr G Harsha Wijayawardhana**
Chairman/ Independent Non-Executive Director

(2) **Mr Lalith P Withana**
Member/ Independent Non-Executive Director

(3) **Mr Hasitha Premaratne**
Member/ Independent Non-Executive Director

Secretary to the Committee

The Secretary, Bank of Ceylon/Secretary to the Board who is an Attorney-at-Law and a Deputy General Manager, functions as the Secretary to the Committee.

Regular participants

- General Manager
- Head of Information Technology
- Deputy General Manager (Product and Banking Development)
- Chief Risk Officer

Attend upon invitation

- Assistant General Managers attached to IT Division
- Assistant General Manager (Product Development & Business Process Re-Engineering Project)
- Any other member of the Board, the Corporate Management and Staff Member as decided by the Committee

Attend as an Observer

- Chief Internal Auditor

Quorum: *02 members*

Role of Committee

Information and Communication Technology (ICT) Committee Charter

The Terms of Reference of the ICT Committee are governed by the ICT Committee Charter, approved and adopted by the Board.

Principal Focus

The primary purpose of this Committee is to assist the Board of the Bank in fulfilling their oversight responsibilities with respect to the existence, operation and effectiveness of the IT products and services, policies, practices and IT infrastructure employed by the Bank to manage various types of IT products and services including major technology investments. It is to ensure that the Bank has a robust infrastructure and capabilities in place at all times, follows best practice and maintains alignment with Bank's Corporate Plan by analysing emerging trends in technology.

Medium of Reporting

The proceedings of the ICT Committee meetings are tabled and ratified at the Board meetings and Board approval obtained thereof.

Areas of focus and activities in 2019

In the year 2019, the Committee did not meet and all the matters coming under the purview of this Committee were directly taken up for discussion by the Board, pending the appointment of the full Board.

However, in the year 2020 with the reconstitution of the full Board the Committee met twice and will function as per the terms of reference of the Committee.

Way forward

The Committee will extend its maximum support in ensuring that the Information and Communication Technology infrastructure is resilent during this challenging time and in reshaping the Bank post Covid-19.

Conclusion

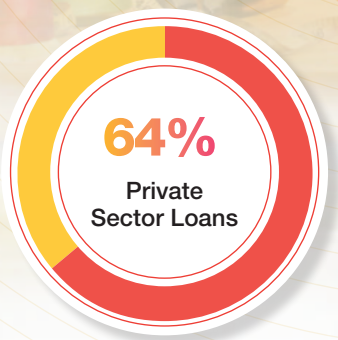
The Committee wishes to draw attention to the fact that none of the members currently serving on the Committee were present during the period covered by this report, i.e., the year ended 31 December 2019.

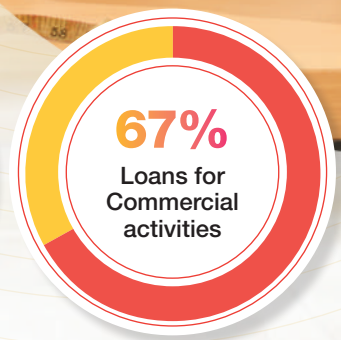
On behalf of the Information and Communication Technology Committee

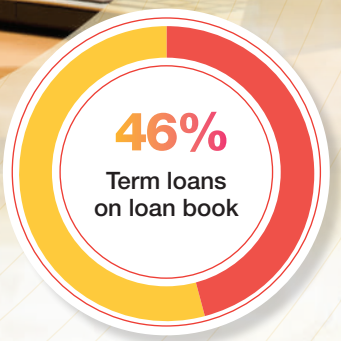
G Harsha Wijayawardhana
Chairman,
Information and Communication Technology Committee

24 March 2020

Driving entrepreneurship and financial inclusion







We promote regional economic activity, employment and socio-economic empowerment through providing access to affordable funding for start-ups, micro-entrepreneurs and SMEs.

No.
17,740

No. of customer engaged in educational and financial literacy programmes

No.
5,100

Employees trained during the year on credit appraisal and management

No.
293

No. of loan products

Performance and Outlook

Economic and Industry Environment

Highlights: Banking Industry

The Central Bank implemented the following measures/ guidelines during the year relating to the banking sector.

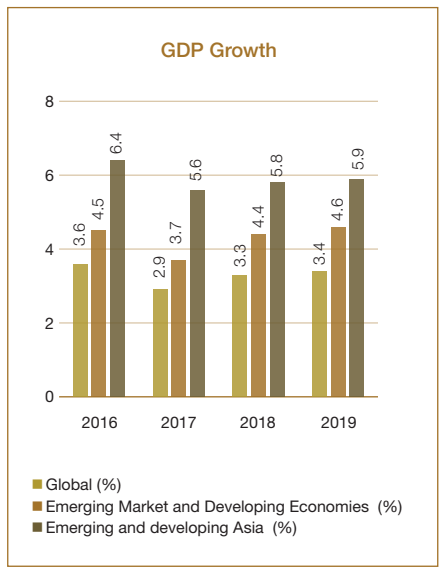
- A Monetary Law Act order was issued imposing maximum interest rates that can be offered or paid by licensed banks on SLR deposits (April 2019-September 2019)
- Regulatory requirements to identify Small and Medium Enterprises (SMEs) for the purpose of capital and liquidity requirements under Basel III framework
- A moratorium granted to the tourism sector in respect of outstanding performing credit facilities as at 18 April 2019
- Aligning the Capital Adequacy Ratio (CAR) under Basel III with SLFRS 9 to ensure the consistency of capital and risk weighted assets computation in terms of the Banking Act on capital requirements under Basel III
- Directions on market conduct and treasury operations including market conduct and ethical practices, confidentiality requirements, procedure for recording of deal conversations, risk management principles, professionalism and knowledge level and sanctions on non-compliance with the Directions
- All licensed banks were required in September 2019 to reduce interest rates of rupee denominated loans and advances by target dates

Operating Environment

Global Economy

Global economic growth was subdued in 2019, expanding by an estimated 2.9%. Trade policy uncertainty, geopolitical tensions and idiosyncratic stress in key emerging market economies weighed on global economic activity, especially in manufacturing and trade. New challenges were posed with intensifying social unrest in several countries and climate related disasters.

On the positive side, market sentiment was given a boost due to tentative signs of manufacturing activity and global trade bottoming out in the fourth quarter of 2019, broad-based shifts towards accommodative monetary policy, favorable news on US-China trade negotiations and diminished fears of a no-deal Brexit.



1IMF, World Economic Outlook, January 2020

The global growth outlook is projected for a modest pickup in 2020 at 3.3% and 2021 at 3.4%. This forecast considers a subdued growth forecast for several underperforming and stressed emerging market and developing economies including India, Brazil, Mexico, Russia and Turkey. On the other hand, the forecast also factors in healthy emerging market economies maintaining their robust performance, expectations that the effects of substantial monetary easing that took place in 2019 will continue in 2020 and a pickup in trade growth that reflects recovery in domestic demand and investment.

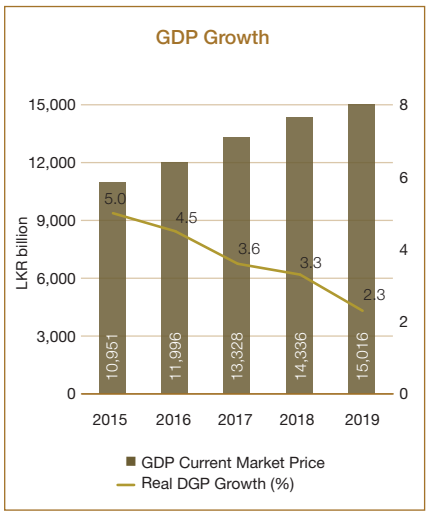
Prominent downside risks include the economic impacts of the COVID-19 virus, which are yet to fully materialise, rising geopolitical tensions - notably between the US and Iran, intensifying social unrest, further worsening of relations between the US and its trading partners and deepening of economic frictions between other countries. These factors if realized, could lead to rapidly deteriorating sentiment causing global growth to fall below projected numbers.

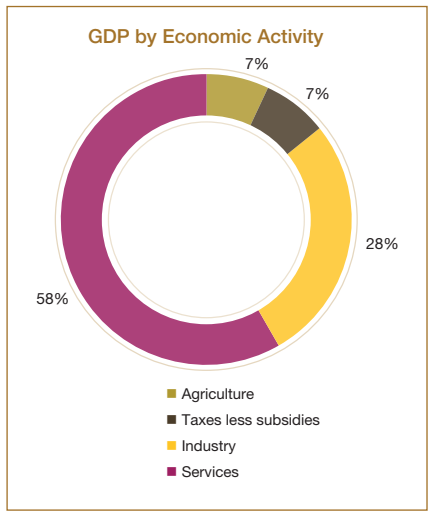
Sri Lankan Economy

The Sri Lankan economy experienced numerous challenges in 2019, with the spillover effects of the Easter Sunday attacks together with global dynamics resulting in economic growth rate estimates for the year, slowing to 2.3%. A synopsis of how the Sri Lankan economy performed in 2019 and the direction of key macro-economic variables is given below.

Economic and Industry Environment

Economic Growth

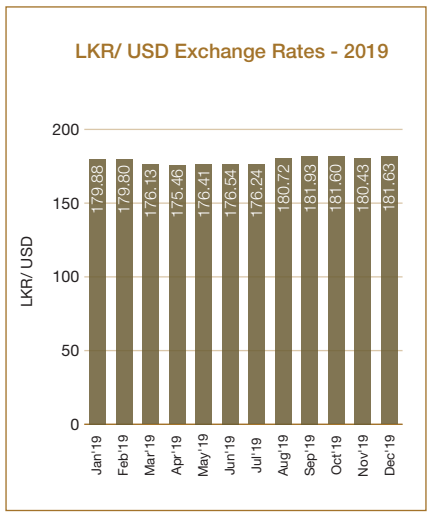




Source: National Account estimates of Sri Lanka 4th Quarter 2019 and the year 2019: Department of Census and Statistic

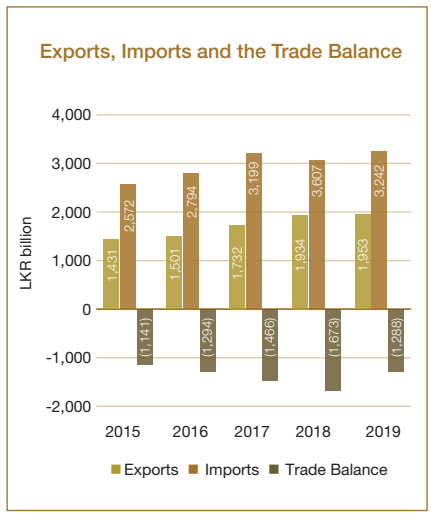
The economy continued its sluggish growth in 2019, recording an estimated real GDP growth of just 2.3% The Services sub-sector expanded by a relatively slower 2.3% during the same period, reflecting downturns in the country's tourism and related sectors as well as wholesale and retail trade, following the Easter Sunday attacks in April 2019; the financial services sub-sector, however, recorded a slightly higher growth of 2.0% in 2019, compared to previous years. The Agriculture sector recorded a growth of 0.6%, buoyed by favorable weather The Industries sub-sector grew by 2.7% driven by construction, mining and quarrying.

External Sector



Following the significant depreciation of the rupee in 2018, the exchange rate showed greater stability in 2019. The Sri Lankan Rupee appreciated by 4.5% prior to the Easter Sunday attacks, supported by a significant contraction in the trade deficit and an increase of financial flows. In the immediate aftermath of the Easter Sunday attacks the exchange rate experienced some pressure, resulting in the Sri Lankan Rupee appreciating by 0.6% during the year to end at LKR 181.63.

Source: Central Bank of Sri Lanka



The trade deficit contracted by 23% in 2019 due to reduction of import expenditure by 10.1% as a result of policy measures and export growth of 1.0%. Meanwhile the overall balance of payments recorded a surplus of $800 million upto September 2019 compared to a deficit of $1,103 million in 2018, supported by the issuance of international sovereign bonds during the year.

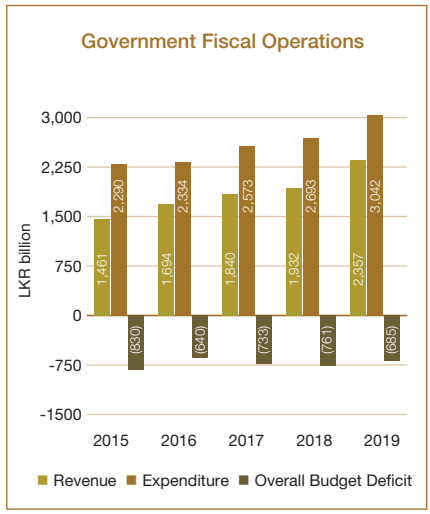
2019 – up to 30th November Source: Central Bank of Sri Lanka

Interest Rates

AWDR	**2019**	**8.20%**
	2018	**8.81%**
AWPR	**2019**	**9.74%**
	2018	**12.09%**
Credit growth to Private Sector	**2019**	**4.3%**
	2018	**15.9%**

The Central Bank adopted a relatively accommodative monetary policy in 2019, with a view to stimulating economic activity. Accordingly, Central Bank reduced the SRR applicable on rupee deposits of commercial banks by 100 basis points in March 2019. Further in May 2019 and August 2019, policy rates were reduced by 100 basis points with a view to reducing market interest rates and thereby boost credit flows to the private sector. Despite these measures, credit growth remained lackluster for most part of the year. As market deposit/ lending rates remained relatively high, the Central Bank imposed deposit rate caps in April 2019 (removed in September 2019) and lending rate caps in September 2019, which eventually led to a gradual decline in market interest rates towards the latter part of the year.

Source: Central Bank of Sri Lanka



Fiscal operations in 2019 deteriorated in the first seven months due to lower than expected Government revenue and a rise in Government expenditure, resulting in an expansion of the budget deficit, a turnaround in the primary balance, and a rise in outstanding Government debt. In 2019, the primary deficit was 0.8% of estimated GDP compared to a surplus 0.6% during the same period in the previous year, the budget deficit declined to 4.9% (upto September 2019) of estimated GDP compared to a deficit of 5.3% in 2018 and the Government's revenue mobilisation declined to 9.1% (upto September 2019) of estimated GDP from 13.3% recorded in 2018. The lackluster revenue performance was the result of impact of Easter Sunday attacks and implication of some policy measures and inconsistencies.

Source: Central Bank of Sri Lanka

Economic and Industry Environment

Industry Environment

The banking sector recorded a moderate performance in 2019 in an environment of subdued economic activities and muted investor sentiment. Growth in total assets reduced significantly, credit growth decelerated, non-performing loans increased to high levels and profitability decreased. However, the sector complied with enhanced capital requirements under BASEL III and maintained most indicators well above minimum regulatory requirements.

Assets

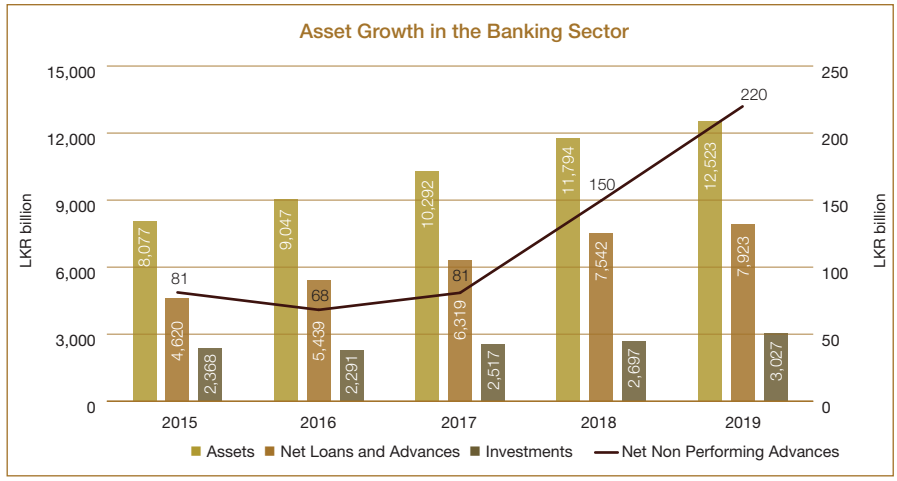
Total assets of the banking sector grew by 6% in 2019 compared to 15% in 2018. The increase was mainly contributed by way of investments as loans and advances moderated. The asset base was primarily funded through deposits (LKR 9.2 trillion) and borrowings (LKR 1.7 trillion).

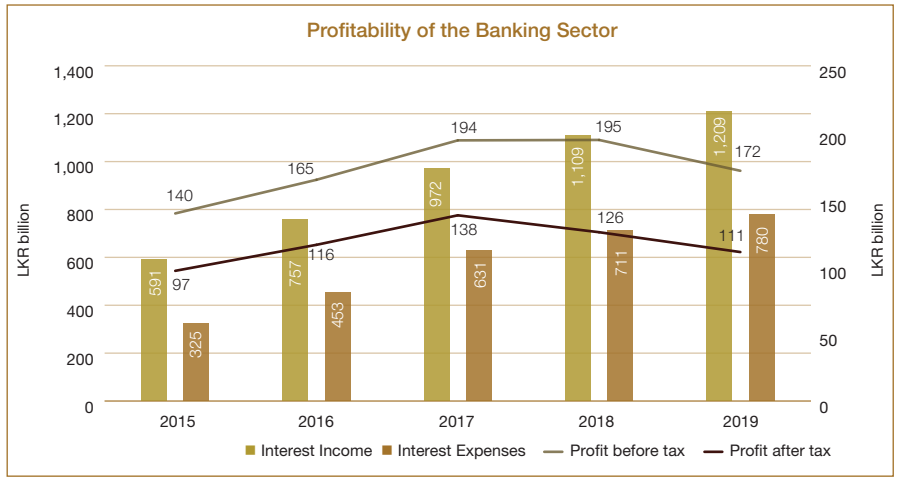
Credit

Lower demand for credit resulted in a credit growth of 6% as at end 2019. This was a significant reduction from the y-o-y credit growth of 20% at the end of 2018. Lending to the private sector decelerated in 2019 and growth was driven by lending to the Government and State-Owned enterprises. Credit given to construction, financial and tourism sectors declined. Considering the real interest rates on deposits and lending products prevailed in the economy,with a view of strengthen and expedite monitory policy transmission through the financial system two regulations were issued relating to market interest rate on deposits and lending.

Funding

Asset growth in the banking sector was dominated by deposit funding that accounted for 73% of the total liabilities. Deposit growth consisted primarily of LKR deposits. A cap on deposit interest rates was imposed in April 2019 which was subsequently withdrawn in September 2019, aimed at reducing the cost of funds of banks and enabling reduction of lending rates. A notable decrease in growth in demand deposits with a shift to term deposits and short term savings was observed during this period. The CASA ratio declined to 31% at end 2019 compared to 32% of the previous year.





Portfolio Quality

Although there was a deterioration of asset quality NPAs remained manageable. NPAs rose across all sectors with significant increases in the agricultural sector due to drought conditions that prevailed in the first quarter and the tourism sector due to the impact of the Easter Sunday attacks. The NPA ratio increased to 4.7% at end 2019 from 3.4% at end 2018.

Capitalisation

The banking sector remained adequately capitalised during year 2019 with a common equity ratio of 13.0% and total capital adequacy ratio of 16.5% well above the requirements of BASEL III. The central Bank introduced a new framework for dealing with Domestic Systematically Important Banks (D-SIBs) effective from 20 December 2019, which is in line with International standards.

Profitability

Subdued business activities, decreased lending, deterioration of asset quality and increased taxes resulted in a decline of profits in 2019. Profit after tax in 2019 decreased by 12% compared to 2018. Return on Assets (ROA) and Return on Equity (ROE) was 1.4% and 10.3% respectively (2018: 1.8% and 13.2%).

Financial Review

The Bank delivered asset and liability growth, while preserving the Balance sheet strength in challenging market conditions. Performance during the year attests to the soundness and resilience of the Bank's strategy and its long-term approach to value creation as it sought to balance the sometimes-conflicting needs of its diverse stakeholders.

Navigating Uncertainty in a Complex Operating Landscape

The industry landscape in 2019 presented numerous challenges for the Banking sector; a sharp deceleration in credit growth following the April attacks and regulator-imposed caps on interest rates coupled with a broad-based increase in impairments directly impacted the Sector's growth and profitability. Meanwhile, increased capital requirements in line with the BASEL III guidelines and Impairment as per SLFRS 09-inserted further pressure on the sector, which grappled to raise capital amidst subdued equity and debt market conditions.

Moderation in Income Growth

Against this backdrop, BoC performed commendably to record an Income growth of 8% to LKR 239.1 billion in 2019, supported by a healthy increase in both Net Interest Income (NII) and Net Fee and Commission income. Other Operating Income recorded a decline during the year. At consolidated level, the Group's total income also increased by 8% to reach LKR 248.7 billion, with the Bank contributing 96% to the Group.

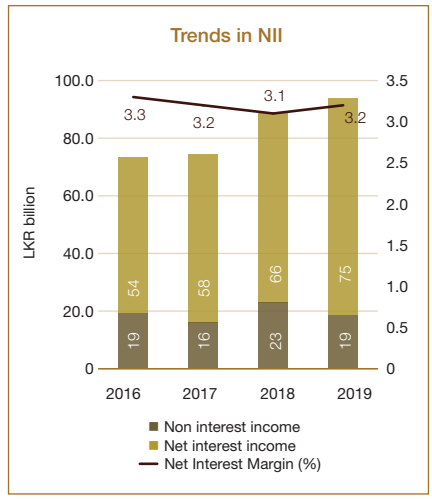
- **NII:** The Bank's Interest Income expanded by 13% during the year driven by loan growth of 9%. This reflects a sharp slowdown from the previous year which saw loan growth of 24%. Interest income generated from loans and advances accounted for 77% of Bank's interest income followed by income on debt and other instruments. Interest expenses increased by 12% driven by a 13% expansion in customer deposits, as the interest rate cap on deposits led to an influx of funds to larger banks such as BoC. Overall, the Bank recorded a 15% growth in NII to LKR 75.1 billion while at a consolidated level NII growth was 14%. Meanwhile, the Bank's Net Interest Margin (NIM) widened marginally to 3.2% from 3.1% the year before reflecting smart repricing decisions and expansion in high-yielding segments.

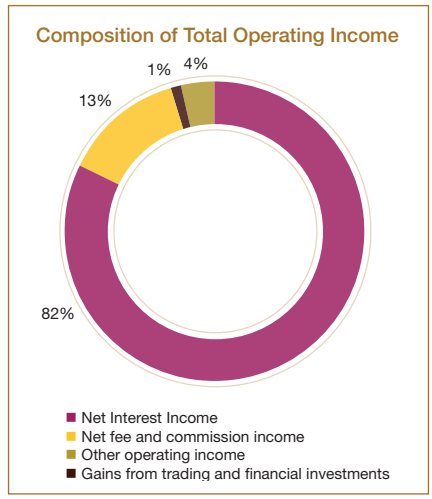
- **Non-interest-income:** Non-Interest Income comprises primarily of net fee and commission income, trading gains and other operating income; it declined by 31% to LKR 16.2 billion during the year mainly due to a normalisation of exchange gains generated on the Bank's foreign currency balances in 2018. Net fee and commission income increased by 13% to LKR 12.1 billion, driven by growth in credit and debit card related income 19% and retail banking services 21% among others.

- **Total operating income:** The growth in total operating income moderated to 3% in 2019 (2018: 20%) mainly due to the decline in other income. Fund and non-fund based sources contributed a respective 82% and 18% to total operating income during the year and the Bank's total operating income amounted to LKR 91.3 billion.

Preserving Portfolio Quality

The Bank's impairment charges on loans and advances increased by 27% to LKR 18.2 billion, in line with the industry-wide deterioration in portfolio quality as key industry sectors faced liquidity pressures. However, the Bank performed relatively well in comparison to the industry, which





Financial Review

saw impairments increasing by 48% during the year. This reflects the Bank's proactive measures to strengthen its monitoring and recovery mechanisms as well as consistent engagement with customers in offering flexible payment solutions. The Bank's gross NPL ratio for the period (computed as per CBSL requirements) increased to 4.8%, from 3.6% in 2018 and more or less in line with the industry average.

Efficient Expense Management

The increase in operating expenses was slightly increased by 5% during the year. Personnel expenses account for the largest portion of the Bank's operating expenses and increased by 6% during the year to LKR 18.4 billion. Other expenses recorded a decline of 8% to LKR 10.4 billion mainly due to the reclassification of rental expenses on operating leases in line with the implementation of SLFRS 16. The Bank's cost-to-income ratio of 37% continues to be significantly lower than the industry average of 52.7%, reflecting its scale efficiencies as well as the Bank's strategic focus on driving process efficiencies through automation and increased productivity.

Contributions to Tax Revenue

BoC is a significant contributor to the Government's tax revenue and total tax expenses for the year amounted to LKR 17.1 billion. Taxes consists of VAT and NBT on financial services, Debt Repayment Levy (DRL) and income tax. DRL which was introduced on 1 October 2018 was applicable for full year of 2019 and the Bank contributed LKR 3.6 billion as DRL for the year. Meanwhile income tax payments for the year recorded a decline to LKR 6.6 billion (from LKR 12.4 billion the previous year) due to tax relief given to interest income generated from investment in Sri Lanka Development Bonds. Accordingly, the Bank's effective income tax rate also declined to 22% from 37% the year before.

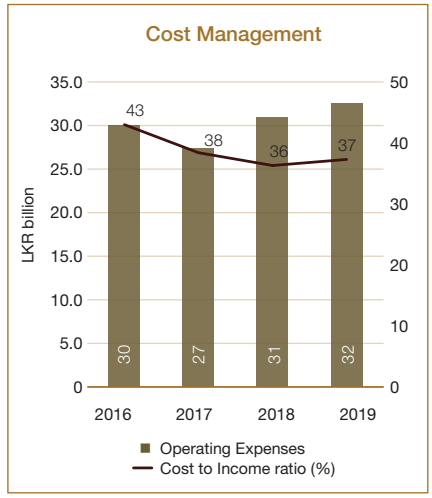
Resilient Profit Performance

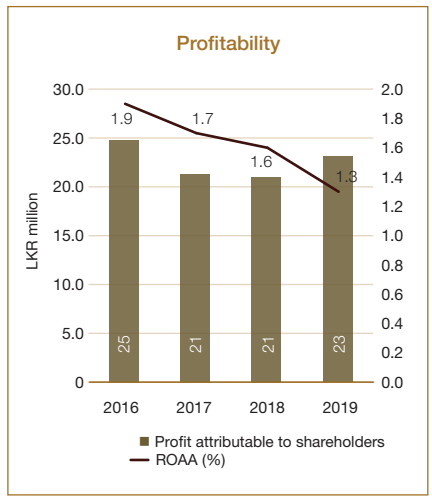
The challenging operating conditions during the year led to a decline in profitability, with operating profit and pre-tax profit decreasing by a respective 7% and 11% during the year. Profit-after-tax however, recorded an increase of 10% to LKR 23.1 billion due to the reduction in income tax charge for the year (explained above). At a consolidated level, the Group's profit for the year increased by 13% to LKR 23.7 billion during the year under review. The Bank's Return on Assets declined to 1.3% from 1.6% the year before, remaining more or less in line with the industry average of 1.4% for the year.

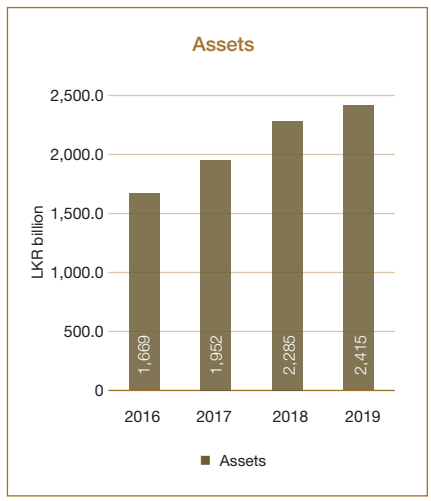
Healthy Balance Sheet

The Bank continued to record balance sheet growth, although asset expansion slowed to 6% during the year, compared to 16% recorded in 2018. Accordingly, the Bank's total assets amounted to LKR 2,415.1 billion as at end-December 2019. Meanwhile, the Group's assets also recorded an increase of 6% to LKR 2,462.5 billion during the year. Key factors driving the Bank's asset profile during the year were-

- **Loans and advances:** BoC's loan portfolio grew by 9% to LKR 1,648.8 billion during the year, as we pursued selective growth opportunities in Retail, SME and development lending.(Please refer to Business line reviews from page 124 to 126 for more detailed information). In terms of products, growth was driven primarily by term loans (21%), pawning (19%), credit cards (16%) and housing loans (13%). Lending to the Government sector accounts for around 36% of the loan book and these lendings are primarily for infrastructure development projects and state - owned enterprises; these facilities are included in the Retail and Corporate segments.







- **Investment portfolio:** The Bank's investment portfolio comprises primarily of Government securities, quoted equities and unquoted equities. Debt and other instruments held at amortised cost accounted for the largest share of the Bank's investment portfolio and comprised primarily of Government securities. The Bank's exposure to corporate debentures and equity securities were relatively not material during the year.

The Bank's assets composition remained largely unchanged during the year, with credit assets accounting for 64% of total assets as at end-December 2019.

Liabilities

Total liabilities increased by 6% to LKR 2,272.8 billion, driven primarily by an increase in customer deposits of 13%. Deposits accounted for 88% of the Bank's total liabilities and consisted primarily of time and savings deposits. The interest rate caps on deposits implemented during the year, led to an inflow of deposits to larger and more stable banks such as BoC which continues to benefit from its brand strength and extensive geographical reach. The Bank grew its CASA base by 6% during the year, translating to a CASA ratio of 32% during the year, in line with the industry average. Given the relatively slow credit growth during the year, the Bank trimmed exposure to other borrowings which thereby declined by 32% to LKR 137.8 billion.

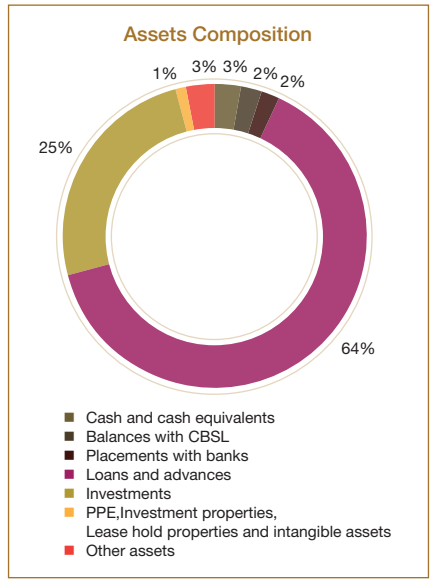
Capital Position

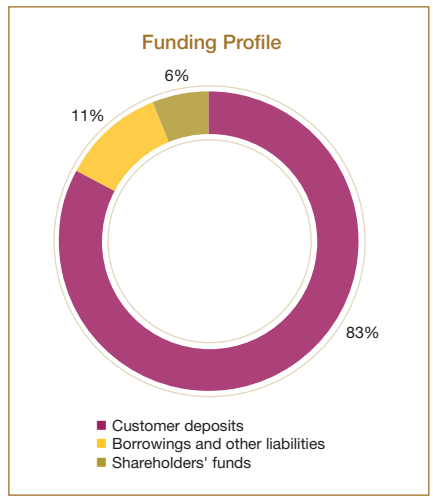
As a state-owned entity, BoC has limited avenues to enhance its capital base and is therefore compelled to rely on internally generated funds to strengthen capital. During the year, the Bank's shareholders' funds increased by 8% to LKR 142.3 billion. The Bank was able to maintain its dividend pay-out ratio at a lower level of 1.5% during the year with a view to mitigate the stress on capital and retain internally generated earnings to strength core capital base. Meanwhile the Common Equity Tier 1 Capital ratio clocked in at 11.16% (compared to the minimum requirement of 8.5%) while the total capital ratio amounted to 15.58% (minimum requirement of 14.00%).

Group Performance

The Bank has 10 subsidiaries and four associate companies which are involved in diverse operations ranging from financial services, property management services and hydropower generation among others. The Bank is by far the dominant entity within the Group, accounting for 98% of total assets and 97% of profit after tax.

Despite the relatively minute contribution of the Group companies, the subsidiaries are managed under a subsidiary charter that includes an annual comprehensive subsidiary performance review. The financial and operational performance of the subsidiaries are monitored by the parent entity on a regular basis while risk dashboards are shared with the Bank's Chief Risk Officer to ensure that risks are managed within acceptable levels in line with the Group's overall risk appetite. Meanwhile a representative from the Bank typically holds a Board position to ensure that subsidiary and associate operations are conducted in line with the expectations of the parent entity.



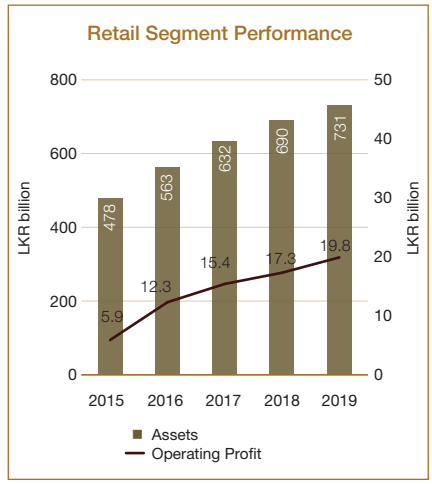


Business Line Reviews

Retail Banking

The Retail Banking cluster contributed 56% and 31% to the Bank's Operating Income and assets respectively in 2019. The cluster provides a range of lending and transactional banking solutions to an array of individuals, entrepreneurs and SMEs and achieved a portfolio and profit growth of 7% and 14% respectively during the year under review.

	2019 LKR Million	2018 LKR Million	YoY (%)
NII	41,941	37,157	13
Operating income	50,560	44,788	13
Impairment charge	7,715	6,134	26
Operating profit	19,756	17,309	14
Assets	730,855	690,007	6
Liabilities	687,797	650,092	6



Strategy and Performance

- **Loans and Advances:** The cluster recorded a portfolio growth of 7% during the year, driven by the expansion of commercial/ development lending (20%), pawning (20%), housing (13%) and personal loans (3%). Despite the challenging environment, we continued to support the SME sector through increased disbursements to key economic sectors. However Leasing and Overdrafts didn't record a considerable growth during the year.

- **Deposits:** The cluster grew its deposit base by 13% and continued to be the main deposit mobiliser for the Bank. Deposit growth was upheld by our expanding CRM network, the branch-on-wheels initiatives as well as the implementation of the interest rate caps which led to an inflow of deposits to banks such as ours.

- **Transactional Banking Products:** In line with our push towards enhancing digital adoption, the Bank's debit cards transaction value increased by 22%, while transaction volume increased by 9%.

- **Development Lending:** During the year, the Bank disbursed LKR 77.8 billion to strengthen the SME sector. Partnering with the Ministry of Finance, several new development loan schemes were launched in 2019 include special schemes for private bus owners, day care centres, pre-schools and for the tourism industry among others.

  We also conducted 196 No. of financial inclusion and customer education programmes (17,740 beneficiaries) while 108 facilities were screened for environmental and social criteria.

- **Micro-Financing:** BoC "Mithuru" aims to foster entrepreneurship and drive socio-economic empowerment in rural Sri Lanka. We also commenced value chain financing for agribusiness partnerships, manufacturing and animal husbandry. The Bank's micro-financing portfolio amounted to LKR 9.4 billion as at end-December 2019.

- **Portfolio Quality:** Preserving portfolio quality was a key priority during the year given the challenging operating environment. To this end, the cluster sought to carry out numerous customer engagement/ awareness sessions as well as enhance employees' credit management/ monitoring skills through several training initiatives. Also, several digital initiatives such as alarming facility for potential NPA were introduced for staff to facilitate follow ups. As a result of these initiatives, the Bank was able to limit the increase in its retail segment gross NPL ratio to 5.2%, compared to 3.8% the year before.

- **Way Forward:** Priorities for 2020 includes providing ongoing support for the SME sector in line with the Government's development agenda as well as driving increased digital adoption among our customer base through providing innovative and seamless banking platforms.

Development Lending/ Micro Financing - Highlights 2019

- 64% of portfolio outside Western Province
- Special lending schemes targeting renewable energy generation and green technology
- 274 new BoC Mithuru groups added during the year, bringing the total to 906
- 681 officers trained on ESMS criteria

Corporate and Offshore Banking

The cluster provides financing solutions to the Government, large-scale projects, state-owned enterprises and the large private sector entities, conglomarates and blue chips, playing a vital role in stimulating economic activity. It contributed 30% to the Bank's operating income and 37% to assets as at end-December 2019.

	2019 LKR million	2018 LKR million	YoY (%)
NII	23,664	17,325	37
Operating income	27,075	25,329	7
Impairment charge	10,053	8,231	22
Operating profit	12,203	12,491	(2)
Assets	881,920	833,652	6
Liabilities	829,963	785,428	6

Strategy and Performance

- **Overall performance:** The Corporate and Offshore Banking cluster delivered a resilient performance in 2019, supported by portfolio growth of over 10% and NII expansion of 37%. Understandably, impairment charges of loans and advances increased by 22% affecting profitability, while overall profit for the year recorded a decline of only 2%.

- **Private sector lending:** Lending to private sector clients grew by 12% to LKR 310.8 billion, which accounted for 36% of the cluster's total portfolio. This was supported by new customer acquisition as well as deeper relationships with existing customers. We maintained a high level of customer engagement, conducting four felicitation ceremonies with the participation of over 650 customers.

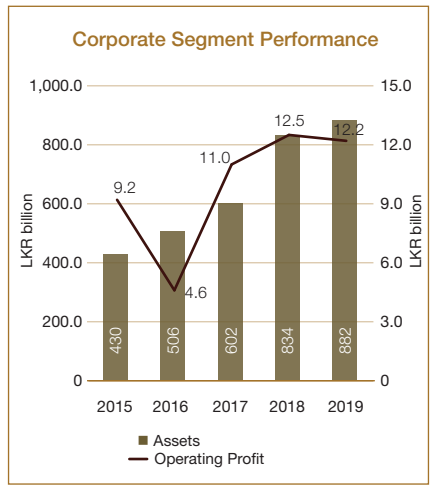
- **Project lending:** As a key lender to the Government, the Bank directly contributes to national infrastructure development projects including renewable energy, highway construction and irrigation projects among others. lending to the Government and SoEs grew by 8% to LKR 542.8 billion in 2019, accounting for 64% of the cluster's total portfolio.

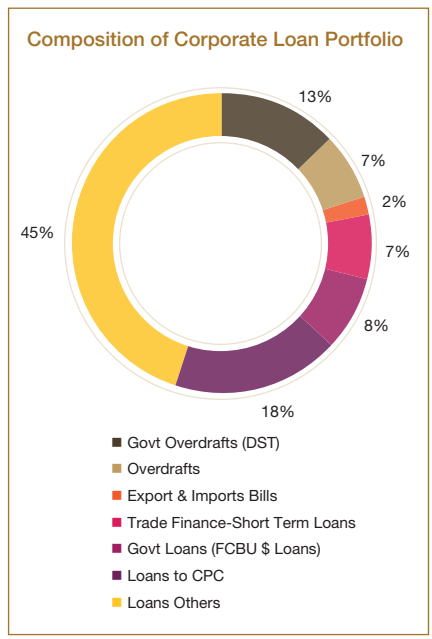
- **Portfolio quality:** As the industry witnessed a broad-based influx of NPLs the cluster sought to preserve credit quality through proactive cashflow management, recovery camps, ongoing customer engagement and offering facility restructuring and rescheduling. In addition, we also conducted special corporate credit training programmes for cluster employees.

- **Trade finance:** This division plays a vital role in facilitating imports and exports and provides consultancy/ advisory services to the Government, corporate clients and industry associations. The division has built a strong reputation and benefits from a large network of correspondent relationships. In 2019, the division started to implement a new Trade Finance System to enhance the efficiency of all operations. It also conducted numerous awareness/ training sessions for stakeholders, pursued new opportunities, and conducted several marketing/ promotional campaigns. Trade finance short term loans increased by 11% to LKR 60.1 billion during the year.

- **Offshore banking:** In 2019 the Bank further strengthened its position in syndicated lending by financing USD 524 million worth of projects.

- **Way forward:** The cluster will continue to support the Government and state-owned enterprises, while strengthening relationships in the private sector thereby improving the risk return dynamics of its loan portfolio. Further focus will be kept on cash flow monitoring as a possible solution for enhancing the portfolio quality and increasing digital adoption among corporate clients.

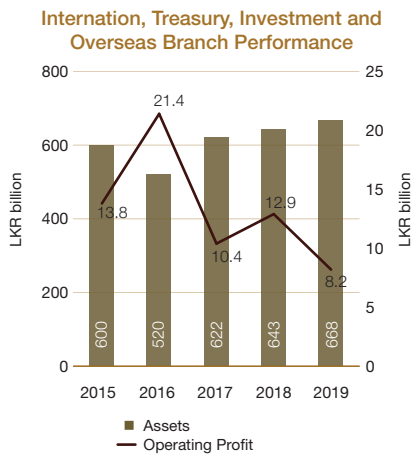




International, Treasury, Investment and Overseas Operations

The International Division engages in foreign currency related transactions while the Treasury Unit manages the Bank's liquidity position, asset-liability positions while mitigating exposure to market risk. The cluster contributed 14% to the Bank's operating income for the year in 2019. The investment division handles all financial investments of the Bank.

	2019 LKR million	2018 LKR million	YoY (%)
NII	9,340	10,913	(14)
Operating income	12,747	17,777	(28)
Impairment charge	445	387	15
Operating profit	8,228	12,909	(36)
Assets	668,242	643,024	4
Liabilities	628,874	605,827	4



Strategy and Performance

- **Overall performance:** The adverse market conditions during the year had a direct impact on the Division's profitability and resulted in its total operating income and profit for the year declining by a respective 28% and 36% during the year. Despite these conditions, the Division adopted a long-term view to value creation, focusing on strengthening its digital infrastructure and widening its reach.

- **Treasury:** The Unit plays a pivotal role in managing the Bank's liquidity levels, consistently monitoring asset liability maturity mismatches, optimising the NIM and managing the investment portfolio. Key achievements in 2019 included implementation of a new system for ALM, automation of several processes including approval of special rates for FDs and reinvestment of Treasury Bills and the introduction of longer-tenured foreign currency FDs at attractive rates. Effective management of the investment portfolio enabled the Unit to generate capital gains of LKR 282 million on the G-sec portfolio.

- **International Division:** The Division successfully maintained its position as the market leader in remittances, accounting for a share of 42% in 2019. We also strengthened our presence to new geographies, which are mostly untapped markets such as Japan, Israel, Oman and Saudi Arabia. A key achievement in 2019 was the launch of the Hana EZ mobile app in South Korea, in partnership with the KEB Hana Bank. Other technological developments include the completion of 18 new API integrations and commencement of the upgrade of the Smart Remit System. The Division also formed four new correspondent relationships during the year and conducted 185 awareness campaigns for migrant workers and their families, which provided direct benefits to 15,000 amount of people.

- **Investment Banking:** Market conditions were subdued during the year and the Investment Banking Unit placed emphasis on strengthening customer relationships to increase penetration in structuring/ managing corporate debt and equity issuances. During the year Investment Banking Unit issued unlisted tier II capital eligible debentures of LKR 9.2 billion in order to ease the tier II capital base of the Bank.

- **Overseas:** The Bank further widened its geographical reach during the year with the establishment of an extension office in Maldives, in Hulumale island. All overseas branches are profitable, and the Division contributed LKR 7.7 billion to the Bank's earnings in 2019. Key areas of focus include, enhancing the customer experience through digitisation, strengthening credit risk management frameworks and enhancing the digital infrastructure.

- **Way forward:** Global market conditions are likely to be depressed and volatile in 2020 given the world-wide implications of the COVID-19 pandemic, therefore the responsibility of theTreasury in managing the Bank funds in best possible ways, investing in secured investments and helping the business to normalise in short to medium term will be immense. While performing those utmost duty, we will continue to focus.

Way Forward

The outbreak of the COVID-19 pandemic has led to unprecedented economic and social challenges, the exact extent of which is difficult to ascertain at this juncture. The Bank is operating in strict adherence to safety and social distancing guidelines prescribed by the Government, with relevant employees given the opportunity to work remotely. As an essential service provider and Sri Lanka's largest bank, we are committed to supporting the facilitation of economic activity and money circulation and many of our branches have remained open to the public, with adequate measures being implemented to ensure the safety of our employees and customers.

Given the anticipated economic fallout of the pandemic, we are committed to, the Government's agenda in facilitating the recovery of local businesses and individuals through providing debt moratoriums, restructuring facilities and concessionary funding. While our short to medium term strategy will be refined to adapt to emerging marketing conditions, the Bank's long-term strategy will remain largely unchanged as we pursue excellence in customer service, strive to lead the digital adoption, retain market leadership and propagate sustainable banking solutions.

Stakeholder Value Creation

Stakeholder Engagement

The Bank impacts a diverse universe of stakeholders and its size, depth and reach renders it critical to proactively identify and respond to their varying needs. The Bank selects and engages with the stakeholders who are likely to be most impacted by its decisions and who in turn have the most significant impact on its value creation. Engagement is facilitated through numerous formal and informal platforms and the feedback thus obtained forms a vital input in our corporate planning process.

Customers

How we engage:

- Engagement through branch managers and relationship managers (ongoing)
- Customer Satisfaction surveys (periodic)
- Customer hotline-1975 (ongoing)
- Marketing, advertising and promotions (ongoing)
- Financial literacy programmes (ongoing)
- Whistle Blowing policy

Key topics and concerns

- Ease of transaction
- Accessibility and convenience
- Customer care and service quality
- Providing access to finance
- Transparent pricing
- Inclusive communication

Government and regulators

How we engage:

- Maintaining confidence within the finance sector
- Fulfilling the funding needs of the GOSL
- Alignment of National development agenda to Bank's strategy
- Stronger Governance and Risk Management Practices
- Falitating Financial inclusion

Key topics and concerns

- Meeting on matters relating to performance and compliance (Periodic)
- Annual Report (Annually)
- Regulatory and compliance reporting (Periodic)
- Industry forums and meetings (frequently)
- Financial publications (quarterly)

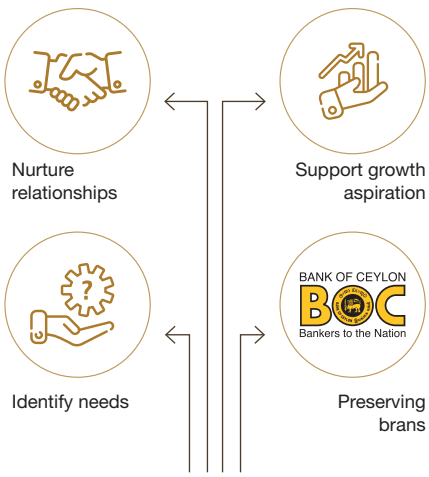
Investors

How we engage:

- One to one meetings with large investors (periodic)
- Investor presentations and roadshows (periodic)
- Engagement through market intermediaries (ongoing)
- Annual Report and other regulatory publications

Key topics and concerns

- Returns commensurate with the risks assumed
- Clarity in terms, conditions and Covenanances
- Transparent and timely reporting on the Bank's performance and outlook



Why we engage with stakeholders

Employees

Key topics and concerns

- Opportunities for career and skill development
- Freedom of association
- Equal opportunity in remuneration and promotion
- Performance - oriented organizational culture
- A Safe working environment
- Retirement Benefits

How we engage:

- Employee engagement surveys (periodic)
- Trade union engagement (ongoing)
- Open door culture (ongoing)
- Multi-level staff meetings (ongoing)
- Grievance handling mechanism (ongoing)
- Work life balance initiatives (ongoing)
- Performance Management System (PMS)

Suppliers

Key topics and concerns

- Ease of transacting and transparent pricing, terms and conditions
- Timely payments
- Secure and predictable demand
- Press notices
- Supply chain audits

How we engage:

- Written communication (ongoing)
- Regular meetings (ongoing)
- Bidding process (periodic)
- Quarterly publications on Financial statements and the Annual Reports

Communities

Key topics and concerns

- Contribution towards community development projects
- Responsible business practices
- Financial inclusion and empowerment
- Employment generation

How we engage:

- Engagement through branches (ongoing)
- CSR activities and sponsorships (ongoing)
- Press releases and media campaigns (ongoing)

Stakeholder Value

Customers

Delivering Value to our customers in 2019

- Total net disbursements to customers amounted to LKR 138,227 million during the year, an increase of 9% compared to 2018
- Interest paid on deposits increased by 13% to LKR 126.7 billion

Customer centric solutions

(1) Launch of QR code based mobile payment app - BoC Smart Pay

(2) Launch of four new products targeting specific customer segments

(3) Process improvements resulting in significant improvements in turnaround time

Customer education

(1) SME Customer Awareness programme

(2) Financial literacy programmes

(3) Awareness campaigns for migrant workers

Employees

Delivering Value to our Employees in 2019

- Total payments to employees increased by 6% to LKR 18.4 billion during the year.

Training and Development

LKR 233.3 million investment in training with focus on,

(1) Continuous Professional Development

(2) Service-oriented training for front-line staff

(3) Basic banking training for banking assistants

- Ongoing and proactive engagement through numerous formal and informal platforms
- Promoting work life balance through awareness sessions

Career progression

- Promotions: 821
- 99% positions filled through internal promotions

Government

Delivering Value to the Government in 2019

- Total tax contribution of LKR 17.1 billion, an decrease of 22% compared to 2018

Partnering national development projects

(1) Road development projects: LKR 28.3 billion

(2) Power generation projects: LKR 1.5 billion

(3) Water generation and irrigation projects: LKR 24.0 billion

(4) Tourism projects: LKR 37.6 billion

- Disbursements of LKR 77.8 billion to the micro - and SME sectors of the economy.
- LKR 517.3 billion investments in Government securities

Driving financial inclusion

(1) Customer contact points in economically disadvantaged areas

(2) Disbursements under development loan schemes

(3) Micro-finance lending

(4) Driving financial literacy and customer education

Business Partners and Communities

Delivering Value to Business partners and Communities in 2019

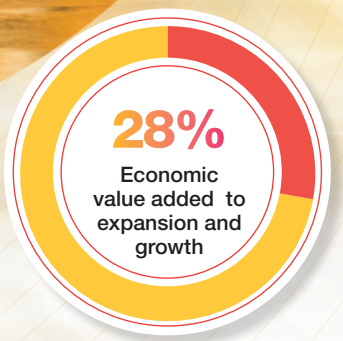
- Investment of LKR 18.5 million in customer engagement
- Key CSR projects for the year

(1) Education
You are a Leader Programme, Nanajaya Scholarships, Hapana Scholarships

(2) Health and Wellbeing
Water Purification Plants, BoC Yalu Para, Official Banking partner of the Little Hearts Project

- Proactive engagement with +500 suppliers
- Six supplier audits conducted in 2019 to ensure social and environmental compliance

Economic Value added



As a state-owned entity and systemically important Bank, we strive to generate shared and sustainable value across our universe of diverse stakeholders.

LKR 18.4 billion

Value of employee

LKR 67.9 million

Value to community

LKR 18.5 billion

Value added to providers of external funds

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Annual Report of the Directors on the State of Affairs of Bank of Ceylon

1. General

The Board of Directors of Bank of Ceylon take pleasure in presenting their report on the affairs of the Bank together with the Audited Consolidated Financial Statements for the year ended 31 December 2019 of the Bank and the Group and the Auditor General's Report on those Financial Statements, conforming to the requirements of the Bank of Ceylon Ordinance No. 53 of 1938 and Banking Act No. 30 of 1988 and amendments thereto. The Report also includes certain disclosures laid down by the Colombo Stock Exchange Listing Rules and certain disclosures required to be made under the Banking Act Direction No. 11 of 2007 on Corporate Governance for licensed commercial banks issued by the Central Bank of Sri Lanka and subsequent amendments thereto. The Directors reviewed and approved the Financial Statements on 24 March 2020.

Bank of Ceylon is a licensed commercial bank under the Banking Act No. 30 of 1988 and amendments thereto and was duly incorporated on 1 August 1939 under Bank of Ceylon Ordinance No. 53 of 1938. The Bank is wholly owned by the Government of Sri Lanka. The unsecured subordinated redeemable debentures issued by the Bank are listed on the Colombo Stock Exchange.

2. Review of the Business

2.1 Principal Activities of the Bank

The principal activities of the Bank during the year were personal banking, corporate banking, development banking, off-shore banking, trade financing, lease financing, primary dealing, investment banking and treasury operations, correspondence banking and money remittances, islamic banking, bancassurance, pawning, credit card facilities, foreign currency operations and other financial services.

2.2 Subsidiaries and Associates

The principal activities of subsidiaries and associates are given under Notes to the Financial Statements on page 160 and 161. There were no significant changes in the nature of the principal activities of the Bank and the Group during the year under review, other than changes mentioned under Accounting Policies.

2.3 Changes to the Group Structure

During the year, the structure of the Group has not undergone any change and, notes to the Financial Statements No. 30 and 31 on pages from 236 to 243 of this Annual Report give details about the Group.

2.4 Vision, Mission and Corporate Conduct

The Bank's Vision and Mission are given on page 04 of this Annual Report. The Bank maintains high ethical standards in its activities whilst pursuing the objectives stated under 'Vision', 'Mission' and 'Value Statements'.

2.5 Review of the Year's Performance

The Chairman's Message on pages 12 and 13 deals with the year's performance of the Bank/ Group and on the Sri Lankan economy. The General Manager's Review on pages 14 to 19 provides a detailed description of the operations of the Bank during the year under review. The section titled "Financial Review" on pages 121 to 123 provides a detailed analysis of business operations of the Bank. These reports that provide a fair review of the Bank's affairs form an integral part of the Annual Report.

2.6 Branch Expansion

The Bank extended its services through the addition of four new branches and 10 limited service branches during the period under review. In addition, the Bank expanded its network by 1 CDM, 143 CRMs, 5 Mobile Banking Units (Branch on Wheel) during the year across the island, bringing out the total direct customer contact points to 1,881. This number does not include peer banks' ATMs through which customers of Bank of Ceylon can transact and School "Sansada" and Mobile saving units. No. of School "Sansada" and Mobile School Savings Units added during the year accounted to, 114 and 362 respectively.

2.7 Corporate Donations

The Bank has not granted donations for the year 2019 but the Bank has contributed LKR 68.0 million to facilitate Corporate Social Responsibility (CSR) activities during the period under review.

2.8 Directors' Responsibilities for Financial Reporting

The Directors are responsible for the preparation of Financial Statements that will reflect a true and fair view of the state of 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, Banking Act No. 30 of 1988 and its amendments, Bank of Ceylon Ordinance No. 53 of 1938 and its amendments and the Listing Rules of the Colombo Stock Exchange. In the case of subsidiaries, the Financial Statements are prepared also in accordance with the provisions of the Companies Act No. 07 of 2007. The Statement of Directors'

Annual Report of the Directors on the State of Affairs of Bank of Ceylon

Responsibility for Financial Reporting is given on page 145 of this Annual Report and forms an integral part of this Report of the Directors.

2.9 Auditor's Report

The Auditor General is the Auditor of Bank of Ceylon in terms of the provisions of Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka.

Report of the Auditor General on the Financial Statements of the Bank and the Consolidated Financial Statements of the Bank and its subsidiaries as at 31 December 2019 is given on pages 146 to 149 of this Annual Report.

2.10 Accounting Policies

The Group and the Bank prepared their Financial Statements in accordance with Sri Lanka Accounting Standards (LKASs) and Sri Lanka Financial Reporting Standards (SLFRSs).

The accounting policies adopted in the preparation of Financial Statements are given on pages 160 to 338. The Bank successfully adopts Sri Lanka Financial Reporting Standard (SLFRS) 09: Financial Instruments since year 2019 onwards and during this year the Bank has complied with new SLFRS 16 - "Leases" which came in to effect from 1 January 2019.

3. Planned Developments

An overview of the developments planned by the Bank for the future is presented in the Chairman's Message on pages 12 and 13 and General Manager's Review on pages 14 to 19 of this Annual Report.

4. Total Income

The total income of the Group for the year 2019 was LKR 248,692 million as against LKR 229,351 million in the previous year. The Bank's total income accounted for 96.2% (2018 – 96.4%) of the total income of the Group. The main income of the Group is interest income, which comprises 91.4% (2018 - 88.0%) of the total income.

5. Dividends and Reserves

5.1 Profit and Appropriations

The Bank has recorded a profit before tax of LKR 29,685 million in 2019 reflecting a decrease of 11.2%, compared to LKR 33,416 million recorded for the previous year.

After deducting LKR 6,587 million (2018 – LKR 12,413 million) for income tax, the profit after tax (PAT) for the year 2019 amounted to LKR 23,098 million, which is a 10.0% increase compared to LKR 21,003 million PAT reported in 2018.

Tax expense has reduced by 46.9% compared to the previous year mainly due to exemption on interest income earned from Sri Lanka Development Bond investment for income tax purpose.

Details of the profit relating to the Bank and the Group are given in the table below:

	Bank		Group	
For the year ended 31 December	**2019**	2018	**2019**	2018
	LKR million	LKR million	LKR million	LKR million
Profit for the year after payment of all expenses, providing for depreciation, amortisation, impairment on loans and other losses, contingencies and before taxes	**40,206**	43,004	**41,478**	43,770
Taxes on financial services	**(10,521)**	(9,588)	**(10,851)**	(9,818)
Share of profits/ (losses) of associate companies net of tax	**-**	-	**48**	9
Profit before income tax	**29,685**	**33,416**	**30,675**	**33,961**
Income tax expense	**(6,587)**	(12,413)	**(6,928)**	(12,922)
Profit for the year	**23,098**	**21,003**	**23,747**	**21,039**
Other comprehensive income for the year, net of tax	**(12,639)**	(1,651)	**(12,047)**	(1,368)
Total comprehensive income for the year	**10,459**	**19,351**	**11,700**	**19,671**
Appropriations				
Transfers to permanent reserve fund	**(493)**	(2,463)	**(493)**	(2,463)
Dividends	**(346)**	(4,846)	**(346)**	(4,846)

The profit before tax of the Group also decreased from LKR 33,961 million to LKR 30,676 million, a decrease of 9.7% in comparison to the previous year. After deducting LKR 6,928 million for income tax (2018 – LKR 12,922 million) the profit after tax for the year of the Group is LKR 23,747 million in (2018 – LKR 21,039 million.)

5.2 Dividends

The Bank pays dividends to its sole shareholder the Government of Sri Lanka, as per the Dividend Policy of the Bank in consultation with the Government, prudently based on profits after deduction of tax, loan loss provision and any such portion for reserves. Accordingly, a sum of LKR 346 million has been paid out by the Bank as dividends for the year 2019 (2018 – LKR 4,846 million).

5.3 Reserves

The total reserves of the Group stood at LKR 128,212 million as at 31 December 2019 (2018 – LKR 117,174 million). The Group reserves consist of the following:

	Group	
For the year ended 31 December	**2019**	2018
	LKR million	LKR million
Permanent reserve fund	**13,383**	12,890
Revaluation reserve	**19,288**	18,747
Free reserve	**367**	367
Exchange translation reserve	**3,102**	3,157
FVTOCI reserve	**2,572**	2,474
Statutory reserve	**359**	359
Retained earnings	**89,141**	79,180
Total	**128,212**	117,174

6. Property, Plant and Equipment

The total capital expenditure incurred by the Group on the addition of Property, Plant and Equipment, right of use assets and intangible assets during the year amounted to LKR 4,770 million (2018 – LKR 4,360 million) the details of which are given in Notes 33 to 35 of Financial Statements on pages 246 to 265 of this Annual Report.

7. Value of Freehold Properties

The value of freehold properties owned by the Group as at 31 December 2019 is included in Note 33 of the Financial Statements at LKR 22,223 million (2018 – LKR 21,655 million).

8. Stated Capital and Shareholding

8.1 Stated Capital

The total issued and fully paid up capital of the Bank as at 31 December 2019 was LKR 25,000 million (2018 – LKR 20,000 million).

During the year 2018, the Bank received LKR 5,000 million from the Government of Sri Lanka, the second phase of the total amount of LKR 10,000 million allocated to the Bank under National Budget 2018. This allocation was reported under capital pending allotment as at 31 December 2018, during the year 2019 the Bank issued five million ordinary shares at LKR 1,000 each to the Government of Sri Lanka and thereby transferred the capital pending allotment to the share capital during the year 2019.

8.2 Shareholding

The Government of Sri Lanka is the sole shareholder of the Bank.

9. Issue of Subordinated Debentures

The Group issued unlisted unsecured subordinated redeemable debentures with non-viability write-down features, amounting to LKR 9,210 million during the year ended 31 December 2019 (2018 – LKR 12,000 million). The proceeds of these debentures were utilised to expand the Bank's loan book in the ordinary course of business. This would enable the Bank to achieve the following, on allotment:

- Increase the Tier 2 capital of the Bank in order to enhance the Capital Adequacy Ratio and Single Borrower Limit to facilitate expansion of the loan book.
- Minimise and manage the gap exposure in the Bank's assets and liability portfolios.
- Strengthen the Bank's liquidity position and to increase the asset base.

The details of debentures outstanding as at the date of Statement of Financial Position are given in Note 48 of the Financial Statements on pages 285 to 287.

10. Share Information

The basic earnings per share and net assets value per share of the Group were LKR 987 (2018 - LKR 1,129) and LKR 6,128 (2018 - LKR 7,109) respectively, for the year under review.

11. Corporate Sustainability and Responsibility

The programmes carried out under Corporate Sustainability and Responsibility (CSR) are detailed on pages 78 to 86 under the section titled 'Sustainable Business.

12. Directors

Details of Directors who held the office during the year 2019 and Directors who

Annual Report of the Directors on the State of Affairs of Bank of Ceylon

are holding the office as of the sign-off date of this Annual Report is given in the table below. As at year end date, viz 31 December 2019 there was no Board due to the change of Government that took place (The Government being the major shareholder, appoints the Directors through the Ministry in charge of the Bank). However, a Board was appointed during January 2020 and as of the Annual Report sign-off date, the number of Directors holding office is five (5).

During the year 2019 the Board consisted of the following members-

12.1 List of Directors

Mr Ronald C Perera, PC
Independent Non-Executive Director/ Chairman
(Ceased to be a Director w.e.f. 26 November 2019)

Mr K A Vimalenthirarajah
Non-Executive Ex-officio Director
(Ceased to be a Director w.e.f. 10 January 2020)

Mr Kumar Mayadunne
Independent Non-Executive Director
(Ceased to be a Director w.e.f. 27 November 2019)

Mr P A Schaffter
Independent Non-Executive Director
(Ceased to be a Director w.e.f. 27 November 2019)

Mr S Nilam Jayasinghe
Independent Non-*Executive Director*
(Ceased to be a Director w.e.f. 27 November 2019)

Mr Kanchana Ratwatte
Independent Non-Executive Director/ Chairman
(Appointed w.e.f. 02 January 2020)

Ms Visakha Amarasekere
Non-Executive Ex-Officio Director
(Appointed w.e.f. 11 January 2020)

Mr Lalith P Withana
Independent Non-Executive Director
(Appointed w.e.f. 14 January 2020)

Mr G Harsha Wijayawardhana
Independent Non-Executive Director
(Appointed w.e.f. 14 January 2020)

Mr Hasitha Premaratne
Independent Non-Executive Director
(Appointed w.e.f. 14 January 2020)

Name of the Director	Executive/Non-Executive Status	Status of Independence
Mr Kanchana Ratwatte	Non-Executive	Independent
Ms Visakha Amarasekere	Non-Executive Ex-officio	Non-Independent
Mr Lalith P Withana	Non-Executive	Independent
Mr G Harsha Wijayawardhana	Non-Executive	Independent
Mr Hasitha Premaratne	Non-Executive	Independent

The Directors are classified as Independent Directors on the basis given in Banking Act Direction No. 11 of 2007 on Corporate Governance for licensed commercial banks issued by the Central Bank of Sri Lanka.

12.2 Board Subcommittees

The Board has formed five subcommittees complying with the aforesaid Banking Act Direction No. 11 of 2007 to ensure oversight control over affairs of the Bank. During the previous year a new Board subcommittee named "Information and Communication Technology Committee" was formed to oversee the information technology aspect of the Bank. The subcommittee composition is given under Subcommittee Reports on pages 109 to 115 of this Annual Report.

12.3 Directors' Meetings

Attendance of Directors at Board and subcommittee meetings are given on page 99 of this Annual Report.

12.4 Directors' Interests in Contracts

Directors' interests in contracts with the Bank, both direct and indirect are given on pages 139 to 141. These interests have been declared at meetings of the Board of Directors. Except for the contracts given therein the Directors do not have any direct or indirect interest in other contracts or proposed contracts with the Bank.

12.5 Directors' Interests in Debentures Issued by the Bank/ Group

There were no debentures registered in the name of any Director.

12.6 Directors' Allowances/ Fees

The allowances/ fees payable to the Board of Directors are made in terms of the provisions/ contents in the Public Enterprises Circular No. PED 3/2015 dated 17 June 2015, issued by the Department of Public Enterprises of the Ministry of Finance and Bank of Ceylon Ordinance No. 53 of 1938 and its amendments. The Directors' remuneration in respect of the Group

and the Bank for the financial year ended 31 December 2019 are given in Note 16 on page 188.

13. Risk Management and System of Internal Controls

13.1 Risk Management

The Board of Directors assumes overall responsibility for managing risks. The specific measures taken by the Bank in mitigating the risks are detailed on pages 44 to 61 of this Annual Report.

13.2 Internal Control

The Board of Directors has ensured the implementation of an effective and comprehensive system of internal controls in the Bank through the Audit Committee. The Audit Committee helps the Board of Directors to discharge their fiduciary responsibilities. The Report of the Chairman of the Audit Committee is contained on pages 109 to 110 of this Annual Report. The Directors are satisfied with the effectiveness of the system of internal controls during the year under review and up to the date of the Annual Report and the Financial Statements.

The Board has issued a statement on the internal control mechanism of the Bank as per Direction No. 3 (8) (ii) (b) of Banking Act Direction No. 11 of 2007 on Corporate Governance for licensed commercial banks. The above report is given on pages 142 and 143 of this Annual Report. The Board has confirmed that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external reporting purposes has been done in accordance with relevant accounting principles and regulatory requirements.

The Board has obtained an Assurance Report from the Auditor General on Directors' Statement on Internal Control and it is given on page 144 of this Annual Report.

14. Corporate Governance

The Board of Directors is committed towards maintaining an effective corporate governance structure and process. The financial, operational and compliance functions of the Bank are directed and controlled effectively within corporate governance practices. These procedures and practices that are in conformity with Corporate Governance Directions issued by the Central Bank of Sri Lanka under Banking Act Direction No. 11 of 2007 and the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka, are described in the section titled "Corporate Governance" appearing on pages 100 to 108 of this Annual Report. The Board has obtained a report from the Auditor General on the compliance with the provisions of the above mentioned Direction No. 11 of 2007.

15. Human Resources

One of the most valuable assets of the Bank is its employees and it is important for the Bank to develop them. Several measures were taken to strengthen the much valued human capital in order to optimise their contribution towards the achievement of corporate objectives. The Bank's human resource management policies and practices are detailed in the section titled "Human capacity building" on pages 90 to 94 of this Report.

16. Compliance with Laws and Regulations

The Directors, to the best of their knowledge and belief confirm that the Group has not engaged in any activities contravening the laws and regulations.

Details of the Bank's compliance with laws and regulations are given on pages 339 to 390 under the section titled "Compliance Annexes" which forms an integral part of this Report.

17. Outstanding Litigation

In the opinion of the Directors and as confirmed by the Bank's lawyers the litigation currently pending against the Bank will not have a material impact on the reported financial results or future operations of the Bank.

18. Statutory Payments

The Board confirms that all statutory payments due to the Government and in relation to employees have been made on time.

19. Environmental Protection

The Bank has not engaged in any activity, which has caused detriment to the environment. Further, precautions taken to protect the environment are given in the section titled "Environmental Sustainability" on pages 83 to 86.

20. Post-Balance Sheet Events

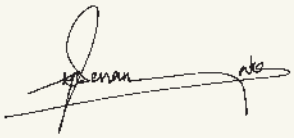
The Directors are of the view that no material events have arisen in the interval between the end of the financial year and the date of this Report that would require adjustments or disclosures.

Annual Report of the Directors on the State of Affairs of Bank of Ceylon

21. Going Concern

The Directors are confident that the resources of the Bank are adequate to continue its operations. Therefore, it has applied the going concern basis in preparing the Financial Statements.

By order of the Board,



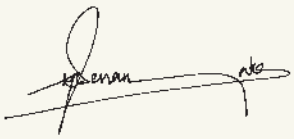
Janaki Senanayake Siriwardane
Secretary
Bank of Ceylon/ Secretary to the Board

24 March 2020
Colombo.

Note: The following changes were made to the Board of Bank of Ceylon after the Financial Statement sign-off date-

1. Mr A C M Fernando was appointed to the Board w.e.f 21 April 2020

2. Mr R M P Rathnayake was appointed to the Board w.e.f 28 April 2020 in place of Ms Visakha Amarasekere



Janaki Senanayake Siriwardane
Secretary
Bank of Ceylon/ Secretary to the Board

06 May 2020
Colombo.

Directors' Interest in Contracts

Related party disclosures as required by the Sri Lanka Accounting Standard - LKAS 24 - "Related Party Disclosures" are detailed in Note 59 to the Financial Statements on pages 300 to 305.

In addition, the transactions that have been carried out in the ordinary course of business in an arm's length basis with entities where the Chaiman or a Director of the Bank is the Chaiman or a Director of such entities, are detailed below:

As at the year end date, 31 December 2019, there was no Board. However, the Board of Directors was appointed during January 2020 and for the better disclosure purpose, Directors' interest in contracts are disclosed as follows;

- for the Directors who held the office during the year 2019, interest in contracts have been shown as of the year end 2019.
- for the current Directors, interest in contracts have been shown as of sign-off date of these Financial Statements.

Company	Relationship	Nature of Transactions	Limit	Balance/ Amount outstanding	Balance/ Amount outstanding as at 31.12.2018
			'000	'000 **	'000
Directors' Interest In Contracts - Current Board					
Mr Kanchana Ratwatte					
(Mr Kanchana Ratwatte appointed as the Chairman of Bank of Ceylon w.e.f. 2 January 2020) (**Exposure as at 24 March 2020)					
First Guardian Equities	Director	Current accounts		10,265	
EW Information Systems Ltd	Director	Savings accounts		10	
		Loans		224,581	
		Letter of Credit		10,462	
Toppan Forms (Colombo) Ltd	Director	Overdrafts	40,000	40,443	
		Loans		68,865	
		Trust receipt	40,000	8,144	
		Letter of guarantee	30,000	8,941	
		Shipping guarantee		10,895	
Ms Visakha Amarasekere					
(Ms Visakha Amarasekere as a Director of Bank of Ceylon w.e.f. 11 January 2020) (**Exposure as at 24 March 2020)					
Ceylon Fertilizer Corporation	Director	Current accounts		841	
		Time Deposits		1,155,786	
		Letter of Credit		288	
		Acceptance		306,262	
Mr G Harsha Wijayawardhana					
(Mr G Harsha Wijayawardhana appointed as a Director w.e.f. 14 January 2020) (**Exposure as at 24 March 2020)					
LK Domain Registry	Founding Director	Current accounts		245	122
		Time Deposits		60,000	70,000
Mr Hasitha Premaratne					
(Mr Hasitha Premaratne appointed as a Director w.e.f. 14 January 2020) (**Exposure as at 24 March 2020)					
Brandix Apparel Limited	Director	Current accounts		266,896	
		Overdrafts	10,000		
		Current accounts		USD 56	
		Overdrafts	USD 3,350	*10,460	

* LKR equivalent amount

Note: Currencies not specifically mentioned are in LKR

Directors' Interest in Contracts

Company	Relationship	Nature of Transactions	Limit	Balance/ Amount outstanding	Balance/ Amount outstanding as at 31.12.2018
			'000	'000 **	'000
		Overdrafts	USD 3,350	USD 979 *182,988	
		Time Deposits		USD 12,000 *2,244,000	
		Letter of guarantee		3,856	
Brandix Apparel Solutions Ltd	Director	Current accounts		27,254	
		Overdrafts		USD 891 *166,537	
Kuruwita Textile Mills Limited	Director	Current accounts		318	
Ocean Lanka (Private) Limited	Alternate Director	Savings accounts		USD 145 *27,148	
		Current accounts Overdrafts	15,000	50,196	
		Current accounts		USD 2 *281	
		Time Deposits		USD 7,346 *1,373,747	
Teejay Lanka Prints (Private) Limited	Director	Current accounts		18	
		Current accounts Overdrafts	USD 1,000	USD 28 *5,232	
Teejay Lanka PLC	Director	Savings accounts		27,279	
		Current accounts Overdrafts	1,000	29,177	
		Current accounts Overdrafts	USD 1,750	USD 256 *47,882	
		Time Deposits		5,567	
Directors' Interest In Contracts - Previous Boards					
Mr Ronald C Perera PC					
(Mr Ronald C Perera resigned during 2018 and re-appointed as the Chairman of Bank of Ceylon w.e.f. 12 February 2019 and resigned w.e.f. 26 November 2019) (**Exposure as at 31 December 2019)					
Bank of Ceylon (UK) Limited	Chairman	Current accounts		17	
		Nostro accounts		USD 1,170 *212,517	USD 602 *110,015
				GBP 753 *179,592	GBP 66 *15,303
				EURO 349 *71,156	EURO 687 *143,578
		Placements		USD 8,000 *1,453,072	USD 8,000 *1,461,999
				GBP 129,000 *30,761,108	GBP 127,900 *29,665,393
				EURO 750 *152,750	EURO 1,000 *208,993

* LKR equivalent amount

Note: Currencies not specifically mentioned are in LKR

Company	Relationship	Nature of Transactions	Limit	Balance/ Amount outstanding	Balance/ Amount outstanding as at 31.12.2018
			'000	'000 **	'000
Hotels Colombo (1963) Limited	Acting Chairman	Current accounts		4,931	5,338
		Overdrafts	7,500		
		Time Deposits		175,456	166,896
		Other receivables		146,487	81,126
Mr P A Schaffter					
(Mr P A Schaffter appointed as a Director of Bank of Ceylon w.e.f. 26 February 2019 and resigned w.e.f. 27 November 2019)					
(**Exposure as at 31 December 2019)					
Janashakthi Insurance PLC	Chairman	Current accounts		12,441	12
Janashakthi PLC	Director	Current accounts		4,250	4,544
		Loans		81,984	107,604
Orient Finance PLC	Director	Overdrafts	50,000	38,745	10,941
		Loans		483,778	794,222
Pan Nippon Development (Private) Ltd	Director	Current accounts		-	47
Dunamis Capital PLC	Director	Current accounts		346	
		Loans		750,000	
First Capital Holidings PLC	Director	Current accounts		298	
		Loans		175,000	
Mr K A Vimalenthirarajah					
(Mr K A Vimalenthirarajah appointed as a Director of Bank of Ceylon w.e.f. 27 February 2019 and resigned w.e.f. 11 January 2020)					
(**Exposure as at 31 December 2019)					
Ceylon Petroleum Corporation	Director	Savings accounts		2,351,017	
		Current accounts		765	
		Loans		148,398,030	
Sri Lanka Insurance Corporation	Director	Savings accounts		743,163	
		Current accounts		173,967	
		Overdrafts		7,221	
		Time Deposits		755,474	
		Letter of Credit		7,154	
SAARC Development Fund	Director	Savings accounts		USD 4 *755	
		Time Deposits		USD 187,551 *34,065,609	
Board of Investment of Sri Lanka	Director	Savings accounts		15,748	
		Current accounts		236,145	

* LKR equivalent amount

Note: Currencies not specifically mentioned are in LKR

Directors' Statement on Internal Control Over Financial Reporting

Responsibility

In line with the Banking Act Direction No. 11 of 2007, section 3(8)(ii)(b), the Board of Directors presents this report on Internal Control over Financial Reporting.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at Bank of Ceylon, ("the Bank"). In considering such adequacy and effectiveness, the Board recognizes that the business of banking requires reward to be balanced with risk on a managed basis and as such the internal control systems are primarily designed with a view to highlighting any deviations from the limits and indicators which comprise the risk appetite of the Bank. In this light, the system of internal controls can only provide reasonable, but not absolute assurance, against material misstatement of financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal control over financial reporting as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and is in accordance with the guidance for Directors of banks on the Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control over financial reporting taking into account principles for the assessment of internal control system as given in that guidance.

The Board is of the view that the system of internal controls over financial reporting in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

Key features of the process adopted in reviewing the design and effectiveness of the internal control system over financial reporting

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various committees are established by the Board to assist the Board in ensuring the effectiveness of bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.

- The Internal Audit Division of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Board Audit Committee. Findings of the Internal Audit Division are submitted to the Board Audit Committee for review at their periodic meetings.

- The Board Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Division, the external auditors, regulatory authorities and the management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of the same. All minutes of the Board Audit Committee meetings are forwarded to the Board. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report on pages 109 to 110.

- In assessing the internal control system over financial reporting, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn were observed and checked by the Internal Audit Division for suitability of design and effectiveness on an ongoing basis. The assessment did not include subsidiaries of the Bank.

- The Bank adopted the new Sri Lanka Accounting Standards comprising LKAS and SLFRS in 2012. The processes and procedures initially applied to adopt the aforementioned accounting standards were further strengthened during the subsequent years based on the feedback received from internal and external auditors, regulators and the Board Audit Committee.

- With effect from 1 January 2018, the Bank adopted the Sri Lanka Accounting Standard – SLFRS 9 - "Financial Instruments". The processes required to comply with the requirements of SLFRS 9 - "Financial Instruments" were introduced and implemented with the support of an external consultant.

- The Bank is in the process of implementing an automated financial reporting process in order to comply with the requirements of recognition, measurement, classification and disclosure of the financial instruments more effectively and efficiently and to facilitate the "Financial Statement Closure" process. The automated solution enables the calculation of impairment provisions under SLFRS 9 - "Financial Instruments" and facilitates the fulfilling of internal and external reporting requirements.

- The Bank adopted the Sri Lanka Accounting Standard – SLFRS 16 - "Leases" with effect from 1 January 2019. The Board has taken necessary steps to implement the requirements of the standard and these have been embedded to the existing control environment.

- A steering committee composing of various disciplines of the Bank monitors and coordinates the transition process relating to accounting standards and implementation of the automated financial reporting solution.

- The Bank is continuously monitoring and updating procedures inter-alia relating to impairment of loans and advances of the Bank and foreign branches, Financial Statement disclosures, risk management, related party transactions and all other significant banking activities based on the changing regulatory and market conditions. The requirements under SLFRSs/ LKASs have been communicated to the relevant stakeholders including the Board and senior management through training and awareness sessions.

- The comments made by the external auditors in connection with internal control system over financial reporting in previous years were reviewed during the year and appropriate steps have been taken to rectify them. The recommendations made by the external auditors in 2019 in connection with the internal control system over financial reporting will be addressed in the future.

Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide a reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of Central Bank of Sri Lanka.

By order of the Board

Chairman - Audit Committee

Chairman

Director

Colombo, Sri Lanka
24 March 2020

Independent Assurance Report

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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

මගේ අංකය / எனது இல. / My No. BAF/B/BOC/IC/2019 | ඔබේ අංකය / உமது இல. / Your No. | දිනය / திகதி / Date 28 May 2020

The Chairman

Bank of Ceylon

Assurance Report of the Auditor General to the Board of Directors on the Directors' Statement on Internal Control of Bank of Ceylon

Introduction

This report is to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") of Bank of Ceylon included in the annual report for the year ended 31 December 2019.

Management's Responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the Section 3(8) (ii) (b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

My Responsibility and Compliance with SLSAE 3050 (Revised)

My responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the Bank of Ceylon.

I conducted this engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 (Revised), Assurance Report for Banks on Directors' Statement on Internal Control, issued by the institute of Chartered Accountants of Sri Lanka.

This Standard required that I plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material aspects, the Statement on Internal Control.

For the purpose of this engagement, I am not responsible for updating or reissuing any reports, nor have I, in the course of this engagement, performed an audit or review of the financial information.

Summary of Work Performed

I conducted my engagement to assess whether the Statement is supported by the documentation prepared by or for Directors; and appropriately reflected the process the Directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

The procedures performed were limited primarily to inquiries of Bank personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3050 (Revised) does not require me to consider whether the Statement covers all risk and controls, or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 (Revised) also does not require me to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The procedures selected depend on my judgement, having regard to my understanding of the nature of the Bank, the event or transaction in respect of which the Statement has been prepared.

I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Conclusion

Based on the procedures performed, nothing has come to my attention that causes me to believe that the Statement included in the Annual Report is inconsistent with my understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Bank.

W P C Wickramarathne
Auditor General

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව | இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை. | No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.
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Directors' Responsibility for Financial Reporting

Directors' Responsibility for Financial Reporting

This Statement by the Board of Directors is made especially to distinguish the respective responsibilities of the Directors and Auditors in relation to financial reporting. The responsibility of Directors in relation to financial reporting of the Bank of Ceylon and the Group is set out in the following statement.

Financial Statements

In terms of the provisions of Bank of Ceylon Ordinance No. 53 of 1938 and its amendments read with the Banking Act No. 30 of 1988 and its amendments and Directions, the Directors of the Bank are responsible for ensuring that the Bank maintains proper books of accounts, which disclose with reasonable accuracy at any time, the financial position of the Bank and prepares proper Financial Statements for each financial year, giving a true and fair view of the state of affairs of the Bank.

The Directors affirm that in preparing the Financial Statements for the year 2019 presented in this Annual Report, the most appropriate accounting policies have been used and applied consistently supported by judgments and estimates that are reasonable and prudent. Material departures, if any, have been disclosed and explained.

The Financial Statements for the year 2019 presented in this Annual Report, are in conformity with the requirements of the Bank of Ceylon Ordinance No. 53 of 1938 and its amendments, Banking Act No. 30 of 1988 and its amendments and Directions issued under it, the Sri Lanka Accounting Standards and other regulatory requirements. These Financial Statements reflect a true and fair view of the state of affairs of the Bank of Ceylon and the Group as at 31 December 2019.

Going Concern

The Directors are of the view that the Bank and the Group have adequate resources to continue in business in the foreseeable future. Accordingly, they have continued to adopt the going concern basis in preparing the Financial Statements.

Internal Controls, Risk Management and Compliance

The Directors are also responsible for the system of internal financial controls and risk management and place considerable importance on maintaining a strong control environment to protect and safeguard the Bank's assets and prevent fraud and mismanagement.

Whilst inherent and residual risks cannot be completely eliminated, the Bank endeavors to minimise them by ensuring that appropriate infrastructure, controls, systems and ethical behavior are applied and practiced within predetermined procedures and limits/ boundaries.

A report by the Directors on the Bank's internal control mechanism, confirming that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, is given on page 142 and 143 of this Annual Report.

The Directors and Management have put in place, risk management policies and guidelines. Management committees have been established to monitor and manage material risks. Arrangements are in place to ensure that reports on risk are submitted to the Integrated Risk Management Committee on a quarterly basis for discussion. Compliance with applicable laws, regulations, rules, directives and guidelines are monitored by the Independent Integrated Risk Management Division and reported to the Board.

The Audit Committee and Integrated Risk Management Committee, on an ongoing basis, have acted to strengthen the effectiveness of internal controls and risk management procedures. The reports of the Audit Committee and Integrated Risk Management Committee are included on pages 109 to 112 of this Annual Report.

Audit Report

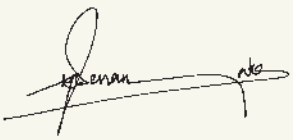
Pursuant to provisions of Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka, the Auditor General is the Auditor of the Bank and issues the final opinion on the Financial Statements of the Bank. The responsibilities of the Auditor in relation to the Financial Statements are set out in the Report of the Auditor General on pages 146 to 149 of this Annual Report. The Auditor General's certification on the effectiveness of the Bank's internal control mechanism is given on page 144 of this Annual Report.

Compliance

The Directors to the best of their knowledge and belief, are satisfied that all statutory payments, in relation to all relevant regulatory and statutory authorities, which were due and payable by the Bank and its subsidiaries as at the Statement of Financial Position date, have been paid or where relevant provided for.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board,



Janaki Senanayake Siriwardane
Secretary – Bank of Ceylon/Secretary to the Board

24 March 2020
Colombo

Report of the Auditor General

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தேசிய கணக்காய்வு அலுவலகம்
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The Chairman

Bank of Ceylon

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Bank of Ceylon and its subsidiaries for the year ended 31 December 2019 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. Financial Statements

1.1 Opinion

The audit of the Financial Statements of the Bank of Ceylon (the "Bank") and the Consolidated Financial Statements of the Bank and its subsidiaries ("Group") for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the Financial Statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018.

The Bank has been exempted from the provisions of Part II of the Finance Act, No. 38 of 1971 by an Order of then Minister of Finance published in the Government Gazette No. 715 of 14 May 1992 by virtue of powers vested in him by Sections 5(1) of the said Finance Act. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying Financial Statements of the Bank and the Group give a true and fair view of the financial position of the Bank and the Group as at 31 December 2019, and of their financial performance and their cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Key Audit Matters

Key Audit Matters are those matters that, in my professional judgment, were of most significance in my audit of the Financial Statements of the Bank and the Consolidated Financial Statements of the Group of the current period. These matters were addressed in the context of my audit of the Financial Statements of the Bank and the Consolidated Financial Statements of the Group as a whole, and in forming my audit opinion thereon, and I do not provide a separate opinion on these matters.

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Key Audit Matter	How my audit addressed the Key Audit Matter
Impairment allowance for loans and advances My audit considered impairment allowance for loans and advances as a Key Audit Matter. The materiality of the reported amounts for loans and advances (and impairment allowance thereof), involvement of complex calculations and the subjectivity associated with management's impairment estimation underpinned my basis for considering it as a Key Audit Matter. As at 31 December 2019, 64% of its total assets of the Group consisted of loans and advances amounting to LKR 1,581 billion (Note 27.1), net of impairment allowance of LKR 102 billion (Note 27.2). Significant estimates and assumptions used by the management in such calculations, their sensitivity and the basis for impairment allowance are disclosed in Notes 4.5.11 and 27.	My audit procedures were designed to obtain sufficient and appropriate evidences to assess the reasonableness of the impairment allowance and included the following, amongst others; - I evaluated design effectiveness of controls over estimation of impairment of loans and advances, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committees and management. - I test-checked the underlying calculations and data. - In addition to the above, following focused procedures were performed: For loans and advances - individually assessed for impairment: - I assessed the main criteria used by the management for determining whether an impairment event had occurred; - Where impairment indicators existed, I assessed the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held. I also compared the actual recoveries against previously estimated amounts of future recoveries, on a sample basis. - Where loans and advances granted to customers with a higher risk of credit loss, I assessed the main criteria used by the management for determining whether an impairment event had occurred and the reasonableness of management estimation of such additional impairment. For loans and advances- collectively assessed for impairment: - I tested the completeness, relevance and accuracy of the underlying information in loans and advances used in the impairment calculations by agreeing details to the Group's source documents, information in IT systems and re-performing the calculations. - I also considered reasonableness of macro-economic and other factors used by management in their judgmental overlays for various types of loan portfolios, by comparing them with publicly available data and information sources. - I assessed the adequacy of the related Financial Statement disclosures as set out in Notes 4.5.11, 14 and 27.

Report of the Auditor General

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Key Audit Matter	How my audit addressed the Key Audit Matter
Preparation of financial statements inclusive of significant disclosures and related IT systems and Controls The Bank uses the output of multiple IT systems in its preparation process of financial statements and key disclosures. The process of preparing key disclosures involved generation of multiple system reports, collation, analysis and spread sheet based further calculation. The preparation process of financial statements and disclosures that depends on manual, automated and IT dependent controls over the said process was considered by me as an area of significant attention and accordingly I considered this to be a Key Audit Matter.	My audit procedures included the following, amongst others: • Understanding and evaluating design effectiveness of the key automated, IT dependent and manual controls implemented by management over generation of multiple system reports and the procedures around collation and analysis of required information on which the significant financial statements disclosures are based. • Test-checking; - the reports used to generate significant disclosures for accuracy and completeness; - source data with those of the reports generated from the related systems; - calculations made by management; - reasonableness of categorizations made by management; • Testing material post-closing adjustments to appropriate supporting evidence • Assessing if the significant disclosures are being made in line with applicable accounting standards.

1.4 Other information included in the Bank's 2019 Annual Report

Other information consists of the information included in the Bank's 2019 Annual Report, other than the financial statements and our Auditors' Report thereon. Management is responsible for the other information. The Bank's 2019 Annual Report is expected to be made available to us after the date of this Auditors' Report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

1.5 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Group is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic Financial Statements to be prepared of the Group.

1.6 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion.

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Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Report on Other Legal and Regulatory Requirements

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Bank as per the requirement of section 12 (a) of National Audit Act, No. 19 of 2018.
- The Financial Statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The Financial Statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;

- to state that any member of the governing body of the Bank has any direct or indirect interest in any contract entered into by the Bank which are out of the normal course of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018;
- to state that the Bank has not complied with any applicable written law, general and special directions issued by the governing body of the Bank as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018;
- to state that the Bank has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018;
- to state that the resources of the Bank had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.

W.P.C. Wickramaratne
Auditor General

Statement of Profit or Loss

		Bank			Group		
For the year ended 31 December	Note	2019	Restated 2018	Change	2019	Restated 2018	Change
		LKR '000	LKR '000	%	LKR '000	LKR '000	%
Total income	7	**239,116,469**	**221,020,693**	**8.2**	**248,692,003**	**229,351,138**	**8.4**
Interest income		**220,477,174**	195,393,970	12.8	**227,377,777**	201,809,401	12.7
Less : Interest expenses		**145,330,696**	129,835,996	11.9	**149,082,891**	133,119,922	12.0
Net interest income	8	**75,146,478**	**65,557,974**	**14.6**	**78,294,886**	**68,689,479**	**14.0**
Fee and commission income		**14,569,762**	12,917,022	12.8	**14,969,583**	13,305,501	12.5
Less : Fee and commission expenses		**2,472,955**	2,246,512	10.1	**2,512,206**	2,260,623	11.1
Net fee and commission income	9	**12,096,807**	**10,670,510**	**13.4**	**12,457,377**	**11,044,878**	**12.8**
Net gains/ (losses) from trading	10	**2,535,301**	3,431,822	(26.1)	**2,555,256**	3,468,191	(26.3)
Net fair value gains/(losses) from financial instruments at fair value through profit or loss	11	**321,789**	(681,365)	147.2	**342,807**	(717,194)	147.8
Net gains/(losses) from derecognition of financial assets	12	**282,260**	152,029	85.7	**292,812**	153,240	91.1
Net other operating income	13	**930,183**	9,807,215	(90.5)	**3,153,768**	11,331,999	(72.2)
Total operating income		**91,312,818**	**88,938,185**	**2.7**	**97,096,906**	**93,970,593**	**3.3**
Less : Impairment charge/ (reversal) for loans and other losses	14	**18,597,725**	15,040,961	23.6	**18,719,243**	15,176,472	23.3
Net operating income		**72,715,093**	**73,897,224**	**(1.6)**	**78,377,663**	**78,794,121**	**(0.5)**
Less : Operating expenses							
Personnel expenses	15	**18,365,029**	17,351,465	5.8	**20,213,082**	19,076,846	6.0
Depreciation and amortisation expenses		**3,704,004**	2,200,294	68.3	**3,775,144**	2,813,469	34.2
Other expenses	16	**10,440,209**	11,341,068	(7.9)	**12,911,506**	13,133,953	(1.7)
Total operating expenses		**32,509,242**	**30,892,827**	**5.2**	**36,899,732**	**35,024,268**	**5.4**
Operating profit/ (loss) before Taxes on financial services		**40,205,851**	**43,004,397**	**(6.5)**	**41,477,931**	**43,769,853**	**(5.2)**
Less : Taxes on financial services	17.1	**10,520,624**	9,588,312	9.7	**10,850,549**	9,818,020	10.5
Operating profit/ (loss) after Taxes on financial services		**29,685,227**	**33,416,085**	**(11.2)**	**30,627,382**	**33,951,833**	**(9.8)**
Share of profits/ (losses) of associate companies, net of tax	18	**-**	-	-	**48,187**	9,269	419.9
Profit/ (loss) before income tax		**29,685,227**	**33,416,085**	**(11.2)**	**30,675,569**	**33,961,102**	**(9.7)**
Less : Income tax expense	17.2	**6,587,192**	12,413,425	(46.9)	**6,928,234**	12,922,017	(46.4)
Profit/ (loss) for the year		**23,098,035**	**21,002,660**	**10.0**	**23,747,335**	**21,039,085**	**12.9**
Profit attributable to :							
Equity holder of the Bank		**23,098,035**	21,002,660	10.0	**23,452,040**	21,056,794	11.4
Non-controlling interest		**-**	-	-	**295,295**	(17,709)	1,767.5
Profit/ (loss) for the year		**23,098,035**	**21,002,660**	**10.0**	**23,747,335**	**21,039,085**	**12.9**
Earnings per share and Dividend per share	19						
Basic earnings per share (LKR)		**971.85**	1,126.52	(13.7)	**986.74**	1,129.42	(12.6)
Diluted earnings per share (LKR)		**923.92**	986.61	(6.4)	**938.08**	989.15	(5.2)
Dividend per share (LKR)		**14.58**	259.95	(94.4)	**14.58**	259.95	(94.4)

The Notes to the Financial Statements from pages 160 to 338 form an integral part of these Financial Statements.

Statement of Comprehensive Income

	Bank			Group		
For the year ended 31 December	2019	Restated 2018	Change	2019	Restated 2018	Change
	LKR '000	LKR '000	%	LKR '000	LKR '000	%
Profit/ (loss) for the year	23,098,035	21,002,660	10.0	23,747,335	21,039,085	12.9
Items that will be reclassified to the profit or loss						
Exchange differences on translation of foreign operations	(142,361)	1,110,869	(112.8)	(55,239)	1,453,215	(103.8)
Net gains/ (losses) on investments in debt instruments measured at fair value through other comprehensive income	76,949	(271,351)	128.4	79,550	(285,389)	127.9
Net (gains)/ losses on investment in financial assets at fair value through OCI reclassification to profit or loss	231,126	(15,232)	1,617.4	231,126	(15,232)	1,617.4
Deferred tax effect on above	(80,282)	-	-	(80,282)	-	-
Share of other comprehensive income of Associate companies, net of tax	-	-	-	(7,078)	3,464	(304.3)
Total items that will be reclassified to the profit or loss	85,432	824,286	(89.6)	168,077	1,156,058	(85.5)
Items that will not be reclassified to profit or loss						
Change in fair value on investments in equity instruments designated at fair value through other comprehensive income	54,970	(410,168)	(113.4)	14,446	(823,954)	(101.8)
Deferred tax effect on above	(144,356)	(6,711)	2,051.0	(144,356)	(6,711)	2,051.0
Gains/ (Losses) of derecognition of investments in equity instruments designated at fair value through other comprehensive income	15,295	-	-	15,295	-	-
Changes in revaluation surplus/ (deficit)	-	(337,522)	(100.0)	790,887	147,397	436.6
Deferred tax effect on above	-	94,506	(100.0)	(221,448)	(41,271)	436.6
Net actuarial gains/ (losses) on defined benefit plans	(12,666,432)	(1,818,864)	596.4	(12,704,271)	(1,790,314)	609.6
Deferred tax effect on above	16,379	3,050	437.0	34,000	(9,530)	(456.8)
Total items that will not be reclassified to the profit or loss	(12,724,144)	(2,475,709)	414.0	(12,215,447)	(2,524,383)	383.9
Other comprehensive income for the year, net of tax	(12,638,712)	(1,651,423)	665.3	(12,047,370)	(1,368,325)	780.4
Total comprehensive income for the year	10,459,323	19,351,237	(46.0)	11,699,965	19,670,760	(40.5)
Attributable to:						
Equity holder of the Bank	10,459,323	19,351,237	(46.0)	11,382,536	19,691,187	(42.2)
Non-controlling interest	-	-	-	317,429	(20,427)	(1,654.0)
Total comprehensive income for the year	10,459,323	19,351,237	(46.0)	11,699,965	19,670,760	(40.5)

The Notes to the Financial Statements from pages 160 to 338 form an integral part of these Financial Statements.

Statement of Financial Position

		Bank			Group		
As at 31 December	Note	2019	Restated 2018	Change	2019	Restated 2018	Change
		LKR '000	LKR '000	%	LKR '000	LKR '000	%
Assets							
Cash and cash equivalents	21	**64,868,895**	78,447,577	(17.3)	**64,829,735**	78,558,031	(17.5)
Balances with Central Banks	22	**54,594,436**	65,680,371	(16.9)	**54,594,436**	65,680,371	(16.9)
Placements with banks	23	**44,476,343**	40,450,089	10.0	**47,911,621**	41,681,910	14.9
Securities purchased under resale agreements	24	**2,179,449**	-	-	**3,981,886**	1,436,068	177.3
Derivative financial instruments	25	**132,090**	1,205,657	(89.0)	**132,090**	1,205,657	(89.0)
Financial assets recognised through profit or loss - measured at fair value	26	**10,055,415**	9,277,298	8.4	**11,052,769**	9,583,327	15.3
Financial assets at amortised cost							
- loans and advances	27	**1,549,804,871**	1,429,107,181	8.4	**1,580,949,025**	1,460,618,588	8.2
- debt and other instruments	28	**572,747,809**	551,839,449	3.8	**573,977,330**	553,033,150	3.8
Financial assets measured at fair value through OCI	29	**14,236,090**	16,699,582	(14.8)	**17,016,553**	19,338,783	(12.0)
Investment in subsidiary companies	30	**6,513,048**	6,513,048	-	**-**	-	-
Investment in associate companies	31	**92,988**	92,988	-	**447,035**	441,226	1.3
Investment properties	32	**2,648,784**	2,765,856	(4.2)	**117,276**	120,182	(2.4)
Property, Plant and Equipment	33	**25,579,065**	24,178,155	5.8	**39,486,380**	37,762,509	4.6
Right of Use Assets/ Leasehold properties	34	**3,479,937**	98,899	3,418.7	**2,187,622**	130,500	1,576.3
Intangible assets	35	**1,127,007**	1,238,186	(9.0)	**1,361,858**	1,456,630	(6.5)
Deferred tax assets	36	**-**	-	-	**511,936**	3,052	16,673.8
Other assets	37	**62,580,402**	57,236,737	9.3	**63,926,060**	58,549,569	9.2
Total assets		**2,415,116,629**	**2,284,831,073**	**5.7**	**2,462,483,612**	**2,329,599,553**	**5.7**
Liabilities							
Due to banks	38	**2,669,407**	2,402,468	11.1	**2,932,950**	2,515,998	16.6
Securities sold under repurchase agreements	39	**34,183,210**	97,399,359	(64.9)	**34,880,507**	97,423,302	(64.2)
Derivative financial instruments	40	**106,677**	509,018	(79.0)	**106,677**	509,018	(79.0)
Financial liabilities at amortised cost							
- due to depositors	41	**2,005,211,794**	1,770,974,846	13.2	**2,025,204,033**	1,789,924,369	13.1
- other borrowings	42	**137,833,543**	201,792,174	(31.7)	**145,095,262**	207,053,674	(29.9)
Debt securities issued	43	**-**	-	-	**2,107,810**	4,105,681	(48.7)
Current tax liabilities	44	**-**	3,922,189	(100.0)	**138,677**	4,039,380	(96.6)
Deferred tax liabilities	36	**4,592,021**	5,073,526	(9.5)	**7,182,866**	7,762,214	(7.5)
Insurance provision - Life	45	**-**	-	-	**511,091**	575,625	(11.2)
Insurance provision - Non life	45	**-**	-	-	**358,504**	366,618	(2.2)
Other liabilities	46	**34,015,688**	19,760,430	72.1	**34,758,044**	21,970,739	58.2
Subordinated liabilities	48	**54,221,552**	50,827,239	6.7	**54,211,542**	50,484,487	7.4
Total liabilities		**2,272,833,892**	**2,152,661,249**	**5.6**	**2,307,487,963**	**2,186,731,105**	**5.5**

		Bank			Group		
As at 31 December	Note	2019	Restated 2018	Change	2019	Restated 2018	Change
		LKR '000	LKR '000	%	LKR '000	LKR '000	%
Equity							
Share capital	49	**25,000,000**	25,000,000	-	**25,000,000**	25,000,000	-
Permanent reserve fund	50	**13,383,000**	12,890,000	3.8	**13,383,000**	12,890,000	3.8
Retained earnings	51	**87,689,480**	78,061,681	12.3	**89,140,565**	79,179,548	12.6
Other reserves	52	**16,210,257**	16,218,143	0.0	**25,686,997**	25,103,751	2.3
Total equity attributable to equity holder of the Bank		**142,282,737**	**132,169,824**	**7.7**	**153,210,562**	**142,173,299**	**7.8**
Non-controlling interest	53	**-**	-	-	**1,785,087**	695,149	156.8
Total equity		**142,282,737**	**132,169,824**	**7.7**	**154,995,649**	**142,868,448**	**8.5**
Total liabilities and equity		**2,415,116,629**	**2,284,831,073**	**5.7**	**2,462,483,612**	**2,329,599,553**	**5.7**
Contingent liabilities and commitments	55	**508,217,961**	508,306,808	0.0	**516,632,979**	513,192,419	0.7
Net assets value per share (LKR)	49	**5,691.31**	6,608.49	(13.9)	**6,128.42**	7,108.66	(13.8)

The Notes to the Financial Statements from pages 160 to 338 form an integral part of these Financial Statements.

These Financial Statements give a true and fair view of the state of affairs of Bank of Ceylon and the Group as at 31 December 2019 and its profit for the year then ended.

W P Russel Fonseka
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the Board,

Kanchana Ratwatte
Chairman

Lalith P Withana
Director

D P K Gunasekera
Actg. General Manager

24 March 2020
Colombo

Statement of Changes In Equity

Bank

	Note	Share Capital	Capital Pending Allotment	Permanent Reserve Fund	Available for Sale Reserve
		LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 1 January 2018		**15,000,000**	**5,000,000**	**10,427,000**	**3,718,526**
Impact of adopting SLFRS 9 as at 1 January 2018		-	-	-	(3,718,526)
Deferred tax on transitional adjustment		-	-	-	-
Retirement benefit adjustment as at 1 January 2018		-	-	-	-
Restated opening balance as at 1 January 2018		**15,000,000**	**5,000,000**	**10,427,000**	**-**
Total comprehensive income for the year					
Profit for the year		-	-	-	-
Other comprehensive income, net of tax		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**-**	**-**
Transactions with equity holder, recognised directly in equity					
Dividends for 2018	19.3	-	-	-	-
Transfers to share capital	49.1	5,000,000	(5,000,000)	-	-
Capital infusion during the year	49.1	-	5,000,000	-	-
Transfers to permanent reserve fund	50	-	-	2,463,000	-
Revaluation surplus of disposed property		-	-	-	-
Total transactions with equity holder		**5,000,000**	**-**	**2,463,000**	**-**
Balance as at 31 December 2018		**20,000,000**	**5,000,000**	**12,890,000**	**-**
Balance as at 1 January 2019		**20,000,000**	**5,000,000**	**12,890,000**	**-**
Total comprehensive income for the year					
Profit for the year		-	-	-	-
Other comprehensive income, net of tax		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**-**	**-**
Transactions with equity holder, recognised directly in equity					
Dividends for 2019	**19.3**	-	-	-	-
Transfers to share capital	**49.1**	**5,000,000**	**(5,000,000)**	-	-
Transfers to permanent reserve fund	**50**	-	-	**493,000**	-
Revaluation surplus of disposed property		-	-	-	-
Total transactions with equity holder		**5,000,000**	**(5,000,000)**	**493,000**	**-**
Balance as at 31 December 2019		**25,000,000**	**-**	**13,383,000**	**-**

The Notes to the Financial Statements from pages 160 to 338 form an integral part of these Financial Statements.

Other reserves				
FVOCI Reserve	Other Reserves	Revaluation Reserve	Retained Earnings	Total Equity
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
-	**1,570,810**	**11,966,489**	**63,472,250**	**111,155,075**
2,541,656	-	-	(9,562,471)	(10,739,341)
-	-	-	3,345,868	3,345,868
-	-	-	8,903,395	8,903,395
2,541,656	**1,570,810**	**11,966,489**	**66,159,042**	**112,664,997**
-	-	-	21,002,660	21,002,660
(703,462)	1,110,869	(243,016)	(1,815,814)	(1,651,423)
(703,462)	**1,110,869**	**(243,016)**	**19,186,846**	**19,351,237**
-	-	-	(4,846,410)	(4,846,410)
-	-	-	-	-
-	-	-	-	5,000,000
-	-	-	(2,463,000)	-
-	-	(25,203)	25,203	-
-	**-**	**(25,203)**	**(7,284,207)**	**153,590**
1,838,194	**2,681,679**	**11,698,270**	**78,061,681**	**132,169,824**
1,838,194	**2,681,679**	**11,698,270**	**78,061,681**	**132,169,824**
-	**-**	**-**	**23,098,035**	**23,098,035**
138,407	**(142,361)**	**-**	**(12,634,758)**	**(12,638,712)**
138,407	**(142,361)**	**-**	**10,463,277**	**10,459,323**
-	**-**	**-**	**(346,410)**	**(346,410)**
-	**-**	**-**	**-**	**-**
-	**-**	**-**	**(493,000)**	**-**
-	**-**	**(3,932)**	**3,932**	**-**
-	**-**	**(3,932)**	**(835,478)**	**(346,410)**
1,976,601	**2,539,318**	**11,694,338**	**87,689,480**	**142,282,737**

Statement of Changes In Equity

Group

	Note	Share Capital	Capital Pending Allotment	Permanent Reserve Fund	Available for Sale Reserve
		LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 1 January 2018		**15,000,000**	**5,000,000**	**10,427,000**	**4,760,616**
Impact of adopting SLFRS 9 as at 1 January 2018		-	-	-	(4,760,616)
Deferred tax on transitional adjustments		-	-	-	-
Retirement benefit adjustment as at 1 January 2018		-	-	-	-
Balance as at 1 January 2018		**15,000,000**	**5,000,000**	**10,427,000**	**-**
Total comprehensive income for the year					
Profit for the year		-	-	-	-
Other comprehensive income, net of tax		-	-	-	
Total comprehensive income for the year		**-**	**-**	**-**	**-**
Transactions with equity holders, recognised directly in equity					
Dividends for 2018	19.3	-	-	-	-
Subsidiary dividends to non controlling interest		-	-	-	-
Transfer to share capital	49.1	5,000,000	(5,000,000)	-	-
Capital infusion during the year	49.1	-	5,000,000	-	-
Transfers to permanent reserve fund	50	-	-	2,463,000	-
Revaluation surplus of disposed property		-	-	-	-
Reversal of unclaimed dividend		-	-	-	-
Total transactions with equity holders		**5,000,000**	**-**	**2,463,000**	**-**
Balance as at 31 December 2018		**20,000,000**	**5,000,000**	**12,890,000**	**-**
Balance as at 1 January 2019		**20,000,000**	**5,000,000**	**12,890,000**	**-**
Total comprehensive income for the year					
Profit for the year		-	-	-	-
Other comprehensive income, net of tax		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**-**	**-**
Transactions with equity holders, recognised directly in equity					
Dividends for 2019	**19.3**	-	-	-	-
Subsidiary dividends to non controlling interest		-	-	-	-
Transfer to share capital	**49.1**	5,000,000	(5,000,000)	-	-
Transfers to permanent reserve fund	**50**	-	-	493,000	-
Revaluation surplus of disposed property		-	-	-	-
Loss of control of subsidiaries		-	-	-	-
Reversal of unclaimed dividend		-	-	-	-
Total transactions with equity holders		**5,000,000**	**(5,000,000)**	**493,000**	**-**
Balance as at 31 December 2019		**25,000,000**	**-**	**13,383,000**	**-**

The Notes to the Financial Statements from pages 160 to 338 form an integral part of these Financial Statements.

Attributable to equity holder of the Bank					
Other reserves					
FVOCI Reserve	Other Reserves	Revaluation Reserve	Retained Earnings	Non Controlling Interest	Total Equity
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
-	**2,429,373**	**18,681,265**	**65,100,871**	**927,375**	**122,326,500**
3,583,746	-	-	(10,369,633)	(276,422)	(11,822,925)
-	-	-	3,571,637	77,317	3,648,954
-	-	-	8,903,395	-	8,903,395
3,583,746	**2,429,373**	**18,681,265**	**67,206,270**	**728,270**	**123,055,924**
-	-	-	21,056,794	(17,709)	21,039,085
(1,109,292)	1,453,215	90,647	(1,800,177)	(2,718)	(1,368,325)
(1,109,292)	**1,453,215**	**90,647**	**19,256,617**	**(20,427)**	**19,670,760**
-	-	-	(4,846,410)	-	(4,846,410)
-	-	-	-	(12,694)	(12,694)
-	-	-	-	-	-
-	-	-	-	-	5,000,000
-	-	-	(2,463,000)	-	-
-	-	(25,203)	25,203	-	-
-	-	-	868	-	868
-	**-**	**(25,203)**	**(7,283,339)**	**(12,694)**	**141,764**
2,474,454	**3,882,588**	**18,746,709**	**79,179,548**	**695,149**	**142,868,448**
2,474,454	**3,882,588**	**18,746,709**	**79,179,548**	**695,149**	**142,868,448**
-	**-**	**-**	**23,452,040**	**295,295**	**23,747,335**
97,370	**(55,239)**	**545,047**	**(12,656,682)**	**22,134**	**(12,047,370)**
97,370	**(55,239)**	**545,047**	**10,795,358**	**317,429**	**11,699,965**
-	**-**	**-**	**(346,410)**	**-**	**(346,410)**
-	**-**	**-**	**-**	**(18,490)**	**(18,490)**
-	**-**	**-**	**-**	**-**	**-**
-	**-**	**-**	**(493,000)**	**-**	**-**
-	**-**	**(3,932)**	**3,932**	**-**	**-**
-	**-**	**-**	**-**	**790,999**	**790,999**
-	**-**	**-**	**1,137**	**-**	**1,137**
-	**-**	**(3,932)**	**(834,341)**	**772,509**	**427,236**
2,571,824	**3,827,349**	**19,287,824**	**89,140,565**	**1,785,087**	**154,995,649**

Statement of Cash Flows

For the year ended 31 December	Note	Bank 2019 LKR '000	Bank Restated 2018 LKR '000	Group 2019 LKR '000	Group Restated 2018 LKR '000
Cash flows from operating activities					
Profit before income tax		**29,685,227**	33,416,085	**30,675,569**	33,961,102
Adjustments for:					
Net interest income	8	**(75,146,478)**	(65,557,974)	**(78,294,886)**	(68,689,479)
Dividend income on trading securities	10	**(96,309)**	(101,877)	**(97,092)**	(113,255)
Dividends from subsidiaries and associates	13	**(345,585)**	(309,685)	**-**	-
Share of (profits)/ losses of associate companies, net of tax	18	**-**	-	**(48,187)**	(9,269)
Change in operating assets	54.1	**(123,777,345)**	(287,382,119)	**(126,506,700)**	(293,021,355)
Change in operating liabilities	54.2	**176,310,288**	287,120,953	**180,103,954**	293,183,636
Other non-cash items included in profit before tax	54.3	**23,347,090**	6,773,377	**23,991,568**	7,494,037
Other net gains from investing activities		**604,049**	529,336	**635,619**	563,954
		30,580,937	**(25,511,904)**	**30,459,845**	**(26,630,629)**
Benefit paid from defined benefit plans		**(8,375,632)**	(7,614,197)	**(8,440,117)**	(7,659,660)
Interest received		**154,261,084**	133,563,506	**161,145,280**	140,171,940
Interest paid		**(129,479,004)**	(116,192,643)	**(132,815,732)**	(118,562,407)
Dividends received		**96,309**	101,877	**97,092**	113,255
Net cash from/ (used in) operating activities before income tax		**47,083,694**	**(15,653,361)**	**50,446,368**	**(12,567,501)**
Income tax paid	44	**(10,870,994)**	(10,136,932)	**(11,174,355)**	(10,389,879)
Net cash from/ (used in) operating activities		**36,212,700**	**(25,790,293)**	**39,272,013**	**(22,957,380)**
Cash flows from investing activities					
Net increase in financial assets at amortised cost		**(21,107,321)**	(30,883,224)	**(22,219,557)**	(29,323,684)
Net (increase)/ decrease in financial assets measured at fair value through OCI		**1,923,846**	(292,866)	**2,755,046**	(4,151,530)
Purchase of Property, Plant and Equipment and leasehold properties		**(3,386,478)**	(3,399,832)	**(3,711,782)**	(3,569,916)
Purchase of intangible assets		**(317,483)**	(783,598)	**(394,389)**	(790,386)
Proceeds from sale of Property, Plant and Equipment		**77,270**	101,050	**183,306**	216,988
Dividends received		**659,522**	598,053	**348,398**	325,908
Interest received		**47,770,628**	46,327,625	**48,246,461**	46,696,256
Net cash from/ (used in) investing activities		**25,619,984**	**11,667,208**	**25,207,483**	**9,403,636**

For the year ended 31 December	Note	Bank 2019	Bank Restated 2018	Group 2019	Group Restated 2018
		LKR '000	LKR '000	LKR '000	LKR '000
Cash flows from financing activities					
Net increase/ (decrease) in other borrowings		**(69,863,965)**	24,715,392	**(70,338,490)**	21,670,556
Proceeds from issue of shares		**-**	5,000,000	**-**	5,000,000
Proceeds from issue of debentures		**9,210,000**	12,000,000	**9,210,000**	12,000,000
Payments on redemption of debentures		**(6,166,475)**	(4,090,400)	**(8,165,598)**	(5,650,894)
Dividends paid to Equity holders of the Bank		**(346,410)**	(4,846,410)	**(346,410)**	(4,846,410)
Dividends paid to non-controlling interest		**-**	-	**(18,490)**	(12,694)
Interest payments on borrowings and debt securities		**(8,733,722)**	(12,795,159)	**(9,188,023)**	(13,920,739)
Net cash from/ (used in) financing activities		**(75,900,572)**	**19,983,423**	**(78,847,011)**	**14,239,819**
Net increase/ (decrease) in cash and cash equivalents during the year		**(14,067,888)**	5,860,338	**(14,367,515)**	686,075
Cash and cash equivalents at the beginning of the year		**77,591,846**	71,731,508	**77,588,770**	76,902,695
Cash and cash equivalents at the end of the year		**63,523,958**	**77,591,846**	**63,221,255**	**77,588,770**
Analysis of cash and cash equivalents					
Cash and cash equivalents	21	**64,868,895**	78,447,577	**64,829,735**	78,558,031
Bank overdrafts	38	**(1,344,937)**	(855,731)	**(1,608,480)**	(969,261)
Cash and cash equivalents at the end of the year		**63,523,958**	**77,591,846**	**63,221,255**	**77,588,770**

The Notes to the Financial Statements from pages 160 to 338 form an integral part of these Financial Statements.

Notes to the Financial Statements

1.0 Reporting Entity

1.1 Corporate Information

Bank of Ceylon ("The Bank") is a Government-owned bank domiciled in Sri Lanka, duly incorporated on 1 August 1939 under the Bank of Ceylon Ordinance No. 53 of 1938. It is a licensed commercial bank established under the Banking Act No. 30 of 1988 and amendments thereto. The Registered Office of the Bank is situated at No. 01, "BOC Square", Bank of Ceylon Mawatha, Colombo 01, Sri Lanka. The debentures issued by the Bank are listed on the Colombo Stock Exchange. The staff strength of the Bank as at 31 December 2019 was 8,503 (2018 - 8,724).

1.2 Consolidated Financial Statements

The Consolidated Financial Statements are prepared as at and for the year ended 31 December 2019 comprise the Bank ("Parent"), its Subsidiaries (together referred to as the "Group" and individually as "Group Entities") and the Group's interests in its Associate companies. The Financial Statements of the companies in the Group have a common financial year which ends on 31 December, except the Associate companies, Transnational Lanka Records Solutions (Private) Limited and Ceybank Asset Management Limited. The Bank is the ultimate parent of the Group.

1.3 Principal Activities

1.3.1 Bank

The principal activities of the Bank during the year were, personal banking, corporate banking, development banking, off-shore banking, trade financing, lease financing, primary dealing, investment banking and wealth management, treasury operations, correspondent banking and money remittances, Islamic banking, bancassurance, pawning, credit card facilities, foreign currency operations and other financial services.

1.3.2 Subsidiaries

The principal activities of the Subsidiaries of the Bank are as follows:

Name of the Company	Principal Business Activities
Property Development PLC	Own, maintain and manage, develop and sustain the utility and value of the Bank of Ceylon head office building.
Merchant Bank of Sri Lanka & Finance PLC	Leasing, hire purchase, corporate and retail credit facilities, corporate advisory services, capital market operations, margin trading, micro-financing, agricultural credit facilities, real estate, pawning, Islamic finance and accepting deposits.
BOC Management & Support Services (Private) Limited	Not in operation and in the process of liquidation.
BOC Property Development & Management (Private) Limited	Renting of office space of BOC Merchant Tower in Colombo 03 and Ceybank House in Kandy.
BOC Travels (Private) Limited	Engages in travel related services.
Hotels Colombo (1963) Limited	Provides hotel services.
Ceybank Holiday Homes (Private) Limited	Managing, operating and maintaining of travel rests/ hotels/ rest houses/ guest houses.
MBSL Insurance Company Limited	Carrying on insurance business, both life and non-life insurance.
Koladeniya Hydropower (Private) Limited	Hydropower generation.
Bank of Ceylon (UK) Limited	Authorised commercial bank by the Prudential Regulation Authority and regulated by the Financial Conduct Authority in England and Wales, engages in retail and corporate banking, treasury operations, correspondent banking services and trade financing activities.

1.3.3 Associates

The principal activities of the Associates of the Bank are as follows:

Name of the Company	Principal Business Activities
Ceybank Asset Management Limited	Management of unit trust funds and other institutional and private portfolios.
Lanka Securities (Private) Limited	Registered stock broker, trading in equity and debt securities, equity debt security brokering and undertaking placement of equity and debt securities.
Transnational Lanka Records Solutions (Private) Limited	Renting buildings and hiring other assets.
Southern Development Financial Company Limited	Not in operation and in the process of liquidation.

There were no significant changes in the nature of principal activities of the Bank, Subsidiaries and Associates during the year under review. BOC Management & Support Services (Private) Limited (MSS) has not carried out its core business activities since 2007 and the Board of Directors of the Bank has granted the approval to wind-up the company. Southern Development Financial Company Limited (SDFCL) is also not in operations. The Board of Directors of SDFCL has decided to wind-up the company and it is in the process of liquidation.

2. Directors' Responsibility for Financial Statements

2.1 Preparation and Presentation of the Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Bank and its Subsidiaries and Associates in compliance with the requirements of the Bank of Ceylon Ordinance No. 53 of 1938 and its amendments, Banking Act No. 30 of 1988 and its amendments thereto and Sri Lanka Accounting Standards (SLFRSs and LKASs).

These Financial Statements comprise

- Statement of Profit or Loss
- Statement of Comprehensive Income
- Statement of Financial Position
- Statement of Changes in Equity
- Statement of Cash Flows
- Notes to the Financial Statements

2.2 Approval of Financial Statements

The Financial Statements for the year ended 31 December 2019 were authorised for issue on 24 March 2020 by the Board of Directors.

3. Basis of Preparation

3.1 Statement of Compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank have been prepared in accordance with Sri Lanka Accounting Standards comprising of Sri Lanka Financial Reporting Standards (SLFRSs) and Sri Lanka Accounting Standards (LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka (together referred to as SLFRSs in these Financial Statements).

The preparation and presentation of these Financial Statements are in compliance with the requirements of the Bank of Ceylon Ordinance No. 53 of 1938, the Banking Act No. 30 of 1988 and the Companies Act No. 07 of 2007. The Group has prepared Financial Statements which comply with SLFRSs applicable for the year ended 31 December 2019, together with the comparative year data as at and for the year ended 31 December 2018, as described in the accounting policies.

The formats used in the preparation and presentation of the Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the Central Bank of Sri Lanka (CBSL) in the Circular No. 02 of 2019 on "Publication of Annual and Quarterly Financial Statements and Other Disclosures by Licensed Banks".

3.2 Basis of Measurement

The Financial Statements have been prepared on the basis of historical cost convention and no adjustments have been made

Notes to the Financial Statements

for inflationary factors which has been applied on a consistent basis, except for the following:

- Derivative financial instruments are measured at fair value (Notes 25 and 40)
- Financial assets recognised through profit or loss - measured at fair value (Note 26)
- Financial assets measured at fair value through OCI (Note 29)
- Owner-occupied freehold land and buildings and buildings on leasehold lands are measured at revalued amount less any subsequent accumulated depreciation and impairment losses (Note 33)
- Defined benefit obligations are actuarially valued and recognised at the present value of the defined benefit obligation less total of the fair value of plan assets (Note 47)

3.3 Presentation of Financial Statements

Items in the Statement of Financial Position of the Bank and the Group are grouped by nature of such item and presented broadly in order of their relative liquidity and maturity pattern. An analysis regarding recovery or settlement within 12 months after the Reporting date (current) and more than 12 months after the Reporting date (non-current) is presented in Note 58 - "Maturity Analysis of Assets and Liabilities".

3.3.1 Functional and Presentation Currency

Items included in the Financial Statements are measured and presented in Sri Lankan Rupees ("LKR") which is the functional currency of the primary economic environment in which the Bank operates.

3.3.2 Accrual Basis of Accounting

The Financial Statements, except for information on Statement of Cash Flows have been prepared following the accrual basis of accounting.

3.3.3 Offsetting

Financial assets and financial liabilities are generally reported gross in the Statement of Financial Position. They are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognised amounts without being contingent on a future event, the parties also intend to settle on a net basis in all of the following circumstances:

- The normal course of business.
- The event of default.
- The event of insolvency or bankruptcy of the Bank/ Group and/or its counterparties.

Income and expenses are not offset in the Statement of Profit or Loss unless required or permitted by any accounting standard or interpretation and as specifically disclosed in the accounting policies of the Group.

3.3.4 Comparative Information

The comparative information is provided in narrative and descriptive nature, if it is relevant to understand the current period's Financial Statements and reclassified wherever necessary to conform to the current year's presentation. However, the Group has not restated comparative information for 2018 for Leases within the scope of SLFRS 16- "Leases". Therefore, the comparative information for 2018 is reported under LKAS 17- "Leases" and is not comparable to the information presented for 2019.

3.3.5 Materiality and Aggregation

In compliance with LKAS 1 – "Presentation of Financial Statements", each material class of similar items are presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately unless they are immaterial.

3.3.6 Rounding

The amounts in the Financial Statements have been rounded-off to the nearest Rupees thousands, except where otherwise indicated as permitted by the LKAS 1- "Presentation of Financial Statements".

3.3.7 Statement of Cash Flow

The Statement of Cash Flow is prepared by using the "Indirect Method" in accordance with the LKAS 7- "Statement of Cash Flows" whereby the profit is adjusted to derive the cash flows from operating activities. Cash and cash equivalents comprise cash in hand, other short term highly liquid investments with maturity less than seven days from date of acquisition and bank overdrafts.

3.3.8 Use of Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Financial Statements requires management to exercise judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from

these estimates. The judgements, estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and/ or in future periods if the revision affects future periods too. In the process of applying the Group's accounting policies, management has made the following judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the Financial Statements. The accounting policies which are most sensitive to the use of judgements, estimates and assumptions are specified below.

3.3.8.1 Going Concern

The Management has made an assessment on the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

3.3.8.2 Commitment and Contingent Liabilities

All discernible risks are accounted for in determining the amount of all known and measurable liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its considered remote that the Group will be liable to settle the possible obligation.

3.3.8.3 Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where the classification of a financial asset or liability results in it being measured at fair value, wherever possible, the fair value is determined by reference to the quoted bid or offer price in the most advantageous active market to which the Group has immediate access. An adjustment for credit risk is also incorporated into the fair value as appropriate. Fair value for a net open position that is a financial liability quoted in an active market is the current offer price, and for a financial asset the bid price, multiplied by the number of units of the instrument held or issued.

Where no active market exists for a particular asset or liability, the Group uses a valuation technique that include the use of mathematical models to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques based on market conditions and risks existing at Reporting date. In doing so, fair value is estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises the difference between the transaction price and the fair value in Profit or Loss on initial recognition (i.e. on day one). The valuations of financial instruments are described comprehensively in Note 61.

3.3.8.4 Impairment Charge for Loans and Advances

The measurement of impairment charge under SLFRS 9 - "Financial Instruments" requires judgement by management in identification and estimation of the amount and timing of future cash flows when determining an impairment charge for loans and advances.

Accordingly, the Group reviews its individually significant loans and advances at each reporting date to assess whether an impairment charge should be provided in the Statement of Profit or Loss.

Notes to the Financial Statements

In particular, the Management's judgement is required in identification and estimation of the amount and timing of future cash flows when determining the impairment loss.

In estimating these cash flows, the Group makes judgements about the borrower's financial position, the net realisable value of collateral and other related factors. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance.

A collective impairment provision is established for the groups of homogeneous loans and advances that are not considered individually significant and groups of loans that are individually significant but that were not found to be individually impaired. A collective assessment of impairment takes into account the data from loan portfolio (such as credit quality, levels of arrears, credit utilization, etc.), concentrations of risk and economic data (including levels of Unemployment, Inflation, GDP growth rate and Country rating) and the Performance of different individual group.

The impairment requirements in SLFRS 9 - "Financial Instruments" are based on an Expected Credit Loss (ECL) model and it is reflected the general pattern of deterioration, or improvement, in the credit quality of financial instruments. The Group calculates ECLs either on a collective or an individual basis. The amount of ECLs recognised as a loss allowance or provision depends on the extent of credit deterioration since initial recognition and measured under following bases:

- 12-month ECLs (stage 1), which apply to all items as long as there is no significant deterioration in credit risk.
- Lifetime ECLs (stages 2 and 3), which apply when a significant increase in credit risk has occurred on an individual or collective basis.

Further, the Group makes additional judgements and estimates with regard to the following under ECL model.

- The Group's criteria for assessing if there has been a significant increase in credit risk and so impairment for financial assets should be measured on a Lifetime ECL basis.
- Development of ECL models, including various formula and the choice of inputs.
- Determination of association between macro-economic inputs, such as GDP growth, inflation, interest rates, exchange rates and unemployment with the effect on Probability of Default (PDs), Exposure At Default (EAD) and Loss Given Default (LGD).
- Selection of forward-looking macro-economic scenarios and their probability weightings to derive the economic inputs into the ECL model.

As per SLFRS 9 - "Financial Instruments", the collective provision for groups of homogeneous loans is established using statistical methods or, a formula approach based on historical loss rate experience, using the statistical analysis of historical data on delinquency to estimate the amount of loss. Management applies judgement to ensure that the estimate of loss arrived at, on the basis of historical information is appropriately adjusted to reflect the economic conditions and portfolio factors as at the Reporting date. The loss rates are regularly reviewed against actual loss experience.

It has been the Group's policy to regularly review its model in the context of actual loss experience and adjust when necessary. The accuracy of the provision depends on the model assumptions and parameters used in determining the impairment. Details of impairment losses on loans and advances are given in Note 14.

3.3.8.5 Impairment of Investment in Subsidiaries, Other Financial Assets and Non- Financial Assets

The Group and the Bank follow the guidance of LKAS 36 – "Impairment of Assets" and SLFRS 9 - "Financial Instruments" in determining whether an investment or a financial asset is impaired. Determination and identification of impairment indicators require the Group and the Bank to evaluate duration and extent to which the fair value of an investment for a financial asset is less than its cost and the financial stability of the near term business outlook of

the investment or the financial asset, considering the factors such as performance of the sector and industry, technology and operational environmental changes along with future cash flows. This process involves with significant judgement in aforesaid areas.

3.3.8.6 Defined Benefit Obligation

The cost of the defined benefit pension plans and other post-employment benefit plans are determined using an actuarial valuation. An actuarial valuation involves making various assumptions determining the discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

In determining the appropriate discount rate, the Group considers the interest rates of Sri Lanka Government Bonds with maturities corresponding to the expected duration of the Defined Benefit Obligation. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rate and expected future salary increase rates of the Group. All assumptions are reviewed at each Reporting date and assumptions used in the year are given in Note 47.

3.3.8.7 Fair Value of Land and Buildings

The freehold land and buildings and the buildings on leasehold land of the Group are reflected at fair value less accumulated depreciation. The Group engaged independent valuation specialists to determine fair value of such properties in terms of the SLFRS 13 – "Fair Value Measurement". The details of valuation of freehold land and buildings and the buildings on leasehold land are given in Note 33.

3.3.8.8 Useful Life of the Property, Plant and Equipment and Intangible Assets

The Group reviews the residual values, useful lives and methods of depreciation of Property, Plant and Equipment and intangible assets at each Reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty. The details of the depreciation methods and rates used for each assets category are given in Note 33.

3.3.8.9 Classification of Investment Properties

Management is required to use its judgement to determine whether a property qualified as an investment property. A property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Group are accounted for as investment properties. On the other hand, properties that are used for operations or for the process of providing services or for administration purposes and which do not directly generate cash flows as stand-alone assets are accounted as Property, Plant and Equipment.

3.3.8.10 Determination of Control Over Investees

Subsidiaries are entities that are controlled by the Bank, control is achieved when the Bank is exposed, or has rights to variable returns from its involvement with the invitee and has the ability to affect the returns of those investees through its power over the investee. The Management applies its judgements to determine the Bank controls over its investees.

3.3.8.11 Taxation

The Group is subject to income tax, Value Added Tax (VAT), Nation Building Tax (NBT), Debt Repayment Levy (DRL) and other applicable taxes.

A judgement is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exists with respect to the interpretation of the applicable tax laws at the time of preparing these Financial Statements. The details on the applicable tax rates and other information are given under Notes 4.9, 17 and 36.

The Group is subject to transfer pricing regulations and it is necessitated using management judgement to determine the impact of transfer pricing regulations. Accordingly, critical judgements and estimates were used in applying the regulations in aspects including but not limited to identifying associated undertakings, estimation of the respective arm's length prices and selection of appropriate pricing mechanism.

The current tax charge is subject to such judgements. Differences between estimated income tax charge and actual payable may arise as a result of variances between Management's

Notes to the Financial Statements

interpretation and application of tax regulation.

4. Significant Accounting Policies

The significant accounting policies applied by the Bank and the Group in preparation of its Financial Statements are included below and have been consistently applied to all periods presented in the Financial Statements of the Group and the Bank, unless otherwise indicated.

4.1 New/ Amendments to Accounting Standards Effective from 1 January 2019

In these Financial Statements, the Group has applied SLFRS 16 - "Leases", which are effective for the annual Reporting periods beginning on or after 1 January 2019, for the first time. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not effective.

4.1.1 Leases

4.1.1.1 Initial Recognition and Measurement.

Lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments in the Statement of Financial Position.

Lessee measures right-of-use assets similarly to other non-financial assets (such as Property, Plant and Equipment) and lease liabilities similarly to other financial liabilities. Consequently, a lessee recognises amortisation of the right-of-use asset and interest on the lease liability.

Assets and liabilities arising from a lease are initially measured on a present value basis. The initial lease asset equals the lease liability in most cases.

At lease commencement, a lessee accounts for two elements:

(a) Right-of-use asset: Initially, a right-of-use asset is measured in the amount of the lease liability and initial direct costs. Then it is adjusted by the lease payments made before or on commencement date, lease incentives received, and any estimate of dismantling and restoration costs.

(b) Lease liability: The lease liability is in fact all payments not paid at the commencement date discounted to present value using the interest rate implicit in the lease or incremental borrowing rate if the implicit rate cannot be determined. These payments may include fixed payments, variable payments, payments under residual value guarantees, purchase price if purchase option will be exercised.

4.1.1.2 Subsequent Measurement

After commencement date, lessee needs to adjust both elements recognised initially. Lessee accretes the lease liability to reflect interest and reduce the liability to reflect lease payments made.

Right-of-Use Asset

Lessee shall measure the right-of-use asset using a cost model and depreciate the asset over the lease term on a straight-line basis. The resulted depreciation amount is charged to the Statement of Profit or Loss.

Lease liability

Lessee shall recognise an interest on the lease liability and the lease payments are recognised as a reduction of the lease liability. Interest on lease liability is charged to the Statement of Profit or Loss.

Lessee shall re-measure the lease liability upon the occurrence of certain events (e.g. change in the lease term, change in variable rents based on an index or rate), which is generally recognised as an adjustment to the right-of-use asset.

Lessee can apply alternative subsequent measurement bases for the right-of-use asset under certain circumstances in accordance with LKAS 16 - "Property Plant and Equipment" and LKAS 40 - "Investment Property". Right-of-use assets are subject to impairment testing under LKAS 36 - "Impairment of Assets", too.

4.2 Basis of Consolidation

The Group's Financial Statements comprise consolidation of the Financial Statements of the Bank and its Subsidiaries in terms of SLFRS 10 – "Consolidated Financial Statements" and LKAS 27 – "Separate Financial Statements" and the proportionate share of the profit or loss and net assets of its Associates in terms of the Sri Lanka Accounting Standard LKAS 28 – "Investments in Associates and Joint Ventures".

The Bank's Financial Statements comprise the amalgamation of the Financial Statements of the Domestic Banking Unit, the Off-shore Banking Unit and the Overseas Operations of the Bank.

The detailed accounting policies pertaining to the consolidation of Subsidiaries and Associates are given in the Notes 30 and 31.

4.2.1 Business Combinations

The Group determines whether a transaction or other event is a business combination by applying the definition in SLFRS 3 – "Business Combination", which requires that the assets acquired and liabilities assumed constitute a business. Business combinations are accounted for using the acquisition method. As of the acquisition date, the amount of non-controlling interest is measured either at fair value or at the non-controlling interests' proportionate share of the acquirer's identifiable net assets.

Acquisition related cost are costs the acquirer incurs to effect a business combination. Those costs include finder's fees, advisory, legal, accounting, valuation, other professional consulting fees, general administrative costs including the cost of maintaining an Internal Acquisition Department and cost of registering and issuing debt and equity securities. Acquisition related costs, other than those associated with the issue of debt or equity securities are expensed in the periods in which the costs are incurred and the services are received. The Group elects on a transaction by transaction basis whether to measure non-controlling interests at its fair value or at its proportionate share of the recognised amount of the identifiable net assets, at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination are expensed as incurred.

4.2.2 Loss of Control

When the Group loses control over a Subsidiary, it derecognises the assets and liabilities of the Subsidiary, and any related Non-Controlling Interest (NCI) and other components of equity. Any resulting gain or loss is recognised in Profit or Loss. Any interest retained in the former Subsidiary is measured at fair value when control is lost. Further, the Bank's share of components previously recognised in Other Comprehensive Income (OCI) is reclassified to Profit or Loss or retained earnings as appropriate. Any surplus or deficit arising on the loss of control is recognised in the Profit or Loss. If the Group retains any interest in the previous Subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

4.3 Foreign Currency Translations

4.3.1 Foreign Currency Transactions and Balances

At the initial recognition, transactions in foreign currency are translated into the functional currency of the operation which is Sri Lankan Rupees (LKR) at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currency at the Reporting date are retranslated into the functional currency at the spot exchange rate at that date and all differences arising on non-trading activities are taken to "Net other operating income" (Note 13) in the Statement of Profit or Loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial recognition. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are retranslated into the functional currency at the spot exchange rate including any exchange gain or loss component at the date on which the fair value is determined. Gain or loss on a non-monetary item including exchange component is recognised in Other Comprehensive Income. Forward exchange contracts are valued at the forward market rates ruling on the Reporting date and resulting net unrealised gains or losses are dealt within the Statement of Profit or Loss.

4.3.2 Foreign Operations

The results and financial position of foreign operations, whose functional currencies are not Sri Lankan Rupees, are translated into Sri Lankan Rupees as follows:

The assets and liabilities of foreign operations are translated into Sri Lankan Rupees at spot exchange rate as at the Reporting date. The income and expenses of foreign operations are translated at average rate for the period. Foreign currency

Notes to the Financial Statements

differences on the translation of foreign operations are recognised in Other Comprehensive Income.

When a foreign operation is disposed of, the relevant amount in the translation reserve is transferred to the Profit or Loss as part of the Profit or loss on disposal in other operating income or other operating expenses.

4.4 Classification of Financial Instruments between Debt and Equity

Classification of financial instruments between debt and equity depends on following characteristics of such instruments:

- Name or labels given to the instruments
- Presence or absence of a fixed maturity date
- Life of the instrument
- Source of payments
- Right to enforce payments
- Rights to participate in Management
- Risk involved in the instruments
- Volatility of cash flows
- Securities given as collaterals

4.5 Financial Assets and Financial Liabilities

4.5.1 Recognition and Derecognition of Financial Instruments

All financial assets and liabilities are initially recognised on the settlement date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. This includes; "regular way trades". Regular way trade means purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and receivables are recognised when cash is advanced (or settled) to the borrowers. Financial assets at fair value through profit or loss are recognised initially at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs.

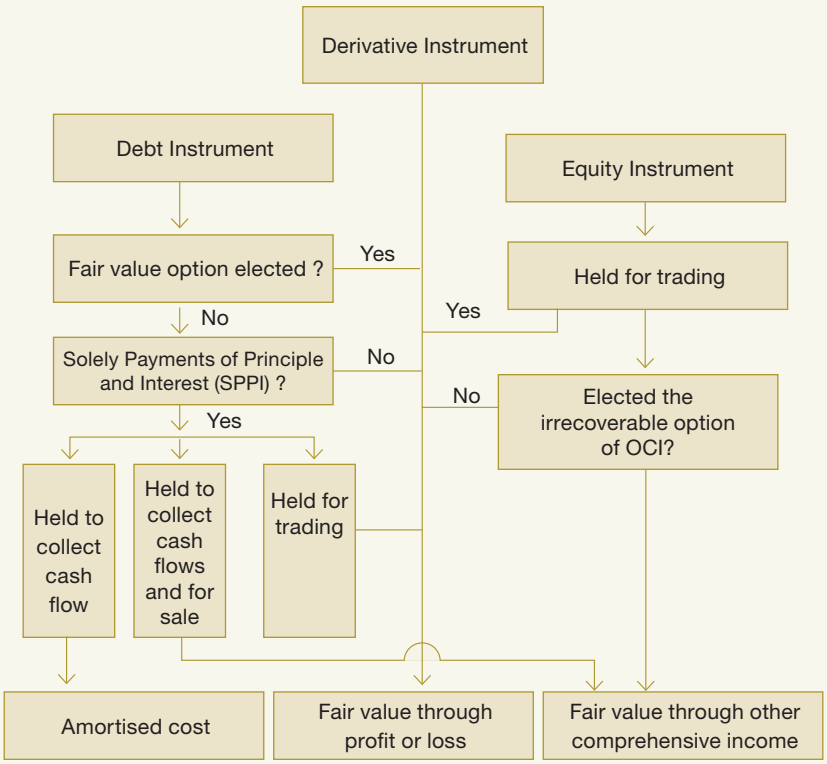
The Group derecognises a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the Statement of Profit or Loss.

4.5.2 Classification of Financial Assets and Financial Liabilities

As per SLFRS 9 - "Financial Instruments", the classification depends on the Group's business model for managing financial assets and the contractual terms of the financial assets' cash flows.

The following diagram depicts how the Bank classifies the financial assets.



4.5.2.1 At the Inception, the Financial Assets are Classified in One of the Following Categories:

- Financial assets measured at fair value through profit or loss (Note 4.5.7 and 26)
- Financial assets at amortised cost
  - Financial assets at amortised cost - loans and advances (Note 27)
  - Financial assets at amortised cost - debt and other instruments (Note 4.5.8 and 28)
- Financial assets measured at fair value through Other Comprehensive Income (Note 4.5.9 and 29)

4.5.2.2 At the Inception, the Financial Liabilities are Classified in One of the Following Categories:

- Financial liabilities at amotised cost
  - Financial liabilities at amortisd cost – due to depositors (Note 41)
  - Financial liabilities at amortised cost - other borrowings and subordinated instruments (Note 42 and 48)

4.5.3 Initial Measurements of Financial Instruments

Financial assets and liabilities are initially measured at their fair value plus transaction cost, except in the case of financial assets and liabilities recorded at fair value through profit or loss. Transaction cost in relation to financial assets and liabilities at fair value through profit or loss are dealt with in the Statement of Profit or Loss.

4.5.4 "Day One" Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a "Day One" Profit or Loss) in the Statement of Profit or Loss. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Statement of Profit or Loss over the life of the instrument.

4.5.5 Business Model Assessment

With effect from 1 January 2018, as per SLFRS 9 - "Financial Instruments", the Group classifies all of its financial assets based on the business model and makes an assessment of the objective of a business model in which an asset is held at a portfolio level and not assessed on instrument-by- instrument basis because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated
  - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations,

the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

4.5.6 Assessment of whether Contractual Cash Flow Characteristics are met the Solely Payments of Principal and Interest (SPPI) test

As a second step of assets classification process, the Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/ discount).

"Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

In contrast, contractual terms that introduce a more than deminimise exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. In such cases, the financial asset is required to be measured at fair value through profit and loss.

In assessing whether the contractual cash flows are solely payments of principal and interest on principal amount outstanding, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets; and
- Features that modify consideration of the time value of money

4.5.7 Financial Assets Measured at Fair Value through Profit or Loss

Items at fair value through profit or loss comprise:

- Items held for trading purpose;
- Items specifically designated as fair value through profit or loss on initial recognition; and
- Debt instruments with contractual terms that do not terms that do not represent solely payments of principal and interest.

Financial instruments held at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised in the Statement of Profit or Loss as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the Statement of Profit or Loss as they arise.

Where a financial asset is measured at fair value, a credit valuation adjustment is included to reflect the credit worthiness of the counterparty, representing the movement in fair value attributable to changes in credit risk.

4.5.7.1 Financial Instruments Held for Trading purpose

A financial instrument is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship.

Trading derivatives and trading securities are classified as held for trading and recognised at fair value in the Statement of Financial Position. Changes in fair value are recognised in "Net gains/ (losses) from trading" (Note 10) and "Net fair value gains/ (losses) from financial instruments at fair value through profit or loss" (Note 11). Interest income from financial instruments held for trading is recorded under net interest income (Note 8) while dividend income is recorded in net gains/ (losses) from trading (Note 10) when the right to payment has been established.

4.5.7.2 Financial Instruments Designated and Measured at Fair Value through Profit or Loss

Upon initial recognition, financial instruments may be designated and measured at fair value through profit or loss. A financial asset may only be designated at fair value through profit or loss if doing so eliminates or significantly reduces measurement or recognition inconsistencies (i.e. eliminates an accounting mismatch) that would otherwise arise from measuring financial assets or liabilities on a different basis.

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch or:

- If a host contract contains one or more embedded derivatives; or
- If financial assets and liabilities are both managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Group's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

As of 31 December 2019, there were no any financial liability designated at fair value through profit or loss.

4.5.7.3 Debt instruments with Contractual Terms that do not Represent the Solely Payments of Principal and Interest

Financial debt instruments which are not meet solely payments of principal and interest test will be classified as fair value through profit or loss.

4.5.8 Financial Assets Measured at Amortised Cost-Debt Instruments

Investments in debt instruments are measured at amortised cost where they have:

- Contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- Are held within a business model whose objective is achieved by holding to collect contractual cash flows.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using Effective Interest Rate (EIR). The measurement of credit impairment is based on the three stage expected credit loss model described below in Note 4.5.11 Impairment of financial assets.

4.5.9 Financial Assets Measured at Fair Value through Other Comprehensive Income

4.5.9.1 Debt instruments

Investments in debt instruments are measured at fair value through Other Comprehensive Income where they have:

- Contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- Are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in Other Comprehensive Income within a separate component of equity. Impairment losses or reversals, interest revenue and foreign exchange gains and losses are recognised in Profit or Loss. Upon disposal, the cumulative gain or loss previously recognised in Other Comprehensive Income is reclassified from Other Comprehensive Income to Profit or Loss.

The measurement of credit impairment is based on the three stage expected credit loss model as applied to financial assets at amortised cost. The expected credit loss model is described below in Note 4.5.11 Impairment of financial assets.

4.5.9.2 Equity Instruments

Investment in equity instruments that are neither held for trading nor contingent consideration recognised by the Group in a business combination to which SLFRS 3- "Business Combinations" applies, are measured at fair value through

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Other Comprehensive Income, where an irrevocable election has been made by management. For portfolios where management does not consider an irrevocable election of adopting fair value through other comprehensive income, by default such investments shall be measured at fair value through profit or loss.

Upon de-recognition, the cumulative gain or loss recognised in Other Comprehensive Income are not transferred to Profit or Loss. However, cumulative gain or loss recognised full derecognition will be transferred from Other Comprehensive Income reserve to retained earnings within the equity. Dividends on such investments are recognised in "Net other operating income" (Note 13) in the Profit or Loss.

4.5.10 Reclassification of Financial Assets

The Group reclassifies its financial assets when, and only when, the Group changes its business model for managing financial assets. If the Group reclassifies financial assets which were measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, the Group applies the reclassification prospectively from the reclassification date. The Group does not re-state any previously recognised gains, losses (including impairment losses) or interest.

The table below summaries the treatment of gains and losses on reclassification.

Initial Measurement	Measurement after reclassification	Treatment on reclassification
Fair value through profit or loss	Amortised cost	Fair value at the reclassification date becomes its new gross carrying amount. The effective interest rate is calculated on the basis of that amount. For the purpose of applying the impairment requirements, the reclassification date is treated as the date of initial application.
Fair value through profit or loss	Fair value through other comprehensive income	The fair value of the financial asset at the reclassification date becomes its new carrying amount and the effective interest rate is determined on the basis of the fair value of the asset at the reclassification date.
Fair value through other comprehensive income	Amortised cost	The cumulative gain or loss previously recognised in Other Comprehensive Income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.
Fair value through other comprehensive income	Fair value through profit or loss	The fair value of the financial asset at the reclassification date becomes its new carrying amount. The cumulative gain or loss previously recognised in Other Comprehensive Income is reclassified from equity to Profit or Loss as a reclassification adjustment at the reclassification date.
Amortised cost	Fair value through profit or loss	Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value at the reclassification date is recognised in Profit or Loss.
Amortised cost	Fair value through other comprehensive income	Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value at the reclassification date is recognised in Other Comprehensive Income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

4.5.11 Impairment of Financial Assets

The Group applies a three-stage approach in measuring Expected Credit Loss (ECL) for the following categories of financial assets that are not measured at fair value through profit or loss:

- Debt instruments measured at amortised cost and fair value through other comprehensive income;
- Loan commitments; and
- Financial guarantee contracts.

No ECL is recognised on equity investments.

The Group performs an assessment at the end of each Reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on this process financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

4.5.11.1 Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised. The Bank determines 12 months ECL from customers whom are not significantly credit deteriorated.

4.5.11.2 Stage 2: Lifetime ECL

For exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

4.5.11.3 Stage 3: Lifetime ECL

Exposures are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

4.5.11.4 Calculation of ECL

The Group calculates ECL based on a three probability weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the Effective Interest Rate (EIR). A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations of the Group are outlined below and the key elements are, as follows:

- Probability of Default (PD)

PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously recognised and is still in the portfolio. The concept of PDs is further explained in Note 27.

- Exposure At Default (EAD)

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the Reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 27.

- Loss Given Default (LGD)

LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 27.

4.5.11.5 Determining the Stage for Impairment

At each Reporting date, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the Reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent

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period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Group's investment grade criteria, or which are less than 30 days past due, are considered to have a low credit risk. The impairment provision for these financial assets is based on a 12-months ECL.

The Group assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis.

For the purposes of a collective evaluation of impairment, financial instruments are grouped on the basis of shared credit risk characteristics, taking into account of instrument type, credit risk ratings, collateral type, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

4.5.11.6 Measurement of ECL

ECL is derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- Financial assets that are not credit-impaired at the Reporting date: as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

- Financial assets that are credit-impaired at the Reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.

- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive.

- Financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Group expects to recover.

ECL is recognised in the Statement of Profit or Loss. In the case of debt instruments measured at fair value through Other Comprehensive Income, the measurement of ECL is based on the three-stage approach as applied to financial assets at amortised cost.

4.6 Impairment of Non- Financial Assets

The Group assesses at each Reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell or its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly-traded subsidiaries or other valuable fair value indicators.

4.7 Fiduciary Services

The Group provides fiduciary services to third parties that result in holding of the assets on behalf of its customers. Assets held in fiduciary capacity are not recognised in the Financial Statements, as the Group is not the beneficial owner or does not control such assets.

4.8 Provisions

A provision is recognised as a result of a past event, when the Group has a present (legal or constructive) obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount recognised is the best estimate of the consideration required to settle the present obligation at the Reporting date, taking into account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying

amount is determined based on the present value of those cash flows. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured as the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

4.9 Income Tax Expense and Other Taxes

4.9.1 Income Tax Expense

Income tax expense comprises current and deferred tax. More details are given in Note 17.

4.9.2 Value Added Tax (VAT) on Financial Services

The base for Value Added Tax computation is arrived by aggregating the accounting profit before income tax and emoluments of employees, which is adjusted for the depreciation computed on prescribed rates. During the year, the Group's total value addition was subjected to 15% (2018– 15%) VAT as per the Value Added Tax Act No. 14 of 2002 and amendments thereto. Also the Group is following value attributable method to compute VAT on financial services.

4.9.3 Withholding Tax (WHT) on Dividends

- Withholding tax on dividends distributed by the Bank.

No withholding tax is paid by the Bank, since Bank distributes dividend to its sole shareholder, the Government of Sri Lanka.

- Withholding tax on dividends distributed by the Subsidiaries and Associates.

Dividend distributed out of taxable profit of the Subsidiaries and Associate companies attracts a 14% deduction at source over the year 2019 (10% up to 31 March 2018 and 14% after 1 April 2018).

As per Notice dated 18 February 2020 published by the Department of Inland Revenue, requirement to deduct WHT on dividends has been removed effective 1 January 2020.

4.9.4 Economic Service Charge (ESC)

As per provisions of the Economic Service Charge (ESC) Act No.13 of 2006 and amendments thereafter, ESC is payable at 0.5% on Bank's liable turnover and is deductible from income tax payable. As per Notice published on 31 December 2019 by the Department of Inland Revenue, ESC was abolished with effect from 1 January 2020.

4.9.5 Crop Insurance Levy (CIL)

As per the provisions of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 1 April 2013 and is payable 1% of the profit after tax to the National Insurance Trust Fund Board.

4.9.6 Nation Building Tax (NBT) on Financial Services

In accordance with Nation Building Tax (NBT) Act No. 9 of 2009 and subsequent amendments, the Bank calculated and paid NBT on financial services at 2% (2018: 2%) of the value addition usd for the purpose of VAT on financial services untill 30 November 2019. However NBT on financial sevices is excempeted with effect from 1 December 2019.

4.9.7. Debt Repayment Levy (DRL) on Financial Services

As per the Finance Act No. 35 of 2018, DRL shall be charged from every financial institution with effect from 1 October 2018. DRL is calculated at the rate of 7% on the value addition attributable to the financial services. As per notice published by the Department of Inland Revenue dated 20 January 2020, DRL was abolished with effect from 1 January 2020.

5. Insurance Business

5.1 Reinsurance

The Group cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each Reporting date or more frequently when an indication of impairment arises during the Reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will

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receive from the reinsurer. The impairment loss is recorded in the Statement of Profit or Loss.

Premiums and claims are presented on a gross basis for reinsurance. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

5.2 Insurance Receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Statement of Profit or Loss.

5.3 Deferred Expenses

5.3.1 Deferred Acquisition Costs (DAC)

The costs of acquiring new businesses including commission, underwriting, marketing and policy issue expenses which vary with and directly related to production of new businesses and/or investment contracts with Discretionary Participation Features (DPF), are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, DAC for general insurance is amortised over the period on the basis unearned premium is amortised. The reinsurances' share of deferred acquisition cost is amortised in the same manner as the underlying assets amortisation is recorded in the Statement of Profit or Loss. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the assets are accounted for by changing the amortisation period and are treated as a change in an accounting estimate. DAC are derecognised when the related contracts are either expired or cancelled.

5.4 Reinsurance Commissions

Commissions receivable on outwards reinsurance contracts are deferred and amortised over the period of reinsurance.

5.5 Investment Contract Liabilities

Investment contracts are classified between contracts with and without DPF. The accounting policies for investment contract liabilities with DPF are the same as those for life insurance contract liabilities. Investment contract liabilities without DPF are recognised when contracts are entered into and premiums are charged. These liabilities are initially recognised at fair value being the transaction price excluding any transaction costs directly attributable to the issue of the contract. Subsequent to initial recognition, investment contract liabilities are measured at fair value through profit or loss.

Deposits and withdrawals are recorded directly as an adjustment to the liability in the Statement of Financial Position. Fair value adjustments are performed at each Reporting date and are recognised in the Statement of Profit or Loss. Fair value is determined through the use of prospective discounted cash flow techniques. For unitised contracts, fair value is calculated as the number of units allocated to the policyholder in each unit linked fund multiplied by the unit price of those funds at the Reporting date. The fund assets and fund liabilities used to determine the unit prices at the Reporting date are valued on a basis consistent with their measurement basis in the Statement of Financial Position adjusted to take account of the effect on the liabilities of the deferred tax on unrealised gains on assets in the fund. Non-utilised contracts are subsequently carried at fair value, which is determined by using valuation techniques such as discounted cash flows and stochastic modelling. Models are validated, calibrated and periodically reviewed by an independent qualified person.

The liability is derecognised when the contract expires, is discharged or is cancelled. For a contract that can be cancelled by the policyholder, the fair value cannot be less than the surrender value. When contracts contain both a financial risk component and a significant insurance risk component and the cash flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any premiums relating to the insurance risk component are accounted for on the same bases as insurance.

5.6 Discretionary Participation Features (DPF)

A DPF is a contractual right that gives holders of these

contracts the right to receive as a supplement to guaranteed benefits, significant additional benefits which are based on the performance of the assets held within the DPF portfolio. Under the terms of the contract, surpluses in the DPF funds can be distributed to policyholders and shareholders on a 90/10 basis. The Group has the discretion over the amount and timing of the distribution of these surpluses to policyholders. All DPF liabilities including unallocated surpluses, both guaranteed and discretionary, at annually are held within insurance or investment contract liabilities as appropriate.

5.7 Unearned Premium Reserve

Unearned premium reserve represents the portion of the premium written in the year but relating to the unexpired term of coverage. Unearned premiums are calculated on the 1/24th basis.

6. New and Amended Standards and Interpretations

In these Financial Statements, the Bank has applied SLFRS 16 - "Leases" and Uncertainty Over Income Tax Treatment in LKAS 12 - "Income taxes" for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described in Note 6.1 and 6.2.

6.1 SLFRS 16 – "Leases"

SLFRS 16 supersedes LKAS 17 - "Leases", IFRIC 4 and for periods on or after 1 January 2019. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the Statement of Financial Position.

Lessor accounting under SLFRS 16 - "Leases" is substantially unchanged from LKAS 17 - "Leases". Lessors will continue to classify leases as either operating or finance leases using similar principles as in LKAS 17 - "Leases". Therefore, SLFRS 16 - "Leases" did not have an impact for leases where the Bank is the lessor.

The Bank adopted SLFRS 16 - "Leases" using the 'Modified Retrospective Method' of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Bank applied the standard only to contracts that were previously identified as leases applying LKAS 17 - "Leases" at the date of initial application.

The Bank has entered in to lease contracts in connection with various premises used for day today activities. Before the adoption of SLFRS 16 - "Leases", the Bank classified each of its leases (as lessee) at the inception date as operating leases.

Upon adoption of SLFRS 16 - "Leases", the Bank applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Bank.

6.1.1 Leases Previously Accounted for as Operating Leases Under SLFRS 16 - "Leases"

The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Bank also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, the impact on transition has been disclosed in Note 34.

6.1.2 Leases (applicable from 1 January 2019)

The Bank assesses at contract inception whether a contract is,

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or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration as per SLFRS 16 - "Leases" and recognise right of use assets and lease liability.

6.1.3 Right-of-Use Assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 34 and are subject to impairment in line with the Bank's policy for Impairment of non-financial assets.

6.1.4 Lease Liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee)

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate.

6.1.5 Estimating the Incremental Borrowing Rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments.

6.2 IFRIC Interpretation 23 "Uncertainty Over Income Tax Treatment"

This interpretation clarifies how to apply the recognition and measurement requirements in LKAS 12 - "Income taxes" when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability, applying the requirements in LKAS 12 - "Income taxes" based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation

IFRIC 23 does not apply to taxes or levies outside the scope of LKAS 12 - "Income taxes" and does not specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following

- Whether an entity considers uncertain tax treatments separately - An entity shall determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty.

- The assumptions an entity makes about the examination of tax treatments by taxation authorities. In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity shall assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations.

- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates-if an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings.

- If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates by using either of the following methods, depending on which method the entity expects to better predict the resolution of the uncertainty.

- The most likely amount the single most likely amount in a range of possible outcomes.

- The expected value the sum of the probability-weighted amounts in a range of possible outcomes.

- How an entity considers changes in facts and circumstances - An entity shall reassess a judgment or estimate required by this interpretation if the facts and circumstances on which the judgment or estimate was based change or as a result of new information that affects the judgment or estimate.

- This interpretation is effective for annual reporting periods beginning on or after 1 January 2019. The Bank/Group have applied IFRIC 23 in the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates during the year. The Bank/Group does not have material uncertainties over the application of tax treatments that would require separate disclosures in the Financial Statements.

- The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

6.3 New Accounting Standards Issued But Not Effective as at the Reporting Date

The following Sri Lanka Accounting Standard was issued by the Institute of Chartered Accountants of Sri Lanka which is not effective as of 31 December 2019. Accordingly, this Accounting Standard has not been applied in the preparation of the Financial Statements for the year ended 31 December 2019.

We have identified following Standard where this applies to the Group and further details are set out below:

6.3.1 SLFRS 17 - "Insurance Contracts"

SLFRS 17 - "Insurance Contracts" establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of SLFRS 17 - "Insurance Contracts" is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of Financial Statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. SLFRS 17 - "Insurance Contracts" is effective for annual periods beginning on or after 1 January 2021. The Group is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 17- "Insurance Contracts".

Notes to the Financial Statements

7 Total Income

Accounting Policy

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank/ Group and the revenue can be reliably measured.

	Bank		Group	
For the year ended 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Interest income [Note 8.1]	**220,477,174**	195,393,970	**227,377,777**	201,809,401
Fee and commission income [Note 9.1]	**14,569,762**	12,917,022	**14,969,583**	13,305,501
Net gains/ (losses) from trading [Note 10]	**2,535,301**	3,431,822	**2,555,256**	3,468,191
Net fair value gains/(losses) from financial instruments at fair value through profit or loss [Note 11]	**321,789**	(681,365)	**342,807**	(717,194)
Net gains/(losses) from derecognition of financial assets [Note 12]	**282,260**	152,029	**292,812**	153,240
Net other operating income [Note 13]	**930,183**	9,807,215	**3,153,768**	11,331,999
Total income	**239,116,469**	**221,020,693**	**248,692,003**	**229,351,138**

8 Net Interest Income

Accounting Policy

Interest income and expense are recognised in the Statement of Profit or Loss using the Effective Interest Rate (EIR).

Interest income and expense presented in the Statement of Profit or Loss include interest on;

- Financial assets and financial liabilities measured at amortised cost (AC)
- Financial assets recognised through profit or loss (FVTPL)
- Financial assets measured at fair value through Other Comprehensive Income (FVTOCI)

Effective Interest Rate (EIR)

The 'EIR' is the rate that exactly discounts the estimated future cash payments and receipts throughout the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the EIR, the Group estimates future cash flows, considering all contractual terms of the financial instruments.

The calculation of the EIR includes any discount or premium on acquisition of financial instrument, transaction costs and fees paid or received that are an integral part of the EIR. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

For impaired financial assets, adjusted EIR is calculated using estimated future cash flows.

8.1 Interest Income

For the year ended 31 December	Bank 2019 LKR '000	Bank 2018 LKR '000	Group 2019 LKR '000	Group 2018 LKR '000
Cash and cash equivalents	**984,150**	637,183	**1,168,656**	729,559
Placements with banks	**549,861**	735,748	**641,499**	910,847
Securities purchased under resale agreements	**491,036**	1,277,297	**486,962**	1,275,316
Financial assets recognised through profit or loss measured at fair value	**294,037**	575,655	**294,037**	575,809
Financial assets at amortised cost				
loans and advances	**170,572,859**	145,549,687	**176,725,561**	151,330,837
debt and other instruments	**46,773,089**	45,185,554	**47,185,250**	45,504,088
Financial assets measured at fair value through OCI	**812,142**	1,432,846	**875,812**	1,482,945
Total Interest Income	**220,477,174**	**195,393,970**	**227,377,777**	**201,809,401**

Interest income on loans and advances includes interest on credit impaired assets LKR 2,187.1 million for the year 2019 (2018 : LKR 1,052.6 million).

8.2 Interest Expenses

For the year ended 31 December	Bank 2019 LKR '000	Bank 2018 LKR '000	Group 2019 LKR '000	Group 2018 LKR '000
Due to banks	**162,570**	113,325	**170,339**	115,735
Securities sold under repurchase agreements	**3,890,110**	5,379,122	**3,956,887**	5,414,844
Financial liabilities at amortised cost				
due to depositors	**126,713,262**	112,056,160	**129,191,484**	114,352,230
other borrowings	**8,451,186**	7,132,964	**9,223,430**	7,673,665
Debt securities issued	**-**	-	**446,363**	531,478
Subordinated liabilities	**6,113,568**	5,154,425	**6,094,388**	5,031,970
Total interest expenses	**145,330,696**	**129,835,996**	**149,082,891**	**133,119,922**
Net interest income	**75,146,478**	**65,557,974**	**78,294,886**	**68,689,479**

8.3 Net Interest Income from Sri Lanka Government Securities

For the year ended 31 December	Bank 2019 LKR '000	Bank 2018 LKR '000	Group 2019 LKR '000	Group 2018 LKR '000
Interest income	**36,832,733**	35,393,676	**37,199,435**	35,544,149
Less : Interest expenses	**3,890,110**	5,379,122	**3,956,887**	5,414,844
Net interest income from Sri Lanka Government securities	**32,942,623**	**30,014,554**	**33,242,548**	**30,129,305**

Notes to the Financial Statements

9 Net Fee and Commission Income

Accounting Policy

Fee and commission income comprises with the fee and commission earned by the group, providing diverse range of services. Those can be divided into following two main categories.

(i) **Fee and commission income earned from services that are provided over a certain period of time**
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and private wealth and asset management fees, custody and other management and advisory fees.

(ii) **Fee and commission income from providing transaction services and earned on the execution of a specific act**
Fees and commission arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement/ participation or negotiation of the acquisition of shares or other securities, or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Fees and commission expenses relating to transactions are expensed as the services are received and are recognised on an accrual basis.

9.1 Fee and Commission Income

	Bank		Group	
For the year ended 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Trade services	**1,781,009**	1,958,791	**1,967,366**	2,117,990
Debit and credit cards	**4,305,216**	3,620,610	**4,305,216**	3,620,610
Travel and remittances services	**1,424,935**	1,400,910	**1,424,935**	1,400,910
Custodial services	**61,208**	118,866	**61,208**	118,866
Retail banking services	**5,023,688**	4,139,373	**5,078,683**	4,148,506
Guarantees and related services	**1,396,682**	1,477,438	**1,397,939**	1,478,440
Other financial services	**577,024**	201,034	**734,236**	420,179
Total fee and commission income	**14,569,762**	**12,917,022**	**14,969,583**	**13,305,501**

9.2 Fee and Commission Expense

	Bank		Group	
For the year ended 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Debit and credit cards	**1,997,621**	1,817,643	**1,997,621**	1,817,643
Travel and remittances services	**128,299**	97,898	**128,299**	97,898
Retail banking services	**304,893**	297,085	**306,102**	298,616
Guarantees and related services	**15,009**	10,275	**15,009**	10,275
Other financial services	**27,133**	23,611	**65,175**	36,191
Total fee and commission Expenses	**2,472,955**	**2,246,512**	**2,512,206**	**2,260,623**
Net fee and commission income	**12,096,807**	**10,670,510**	**12,457,377**	**11,044,878**

10 Net Gains/ (Losses) From Trading

Accounting Policy

Net gains/ (losses) from trading comprise foreign exchange gain or losses arising from trading activities, gains or losses arising from changes in fair value of derivative financial instruments, dividend income from trading equities.

Dividend income is recognised when the Group's right to receive the dividend is established.

	Bank		Group	
For the year ended 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Foreign exchange				
From banks	**4,197**	4,291	**16,441**	19,168
From other customers	**2,434,795**	3,325,654	**2,441,723**	3,335,768
Equities				
Dividend income	**96,309**	101,877	**97,092**	113,255
Net gains/ (losses) from trading	**2,535,301**	**3,431,822**	**2,555,256**	**3,468,191**

11 Net fair Value Gains/(Losses) from Financial Instruments at Fair Value through Profit or Loss

Accounting policy

Net gains/ (losses) on financial assets at fair value through profit or loss include unrealised gains or losses from investment in equities and debt instruments classified as fair value through profit or loss due to changes in fair value of such instruments.

	Bank		Group	
For the year ended 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Gains/ (Losses) on marked to market valuation of				
Fixed income securities	**20,247**	(10,268)	**35,112**	(10,268)
Equities	**112,717**	(226,795)	**116,621**	(259,736)
Unit Trust	**188,825**	(444,302)	**191,074**	(447,190)
Net gains/(losses) on financial assets at fair value through profit or loss	**321,789**	**(681,365)**	**342,807**	**(717,194)**

12 Net Gains/ (Losses) From Derecognition of Financial Assets

Net Gains/ (Losses) from derecognition of financial assets include profit or loss on sale of debt instruments classified as fair value through profit or loss, amortised cost and fair value through other comprehensive income.

	Bank		Group	
For the year ended 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Recognised at:				
Fair value through profit or loss	**70,413**	56,612	**80,965**	57,823
Amortised cost	**-**	-	**-**	-
Fair value through other comprehensive income	**211,847**	95,417	**211,847**	95,417
Net gains/ (losses) from derecognition of financial assets	**282,260**	**152,029**	**292,812**	**153,240**

Notes to the Financial Statements

13 Net Other Operating Income

Accounting Policy

Dividend Income

Dividend income is recognised when the Bank's right to receive the dividend is established.

Gains/ (Losses) from Disposal of Non-Financial Assets

Net gains or losses arising from the disposal of Property, Plant and Equipment and other non current assets including investments in subsidiaries and associates are accounted for in the Statement of Profit or Loss after deducting the carrying amount of such assets and the related selling expenses from the proceeds on disposal.

Foreign Exchange Income

Foreign currency positions are revalued at each Reporting date. Gains/ (Losses) arising from changes in fair value are included in the Statement of Profit or Loss in the period in which they arise.

Rental Income

Rental income is recognised on an accrual basis. This includes rent recovered from the Bank's premises, quarters, safety lockers, and lease rent recovered form branch premises etc.

Service Income

Service income is recognised on an accrual basis and includes income earned through documentation charges recovered from loans and leases, CRIB charges, legal fees, correspondent banking services charges and automated cheque clearing etc.

Gross Insurance Premium

Gross recurring premiums on life and investment contracts with Discretionary Participation Features (DPF) are recognised as revenue when receivable from the policyholder. For single premium business, revenue is recognised on the date on which the policy is effective.

Gross general insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy commences.

	Bank		Group	
For the year ended 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Dividend income from financial assets measured at fair value through OCI	**313,937**	284,383	**348,398**	321,923
Dividend income from subsidiaries and associates	**345,585**	309,685	**-**	-
Dividend income from units in unit trust	**-**	3,985	**-**	3,985
Gains/ (Losses) on revaluation of foreign exchange	**(401,604)**	7,622,372	**(401,604)**	7,622,372
Gains/ (Losses) on sale of Property, Plant and Equipment	**63,171**	31,014	**63,761**	121,350
Gains/ (Losses) on sale of foreclosed properties	**60,109**	73,605	**60,109**	73,605
Rental income	**234,219**	234,590	**286,581**	302,487
Service income	**-**	-	**249,902**	233,705
Profit from sale of gold bullion	**8,421**	8,951	**8,421**	8,951
Miscellaneous income	**95,364**	1,014,141	**2,142,322**	2,322,159
Gross insurance premium	**-**	-	**184,897**	96,973
Net income from Islamic banking [Note 13.1]	**210,981**	224,489	**210,981**	224,489
Net other operating income	**930,183**	**9,807,215**	**3,153,768**	**11,331,999**

13.1 Net Income from Islamic Banking

For the year ended 31 December	Bank/ Group 2019	2018
	LKR '000	LKR '000
Income from Islamic banking operations	368,577	393,818
Less : Profit paid to investors	157,596	169,329
Net income from Islamic banking	210,981	224,489

14 Impairment Charge/ (Reversal) for Loans and Other Losses

Accounting Policy

The Bank and Group recognise the changes in the impairment provisions for financial instruments, which are assessed as per Sri Lanka Financial Reporting Standard - SLFRS 9 - "Financial Instruments". Details are given under Financial assets at amortised cost - loans and advances (Note 27). Further, the Bank/ Group recognises an impairment loss when the carrying amount of a non financial asset exceeds the estimated recoverable amount of that asset as per Sri Lanka Accounting Standard - LKAS 36 - "Impairment of Assets".

The table below shows the provision made during the year on identified Expected Credit Losses (ECL) on financial instruments for the year recorded in the Statement of Profit or Loss.

For the year ended 31 December	Bank 2019				Group 2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	6,424	-	-	6,424	6,430	-	-	6,430
Placements with banks	17,548	-	-	17,548	17,871	-	-	17,871
Financial assets measured at amortised cost - loans and advances	(3,135,377)	45,356	21,274,717	18,184,696	(3,268,464)	(31,134)	21,574,416	18,274,818
Financial assets measured at amortised cost - debt instruments	389,057	-	-	389,057	420,124	-	-	420,124
Total Credit loss expense	(2,722,348)	45,356	21,274,717	18,597,725	(2,824,039)	(31,134)	21,574,416	18,719,243

For the year ended 31 December	Bank 2018				Group 2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	(3,793)	-	-	(3,793)	(3,795)	-	-	(3,795)
Placements with banks	22,720	-	-	22,720	22,452	-	-	22,452
Financial assets measured at amortised cost - loans and advances	2,010,203	(2,123,633)	14,377,860	14,264,430	2,038,648	(2,116,443)	14,476,548	14,398,753
Financial assets measured at amortised cost - debt instruments	731,392	-	26,212	757,604	732,850	-	26,212	759,062
Total Credit loss expense	2,760,522	(2,123,633)	14,404,072	15,040,961	2,790,155	(2,116,443)	14,502,760	15,176,472

Notes to the Financial Statements

15 Personnel Expenses

Accounting Policy

Personnel expenses include staff emoluments, contribution to defined contribution/ benefit plans and other related expenses. Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus, if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Employees are eligible for contribution to defined contribution/ benefit plans in accordance with the respective internal and external statutes and regulations.

Defined benefit plan contributions and provisions for accumulated leave are recognised in the Statement of Profit or Loss based on actuarial valuations carried out in accordance with Sri Lanka Accounting Standard - LKAS 19 on "Employee Benefits".

	Bank		Group	
For the year ended 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Staff emoluments	**16,204,133**	15,153,102	**17,608,278**	16,593,168
Contributions to defined contribution plans [Note 15.1]	**1,323,889**	1,293,232	**1,467,500**	1,432,572
Contributions to defined benefit plans [Note 15.2]	**(244,156)**	(132,434)	**(125,914)**	(24,931)
Other personnel expenses	**1,081,163**	1,037,565	**1,263,218**	1,076,037
Total personnel expenses	**18,365,029**	**17,351,465**	**20,213,082**	**19,076,846**

15.1 Contributions to Defined Contribution Plans

A Defined Contribution Plan (DCP) is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an expense in the Statement of Profit or Loss when they are due in respect of service rendered before the end of the Reporting period. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a DCP that is due more than 12 months after the end of the Reporting period in which the employees render the service are discounted to their present value at the Reporting date.

Bank of Ceylon Provident Fund

All employees of the Bank are members of the "Bank of Ceylon Provident Fund" to which the Bank contributes 12% of employees' monthly gross salary while employees contribute 8%. This fund is an approved fund, which is independently administered.

Employees' Provident Fund

The subsidiaries and their employees (other than Bank of Ceylon and its employees) contribute 12% (15% by Property Development PLC and Hotel Colombo Limited) and 8% (10% by Property Development PLC's and Hotel Colombo Limited's employees) respectively on monthly gross salary of each employee to Employees' Provident Fund, in terms of the Employees' Provident Fund Act No. 15 of 1958 and subsequent amendments thereto. The respective fund is managed by the Central Bank of Sri Lanka.

Employees' Trust Fund

All employees of the Bank and its subsidiaries are members of the Employees' Trust Fund to which the Bank and the Group contributes 3% of the employee's monthly gross salary, in terms of Employees' Trust Fund Act No.46 of 1980.

For the year ended 31 December	Bank		Group	
	2019	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Employers' contribution to:				
Bank of Ceylon/Employees' Provident Fund	**1,060,906**	1,036,063	**1,176,229**	1,148,216
Employees' Trust Fund	**262,983**	257,169	**291,271**	284,356
Total contributions to defined contribution plans	**1,323,889**	**1,293,232**	**1,467,500**	**1,432,572**

15.2 Contributions to Defined Benefit Plans

A Defined Benefit Plan (DBP) is a post-employment benefit plan other than a DCP. The Group's net obligation in respect of DBP is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that benefit to determine its present value and then deducting the fair value of any plan assets. The discount rate is the yield at the Reporting date on long-term treasury bond rate for discount rates actually used that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the Projected Unit Credit method.

The Group recognises all actuarial gains and losses arising from DBP in the OCI and the expenses related to DBP under personnel expenses in the Statement of Profit or Loss. Details of defined benefit plans are given in "Employee retirement benefit plans" (Note 47).

For the year ended 31 December	Bank		Group	
	2019	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Net expenses recognised in the profit or loss				
Bank of Ceylon Pension Trust Fund [Note 47.1]	**711,713**	539,185	**711,713**	539,185
Bank of Ceylon Widows'/ Widowers' and Orphans' Pension Fund [Note 47.2]	**(1,274,952)**	(955,403)	**(1,274,952)**	(955,403)
Terminal gratuity [Note 47.3]	**66,517**	47,536	**133,491**	107,503
Bank of Ceylon Pension Fund - 2014 [Note 47.4]	**193,561**	188,251	**193,561**	188,251
Provision for encashment of medical leave	**59,005**	47,997	**59,005**	47,997
Pension fund - Bank of Ceylon (UK) Limited	**-**	-	**51,268**	47,536
Total contributions to defined benefit plans	**(244,156)**	**(132,434)**	**(125,914)**	**(24,931)**

16 Other Expenses

Accounting Policy

Other expenses have been recognised in the Statement of Profit or Loss as they are incurred in the period to which they relate. All expenditure incurred in the operation of the business and in maintaining the capital assets in a state of efficiency has been charged to revenue in arriving at the Group's profit for the year. Provisions in respect of other expenses are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources emboding economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Notes to the Financial Statements

Deposit Insurance Premium

As per the Sri Lanka Deposit Insurance and Liqudity Support Scheme introduced under the Banking Act Direction No.05 of 2010, the Bank is required to make quarterly payments of 0.1% or 0.125% on the eligible deposit liabilities, from 1 October 2010. The premium rate depends on the Capital Adequacy Ratio (CAR) of the immediate preceeding Audited Financial Statements.

Reinsurance Premium, Claims and Other Benefits

Gross benefits and claims for life insurance contracts and for investment contracts with Discretionary Participation Features (DPF) include the cost of all claims arising during the year including internal and external claims handling costs that are directly related to the processing and settlement of claims and policyholder bonuses declared on DPF contracts, as well as changes in the gross valuation of insurance and investment contract liabilities with DPF. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Interim payments and surrenders are accounted at the time of settlement.

General insurance include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims expenses and liabilities for outstanding claims are recognised in respect of direct and inward reinsurance business. The liability covers claims reported but not yet paid, Incurred But Not Reported (IBNR) claims and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims. The provision in respect of IBNR is actuarially valued on an annual basis to ensure a more realistic estimation of the future liability based on past experience and trends.

While the Directors consider that the provision for claims is fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustment to the amounts provided. Such amounts are reflected in the Financial Statements for that period. The methods used and the estimates made are reviewed regularly.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

	Bank		Group	
For the year ended 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Directors' emoluments	**4,713**	4,700	**12,339**	72,380
Auditors' remuneration				
Audit fees	**16,253**	21,657	**42,163**	40,264
Non-audit fees	**-**	-	**866**	774
Deposit insurance premium	**1,672,955**	1,482,361	**1,704,381**	1,511,220
Professional and legal expenses	**132,322**	179,349	**237,064**	256,187
Net revaluation loss on buildings	**-**	-	**15,988**	10,515
Fixed assets maintenance expenses	**3,685,515**	4,862,972	**3,189,155**	4,022,345
Fair value adjustment on gold in hand	**-**	(317,972)	**-**	(317,972)
Reinsurance premium, claims and other benefits	**-**	-	**145,015**	247,424
Office administration and establishment expenses*	**4,928,451**	5,108,001	**7,564,535**	7,290,816
Total other expenses	**10,440,209**	**11,341,068**	**12,911,506**	**13,133,953**

* Rental expesnes paid for operating leases were reported in 2018 under office administration and establishment expenses, with the implementation of Sri Lanka Financial Reporting Standard (SLFRS) 16 "Leases" from 1 January 2019, rental expenses pertaining to year 2019 have been reported as per Sri Lanka Financial Reporting Standard - SLFRS 16 "Leases" and disclosed in Other Liabilities (Note 46).

17 Taxes

17.1 Taxes on Financial Services

Taxes on financial services includes Value Added Tax (VAT), Nation Building Tax (NBT) and Debt Repayment Levy (DRL) calculated based on the value addition made on financial services.

	Bank		Group	
For the year ended 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Value Added Tax	**6,146,875**	7,254,211	**6,340,851**	7,429,191
Nation Building Tax	**731,281**	967,206	**753,870**	994,534
Debt Repayment Levy	**3,642,468**	1,366,895	**3,755,828**	1,394,295
Total taxes on financial services	**10,520,624**	**9,588,312**	**10,850,549**	**9,818,020**

17.2 Income Tax Expense

Current tax and deferred tax are recognised in the Statement of Profit or Loss except to the extent that it relates to items recognised directly in Equity or in Other Comprehensive Income (OCI).

Current Taxation

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the Reporting date and any adjustment to tax payable in respect of previous years. The amount of current tax receivable or payable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes if any.

Accordingly, provision for taxation is made on the basis of the accounting profit for the year, as adjusted for taxation purposes, in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and amendments thereto up to 31 March 2018 and with effect from 1 April 2018 Inland Revenue Act No. 24 of 2017.

Provision for taxation on the overseas operations is made on the basis of the accounting profit for the year, as adjusted for taxation purposes, in accordance with the provisions of the relevant laws and regulations in those countries, using the tax rates enacted or substantively enacted as at the Reporting date.

Deferred Taxation

Details are given in Note 36.

Following details are provided as required by the Sri Lanka Accounting Standard – LKAS 12 on "Income Taxes".

17.2.1 Components of Income Tax Expense

	Bank		Group	
For the year ended 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Current tax expense				
Income tax on profits for the year	**8,036,222**	8,626,425	**8,384,633**	8,858,379
Adjustments in respect of prior years	**(759,266)**	1,097,090	**43,919**	1,329,632
Deferred tax expense				
Charge/ (Reversal) of defferred tax expense [Note 36]	**(689,764)**	2,689,910	**(1,500,318)**	2,734,006
Income tax expense for the year	**6,587,192**	**12,413,425**	**6,928,234**	**12,922,017**

Notes to the Financial Statements

17.2.2 Reconciliation of Accounting Profit and Income Tax Expense

	Bank		Group	
For the year ended 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Accounting profit before income tax	**29,685,227**	33,416,085	**30,675,569**	33,961,102
Add : Dividend income from subsidiaries and associates	**-**	-	**345,585**	309,685
	29,685,227	33,416,085	**31,021,154**	34,270,787
Add : Disallowable expenses	**29,077,534**	23,587,122	**29,697,265**	24,899,840
	58,762,761	57,003,207	**60,718,419**	59,170,627
Less: Allowable expenses	**19,216,232**	14,134,254	**19,995,650**	15,593,182
Less: Tax exempt income	**11,304,111**	12,395,215	**11,304,111**	12,413,645
Taxable income	**28,242,418**	**30,473,738**	**29,418,658**	**31,163,800**
Current tax at rate of 28% (2018- 28%)	**7,907,877**	8,532,648	**8,237,224**	8,725,864
Effect of different tax rates in the Group	**-**	-	**7,647**	858
Effect of different tax rates in other countries	**128,345**	93,777	**128,346**	93,778
10% withholding tax on inter company dividends	**-**	-	**11,416**	37,879
Adjustment in respect of prior years	**(759,266)**	1,097,090	**43,919**	1,329,632
Charge/ (Reversal) of deferred tax [Note 36]	**(689,764)**	2,689,910	**(1,500,318)**	2,734,006
Income tax expense for the year	**6,587,192**	**12,413,425**	**6,928,234**	**12,922,017**
The effective income tax rate (%)	**22.2**	38.9	**22.6**	**39.8**

As per the Notice published by the Department of Inland Revenue on 18 February 2020, interest income earned from Sri Lanka Development Bond (SLDB) has been exempted from income tax with effect from 1 April 2018. Accordingly, the over provision made on account of income tax liability in 2018 was reversed to the income statement of the current year, while, income tax liability for the year ended 31 December 2019 too was calculated by considering the interest income from SLDB as an exempt source of income.

17.2.3 The Tax Liabilities of resident companies are computed at the standard rate of 28% (2018 : 28%) except following Bank operations and companies which enjoy full or partial exemptions and concessions.

For the year ended 31 December	**2019**	2018	
		From 01.04.2018	Up to 31.03.2018
	%	%	%
Tax rates applicable on local operations			
BOC Travels (Private) Limited	**28.0**	28.0	12.0
Hotels Colombo (1963) Limited*	**14.0**	14.0	12.0
Ceybank Holiday Homes (Private) Limited.	**12.0**	28.0	12.0
Koladeniya Hydropower (Private) Limited**	**20.0**	10.0	10.0

For the year ended 31 December	2019	2018
	%	%
Tax rates applicable on foreign operations		
Banking operations in Male	**25.0**	25.0
Banking operations in Chennai	**40.0**	43.0
Banking operation in Seychelles		
Up to SCR 1,000,000	**25.0**	25.0
Balance	**33.3**	33.3
Bank of Ceylon (UK) Limited	**19.0**	20.0

* Investment income of the Hotels Colombo (1963) Limited and Koladeniya Hydropower (Private) Limited is subject to 28%.

** In accordance with the agreement with the Board of Investment of Sri Lanka (BOI), Koladeniya Hydropower (Private) Limited is entitled to a tax exemption period of five years from the year in which the company commences to make profits or not later than two years from the date of commencement of commercial operations, whichever is earlier as may be specified in a certificate issued by the the Board of Investment. The tax holiday ended on 31 December 2016.
After the tax exemption period, the company will be liable to tax on its trading profit at a concessionary rate of 10% for 2 years and at 20% thereafter.

18 Share of profits/ (losses) of Associate Companies, Net of Tax

The aggregate of the Group's share of profit or losses of associates is shown in the Statement of Profit or Loss under the equity method of accounting.

	Group	
For the year ended 31 December	2019	2018
	LKR '000	LKR '000
Ceybank Asset Management Limited	**22,863**	4,920
Lanka Securities (Private) Limited	**(11,169)**	(14,602)
Transnational Lanka Records Solutions (Private) Limited	**36,493**	18,951
Total share of profits/ (losses) of associate companies, net of tax	**48,187**	**9,269**

Notes to the Financial Statements

19 Earnings Per Share and Dividend Per Share

19.1 Basic Earnings Per Share

In accordance with the Sri Lanka Accounting Standard - LKAS 33 "Earnings Per Share", basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank (the numerator) by the weighted average number of ordinary shares in issue (the denominator) during the year.

	Bank		Group	
For the year ended 31 December	**2019**	2018	**2019**	2018
Profit attributable to ordinary shareholder of the Bank (LKR '000)	**23,098,035**	21,002,660	**23,452,040**	21,056,794
Weighted average number of ordinary shares in issue [Note 19.1.1]	**23,767,123**	18,643,836	**23,767,123**	18,643,836
Basic earnings per share (LKR)	**971.85**	**1,126.52**	**986.74**	**1,129.42**

19.1.1 Weighted Average Number of Ordinary Shares in Issue

	Bank		Group	
For the year ended 31 December	**2019**	2018	**2019**	2018
Number of ordinary shares in issue as at 1 January	**20,000,000**	15,000,000	**20,000,000**	15,000,000
Weighted average number of ordinary shares issued during the year	**3,767,123**	3,643,836	**3,767,123**	3,643,836
Weighted average number of ordinary shares in issue as at 31 December	**23,767,123**	**18,643,836**	**23,767,123**	**18,643,836**

19.2 Diluted Earnings Per Share

Diluted earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholder of the Bank (the numerator) by the weighted average number of ordinary shares in issue during the year after adjusting for effect of all dilutive potential ordinary shares (the denominator).

	Bank		Group	
For the year ended 31 December	**2019**	2018	**2019**	2018
Profit attributable to ordinary shareholders of the Bank (LKR '000)	**23,098,035**	21,002,660	**23,452,040**	21,056,794
Weighted average number of ordinary shares after adjusting for dilution [Note 19.2.1]	**25,000,000**	21,287,672	**25,000,000**	21,287,672
Diluted earnings per share (LKR)	**923.92**	**986.61**	**938.08**	**989.15**

19.2.1 Weighted Average Number of Ordinary Shares After Adjusting for Dilution

	Bank		Group	
For the year ended 31 December	**2019**	2018	**2019**	2018
Weighted average number of ordinary shares in issue [Note 19.1.1]	**23,767,123**	18,643,836	**23,767,123**	18,643,836
Weighted average number of potential ordinary shares under pending allotment during the year	**1,232,877**	2,643,836	**1,232,877**	2,643,836
Weighted average number of ordinary shares after adjusting for dilution	**25,000,000**	**21,287,672**	**25,000,000**	**21,287,672**

19.3 Dividend Per Share

Dividend per share is calculated by dividing the total dividend allocated to shareholder (the numerator) by the weighted average number of ordinary shares in issue (the denominator) during the year.

	Bank		Group	
For the year ended 31 December	**2019**	2018	**2019**	2018
Total dividend allocated to shareholder during the year (LKR '000)	**346,410**	4,846,410	**346,410**	4,846,410
Weighted average number of ordinary shares in issue [Note 19.1.1]	**23,767,123**	18,643,836	**23,767,123**	18,643,836
Dividend per share (LKR)	**14.58**	**259.95**	**14.58**	**259.95**

20 Analysis of Financial Instruments by Measurement Basis

All financial assets and liabilities are measured under the following headings as per the SLFRS 9 - "Financial Instruments"

20.1 Bank

As at 31 December	2019			
	Fair value through profit or loss	Fair value through OCI	Amortised cost	Total
	LKR '000	LKR '000	LKR '000	LKR '000
Financial assets				
Cash and cash equivalents	-	-	**64,868,895**	**64,868,895**
Balances with Central Banks	-	-	**54,594,436**	**54,594,436**
Placements with banks	-	-	**44,476,343**	**44,476,343**
Securities purchased under resale agreements	-	-	**2,179,449**	**2,179,449**
Derivative financial instruments	**132,090**	-	-	**132,090**
Loans and advances	-	-	**1,549,804,871**	**1,549,804,871**
Debt instruments	**7,459,270**	**9,669,618**	**572,747,809**	**589,876,697**
Equity Instruments	**2,596,145**	**4,566,472**	-	**7,162,617**
Total financial assets	**10,187,505**	**14,236,090**	**2,288,671,803**	**2,313,095,398**

Notes to the Financial Statements

As at 31 December	2019		
	Fair value through profit or loss	Amortised cost	Total
	LKR '000	LKR '000	LKR '000
Financial liabilities			
Due to banks	-	2,669,407	2,669,407
Securities sold under repurchase agreements	-	34,183,210	34,183,210
Derivative financial instruments	106,677	-	106,677
Financial liabilities at amortised cost			
- due to depositors	-	2,005,211,794	2,005,211,794
- other borrowings	-	137,833,543	137,833,543
Subordinated liabilities	-	54,221,552	54,221,552
Total financial liabilities	106,677	2,234,119,506	2,234,226,183

As at 31 December	2018			
	Fair value through profit or loss	Fair value through OCI	Amortised cost	Total
	LKR '000	LKR '000	LKR '000	LKR '000
Financial assets				
Cash and cash equivalents	-	-	78,447,577	78,447,577
Balances with Central Banks	-	-	65,680,371	65,680,371
Placements with banks	-	-	40,450,089	40,450,089
Securities purchased under resale agreements	-	-	-	-
Derivative financial instruments	1,205,657	-	-	1,205,657
Loans and advances	-	-	1,429,107,181	1,429,107,181
Debt instruments	6,769,790	12,315,777	551,839,449	570,925,016
Equity Instruments	2,507,508	4,383,805	-	6,891,313
Total financial assets	10,482,955	16,699,582	2,165,524,667	2,192,707,204

As at 31 December	2018		
	Fair value through profit or loss	Amortised cost	Total
	LKR '000	LKR '000	LKR '000
Financial liabilities			
Due to banks	-	2,402,468	2,402,468
Securities sold under repurchase agreements	-	97,399,359	97,399,359
Derivative financial instruments	509,018	-	509,018
Financial liabilities at amortised cost			
- due to depositors	-	1,770,974,846	1,770,974,846
- other borrowings	-	201,792,174	201,792,174
Subordinated liabilities	-	50,827,239	50,827,239
Total financial liabilities	509,018	2,123,396,086	2,123,905,104

20.1 Group

As at 31 December	2019			
	Fair value through profit or loss	Fair value through OCI	Amortised cost	Total
	LKR '000	LKR '000	LKR '000	LKR '000
Financial assets				
Cash and cash equivalents	-	-	64,829,735	64,829,735
Balances with Central Banks	-	-	54,594,436	54,594,436
Placements with banks	-	-	47,911,621	47,911,621
Securities purchased under resale agreements	-	-	3,981,886	3,981,886
Derivative financial instruments	132,090	-	-	132,090
Loans and advances	-	-	1,580,949,025	1,580,949,025
Debt instruments	8,194,723	11,540,189	573,977,330	593,712,242
Equity instruments	2,858,046	5,476,364	-	8,334,410
Total financial assets	**11,184,859**	**17,016,553**	**2,326,244,033**	**2,354,445,445**

As at 31 December	2019		
	Fair value through profit or loss	Amortised cost	Total
	LKR '000	LKR '000	LKR '000
Financial liabilities			
Due to banks	-	2,932,950	2,932,950
Securities sold under repurchase agreements	-	34,880,507	34,880,507
Derivative financial instruments	106,677	-	106,677
Financial liabilities at amortised cost	-	-	-
- due to depositors	-	2,025,204,033	2,025,204,033
- other borrowings	-	145,095,262	145,095,262
Debt securities issued	-	2,107,810	2,107,810
Subordinated liabilities	-	54,211,542	54,211,542
Total financial liabilities	**106,677**	**2,264,432,104**	**2,264,538,781**

Notes to the Financial Statements

As at 31 December	2018			
	Fair value through profit or loss	Fair value through OCI	Amortised cost	Total
	LKR '000	LKR '000	LKR '000	LKR '000
Financial assets				
Cash and cash equivalents	-	-	78,558,031	78,558,031
Balances with Central Banks	-	-	65,680,371	65,680,371
Placements with banks	-	-	41,681,910	41,681,910
Securities purchased under resale agreements	-	-	1,436,068	1,436,068
Derivative financial instruments	1,205,657	-	-	1,205,657
Loans and advances	-	-	1,460,618,588	1,460,618,588
Debt instruments	6,802,836	14,000,999	553,033,150	573,836,985
Equity instruments	2,780,491	5,337,784	-	8,118,275
Total financial assets	**10,788,984**	**19,338,783**	**2,201,008,118**	**2,231,135,885**

As at 31 December	2018		
	Fair value through profit or loss	Amortised cost	Total
	LKR '000	LKR '000	LKR '000
Financial liabilities			
Due to banks	-	2,515,998	2,515,998
Securities sold under repurchase agreements	-	97,423,302	97,423,302
Derivative financial instruments	509,018	-	509,018
Financial liabilities at amortised cost			
- due to depositors	-	1,789,924,369	1,789,924,369
- other borrowings	-	207,053,674	207,053,674
Debt securities issued	-	4,105,681	4,105,681
Subordinated liabilities	-	50,484,487	50,484,487
Total financial liabilities	**509,018**	**2,151,507,511**	**2,152,016,529**

21 Cash and Cash Equivalents

Accounting Policy

Cash and cash equivalents include local and foreign currency notes and coins in hand, unrestricted balances held with central banks, balances with other banks and highly liquid financial assets with original maturities of less than seven days, which are subject to insignificant risk of changes in their fair value and are used by the Group to manage its short-term commitments. Cash and cash equivalents are carried at amortised cost. The losses arising from impairment are recognised in "Impairment charge/ (reversal) for loans and other losses" (Note 14) in the Statement of Profit or Loss.

There were no cash and cash equivalents held by the Group that were not available for use by the Group.

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Local currency in hand	**43,871,910**	35,957,753	**44,042,654**	36,143,018
Foreign currency in hand	**2,660,722**	2,425,261	**2,673,027**	2,432,289
Balances with banks	**14,581,681**	12,137,568	**14,358,252**	12,286,500
Money at call and short notice	**3,768,118**	27,934,107	**3,769,353**	27,703,345
Gross cash and cash equivalents	**64,882,431**	**78,454,689**	**64,843,286**	**78,565,152**
Less: Accumulated impairment [Note 21.2]	**13,536**	7,112	**13,551**	7,121
Net cash and cash equivalents	**64,868,895**	**78,447,577**	**64,829,735**	**78,558,031**

21.1 Analysis of Cash and Cash Equivalents Based on Exposure to Credit Risk

	Bank				
As at 31 December	**2019**				2018
	Stage 1	Stage 2	Stage 3	Total	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Balances with banks	**14,581,681**	-	-	**14,581,681**	12,137,568
Money at call and short notice	**3,768,118**	-	-	**3,768,118**	27,934,107
	18,349,799	-	-	**18,349,799**	40,071,675
Less: Accumulated impairment	**13,536**	-	-	**13,536**	7,112
	18,336,263	-	-	**18,336,263**	**40,064,563**

	Group				
As at 31 December	**2019**				2018
	Stage 1	Stage 2	Stage 3	Total	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Balances with banks	**14,358,252**	-	-	**14,358,252**	12,286,500
Money at call and short notice	**3,769,353**	-	-	**3,769,353**	27,703,345
	18,127,605	-	-	**18,127,605**	39,989,845
Less: Accumulated impairment	**13,551**	-	-	**13,551**	7,121
	18,114,054	-	-	**18,114,054**	39,982,724

Notes to the Financial Statements

21.2 Movement of Impairment During the Period

	Bank		Group	
	2019	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Stage 1				
Openning balance as at 1 January	**7,112**	10,905	**7,121**	10,916
Charge/ (Revesal) during the year	**6,424**	(3,793)	**6,430**	(3,795)
Closing balance as at 31 December	**13,536**	**7,112**	**13,551**	**7,121**

	Bank		Group	
	2019	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Total				
Openning balance as at 1 January	**7,112**	10,905	**7,121**	10,916
Charge/ (Revesal) during the year	**6,424**	(3,793)	**6,430**	(3,795)
Closing balance as at 31 December	**13,536**	**7,112**	**13,551**	**7,121**

22 Balances with Central Banks

Accounting Policy

Balances with Central Banks are carried at amortised cost in the Statement of Financial Position

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Statutory balances with central banks				
Central bank of Sri Lanka	**48,334,353**	59,405,543	**48,334,353**	59,405,543
Other Central Banks	**6,260,083**	6,274,828	**6,260,083**	6,274,828
Total balances with central banks	**54,594,436**	**65,680,371**	**54,594,436**	**65,680,371**

22.1 Central Bank of Sri Lanka (CBSL)

In terms of the provisions of Section 93 of the Monetary Law Act No. 58 of 1949, the Bank is required to maintain a cash reserve with Central Bank of Sri Lanka. The minimum cash reserve requirement as of 31 December 2019 was 5% (2018 : 6%) of Sri Lankan Rupee deposit liabilities. There is no reserve requirement for foreign currency deposit liabilities maintained by domestic branches and the deposit liabilities of the Off-shore Banking Division in Sri Lanka (2018 : Nil).

22.2 Reserve Bank of India (RBI)

In terms of the provisions of Section 42 (1) of the Reserve Bank of India (RBI) Act No. 02 of 1934, the branch in Chennai is required to maintain a cash reserve with RBI. The minimum cash reserve as of 31 December 2019 was 4% on its demand and term deposit liabilities. (2018 : 4%)

22.3 Maldives Monetary Authority (MMA)

In terms of the provisions of section 25 of the Maldives Banks Act No. 24 of 2010, it is required to maintain a reserve deposit based on 10% of the branch's deposits and liabilities to the public in the Maldives in Maldivian Rufiyaa and United States Dollar seperately. (2018 : 10%)

22.4 Central Bank of Seychelles (CBS)

In terms of the provisions of the section 2 of the Central Bank of the the Seychelles Act 2004, the branch in Seychelles is required to maintain a reserve of 13% based on the branch's deposits liabilities. (2018 : 13%).

23 Placements with banks

Accounting Policy

"Placements with banks" include balances with other banks with original maturities of more than seven days which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at fair value through profit or loss
- Those that upon initial recognition, designates as fair value through other comprehensive income
- Those for which may not recover substantially all of its initial investment, other than due to credit deterioration

Placements with banks are initially measured at fair value. After initial measurement, they are subsequently measured at amortised cost using the Effective Interest Rate (EIR), less allowance for impairment. Interest income from placements with banks is included in "Interest income" (Note 8.1) in the Statement of Profit or Loss. The losses arising from impairment are recognised in "Impairment charge/ (reversal) for loans and other losses" (Note 14) in the Statement of Profit or Loss. Certain placements with banks are written off when they are determined to be uncollectible.

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Placements within Sri Lanka	**182,660**	1,108,583	**1,660,163**	1,781,548
Placements outside Sri Lanka	**44,334,539**	39,364,814	**46,292,715**	39,923,748
Gross placements with banks	**44,517,199**	**40,473,397**	**47,952,878**	**41,705,296**
Less: Accumulated impairment	**40,856**	23,308	**41,257**	23,386
Net placements with banks	**44,476,343**	**40,450,089**	**47,911,621**	**41,681,910**

23.1 Analysis of Placements with Banks Based on Exposure to Credit Risk

Bank

As at 31 December	2019				2018
	Stage 1	Stage 2	Stage 3	Total	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Placements within Sri Lanka	**182,660**	-	-	**182,660**	1,108,583
Placements outside Sri Lanka	**44,334,539**	-	-	**44,334,539**	39,364,814
	44,517,199	-	-	**44,517,199**	40,473,397
Less: Accumulated impairment	**40,856**	-	-	**40,856**	23,308
	44,476,343	-	-	**44,476,343**	**40,450,089**

Notes to the Financial Statements

Group

As at 31 December	2019				2018
	Stage 1	Stage 2	Stage 3	Total	Total
	LKR '000	LKR '000	LKR '000	LKR '000	
Placements within Sri Lanka	**1,660,163**	-	-	**1,660,163**	1,781,548
Placements outside Sri Lanka	**46,292,715**	-	-	**46,292,715**	39,923,748
	47,952,878	-	-	**47,952,878**	41,705,296
Less: Accumulated impairment	**41,257**	-	-	**41,257**	23,386
	47,911,621	-	-	**47,911,621**	**41,681,910**

23.2 Movement in Impairment During the Year

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Stage 1				
Opening balance as at 1 January	**23,308**	588	**23,386**	934
Charge/ (Reversal) during the year	**17,548**	22,720	**17,871**	22,452
Closing Balance as at 31 December	**40,856**	**23,308**	**41,257**	**23,386**

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Total				
Opening balance as at 1 January	**23,308**	588	**23,386**	934
Charge/ (Reversal) during the year	**17,548**	22,720	**17,871**	22,452
Closing Balance as at 31 December	**40,856**	**23,308**	**41,257**	**23,386**

24 Securities Purchased Under Resale Agreements

Accounting Policy

Securities purchased under resale agreements (Reverse Repos) are purchase of securities with the agreement to sell them at a higher price at a specific future date.The consideration paid and accrued interest (measured by using the EIR) are recorded in the Statement of Financial Position, reflecting the transaction's economic substance as an advance granted by the Group. The difference between the purchase price and resale price is recognised as "Interest income" (Note 8.1) and is amortised over the life of the agreement.

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
With Banks	**2,179,449**	-	**2,805,597**	143,398
With other Customers	**-**	-	**1,176,289**	1,292,670
Total securities purchased under resale agreements	**2,179,449**	**-**	**3,981,886**	**1,436,068**

25 Derivative Financial Instruments

Accounting Policy

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk, indices etc. Derivative financial instruments include contracts which are entered by the Bank that are not designated as hedging instruments in hedge relationships as per the Sri Lanka Accounting Standard –SLFRS 9 on "Financial Instruments". Derivatives are categorised as trading unless they are designated as hedging instruments. All derivatives are initially recognised and subsequently measured at fair value, with all revaluation gains or losses recognised in the Statement of Profit or Loss under "Net gains/ (losses) from trading" (Note 10). Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Fair value is determined using the forward market rates ruling on the Reporting date.

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Foreign currency derivatives				
Forward exchange contracts	**7,977**	28,897	**7,977**	28,897
Currency SWAPs	**124,113**	1,176,760	**124,113**	1,176,760
Total derivative financial instruments	**132,090**	**1,205,657**	**132,090**	**1,205,657**

26 Financial Assets Recognised through Profit or Loss

Accounting Policy

Financial instruments are classified as financial assets measured at fair value through profit or loss if they have been acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short term profit or position taking. Further as per SLFRS 9, financial assets recognised through profit or loss includes all financial assets other than those classified under FVTOCI and amortised cost.

Notes to the Financial Statements

All financial assets under this category are initially and subsequently measured at fair value. Upon initial recognition, transaction cost are directly attributable to the acquisition are recognised in the Statement of Profit or Loss. Changes in fair value are recognised in "Net fair value gains/ (losses) from financial instruments at fair value through profit or loss" (Note 11) and dividend are recognised in "Net gains/ (losses) from trading" (Note 10). Interest income is recorded in "Interest income" (Note 8.1) according to the terms of the contract.

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Measured at fair value				
Sri Lanka Government Securities				
Treasury bills	**4,636,846**	3,533,195	4,636,846	3,533,195
Treasury bonds	**29,806**	632,810	721,341	632,810
Quoted equities [Note 26.2]	**2,596,152**	2,507,508	2,858,056	2,780,491
Quoted Debt Securities [Note 26.3]	**-**	-	1,600	1,715
Units in unit trusts [Note 26.4]	**2,792,611**	2,603,785	2,834,926	2,635,116
Total financial assets recognised through profit or loss	**10,055,415**	**9,277,298**	**11,052,769**	**9,583,327**

26.1 By Currency

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Sri Lankan Rupee	**10,055,415**	9,277,298	**11,052,769**	9,583,327
Total	**10,055,415**	**9,277,298**	**11,052,769**	**9,583,327**

26.2 Quoted Equities

26.2.1 Sector Wise Composition of Quoted Equities

As at 31 December	2019			2018		
	Cost of investment	Market Value	Sector wise composition of market value	Cost of investment	Market Value	Sector wise composition of market value
	LKR '000	LKR '000	%	LKR '000	LKR '000	%
Bank [Note 26.2.2]						
Banks, Finance and Insurance	14,167	10,741	0.3	13,982	13,152	0.5
Beverage, Food and Tobacco	443,337	458,659	17.7	443,337	515,638	20.6
Chemical and Pharmaceuticals	261,945	121,449	4.7	261,945	82,403	3.3
Construction and Engineering	201,955	55,653	2.1	205,814	52,192	2.1
Diversified Holdings	1,286,911	879,729	33.9	1,301,219	846,374	33.8
Footwear and Textiles	23,894	23,168	0.9	23,668	12,713	0.5
Health Care	30,545	18,615	0.7	30,545	18,804	0.7
Hotels and Travels	719,581	276,992	10.7	719,579	280,829	11.2
Investment Trusts	173,391	65,868	2.5	168,781	48,921	2.0
Land and Property	24,786	15,325	0.6	24,815	15,804	0.6
Manufacturing	623,765	332,571	12.8	647,413	301,685	12.0
Motors	148,095	58,446	2.3	148,098	67,662	2.7
Oil Palms	83,965	27,441	1.1	83,965	24,460	1.0
Plantations	142,014	54,907	2.1	142,052	51,714	2.1
Power and Energy	220,305	103,825	4.0	213,036	92,994	3.7
Services	22,759	12,260	0.5	22,759	13,136	0.5
Stores and Supplies	21,923	10,837	0.4	21,923	10,840	0.4
Telecommunications	7,496	6,827	0.3	7,496	5,008	0.2
Trading	142,914	62,839	2.4	142,914	53,179	2.1
Total	4,593,748	2,596,152	100.0	4,623,341	2,507,508	100.0
Group [Note 26.2.3]						
Banks, Finance and Insurance	168,096	117,256	4.1	161,708	121,513	4.4
Beverage, Food and Tobacco	470,507	470,963	16.5	482,259	538,583	19.4
Chemical and Pharmaceuticals	264,167	123,686	4.3	265,958	85,016	3.1
Construction and Engineering	211,696	60,108	2.1	215,351	55,906	2.0
Diversified Holdings	1,318,675	903,771	31.6	1,334,509	870,513	31.3
Footwear and Textiles	23,894	23,168	0.8	32,812	18,905	0.7
Health Care	32,982	20,873	0.7	31,045	19,160	0.7
Hotels and Travels	785,875	312,433	10.9	784,857	319,023	11.5
Investment Trusts	190,649	79,481	2.8	185,811	59,903	2.1
Land and Property	35,148	22,037	0.8	29,944	19,839	0.7
Manufacturing	665,881	362,515	12.7	696,607	337,142	12.1
Motors	149,282	59,549	2.1	148,098	67,662	2.4
Oil Palms	83,965	27,441	1.0	83,965	24,460	0.9
Plantations	145,413	57,467	2.0	144,478	53,341	1.9
Power and Energy	230,026	114,795	4.0	222,425	101,460	3.6
Services	24,731	13,809	0.5	24,015	13,888	0.5
Stores and Supplies	21,923	10,837	0.4	21,923	10,840	0.4
Telecommunications	7,496	6,827	0.2	8,246	5,766	0.2
Trading	151,255	71,040	2.5	148,251	57,571	2.1
Total	4,981,661	2,858,056	100.0	5,022,262	2,780,491	100.0

Notes to the Financial Statements

26.2.2 Quoted Equities- Bank

As at 31 December	Bank							
	2019				2018			
	No. of ordinary shares	Cost of investment	Market price per share	Market value	No. of ordinary shares	Cost of investment	Market price per share	Market value
		LKR '000	LKR	LKR '000		LKR '000	LKR	LKR '000
Banks, Finance and Insurance								
Hatton National Bank PLC	62,374	14,167	172.20	10,741	61,459	13,982	214.00	13,152
		14,167		10,741		13,982		13,152
Beverage, Food and Tobacco								
Bairaha Farms PLC	119,942	31,789	112.00	13,434	119,942	31,789	124.70	14,957
Cargills (Ceylon) PLC	1,484,120	267,267	193.00	286,435	1,484,120	267,267	200.00	296,824
Ceylon Tobacco Company PLC	143,177	137,100	1,100.30	157,538	143,177	137,100	1,415.00	202,595
HVA Foods PLC	20,000	905	3.90	78	20,000	905	4.40	88
Lucky Lanka Milk Processing PLC - Voting	1,000,000	6,000	1.10	1,100	1,000,000	6,000	1.10	1,100
Lucky Lanka Milk Processing PLC - Non voting	91,900	276	0.80	74	91,900	276	0.80	74
		443,337		458,659		443,337		515,638
Chemical and Pharmaceuticals								
Chemanex PLC	100,000	16,685	58.50	5,850	100,000	16,685	49.50	4,950
CIC Holdings PLC - Voting	770,657	124,284	60.00	46,239	770,657	124,284	39.60	30,518
CIC Holdings PLC - Non voting	416,189	40,011	47.60	19,811	416,189	40,011	30.00	12,486
Haycarb PLC	251,067	48,262	190.00	47,703	251,067	48,262	130.00	32,639
Lankem Ceylon PLC	72,400	32,703	25.50	1,846	72,400	32,703	25.00	1,810
		261,945		121,449		261,945		82,403
Construction and Engineering								
Access Engineering PLC	-	-	-	-	162,000	3,859	14.10	2,284
Colombo Dockyard PLC	897,625	201,955	62.00	55,653	897,622	201,955	55.60	49,908
		201,955		55,653		205,814		52,192
Diversified Holdings								
Aitken Spence PLC	2,596,230	360,512	46.50	120,725	2,596,230	360,512	47.80	124,100
Browns Capital PLC	-	-	-	-	200,000	991	3.50	700
Browns Investments PLC	-	-	-	-	3,073,412	13,317	1.90	5,839
Carson Cumberbatch PLC	313,352	141,328	190.00	59,537	313,352	141,328	170.20	53,333
Expolanka Holdings PLC	1,716,193	15,964	5.10	8,753	1,716,193	15,964	4.00	6,865
Hayleys PLC	68,097	21,556	174.90	11,910	68,097	21,556	187.00	12,734
John Keells Holdings PLC	3,299,657	575,620	167.60	553,023	3,299,637	575,620	159.70	526,952
Richard Pieris and Company PLC	6,889,225	90,662	11.80	81,293	6,889,225	90,662	10.50	72,337
The Colombo Fort Land & Building PLC	149,500	10,307	13.40	2,003	149,500	10,307	15.00	2,243
Vallibel One PLC	2,427,704	70,962	17.50	42,485	2,427,704	70,962	17.00	41,271
		1,286,911		879,729		1,301,219		846,374

As at 31 December	Bank							
	2019				2018			
	No. of ordinary shares	Cost of investment	Market price per share	Market value	No. of ordinary shares	Cost of investment	Market price per share	Market value
		LKR '000	LKR	LKR '000		LKR '000	LKR	LKR '000
Footwear and Textiles								
Hayleys Fabric PLC	971,398	14,569	17.90	17,388	774,098	14,343	9.10	7,044
ODEL PLC	222,295	9,325	26.00	5,780	222,295	9,325	25.50	5,669
		23,894		23,168		23,668		12,713
Health Care								
Singhe Hospitals PLC	4,000,000	10,000	1.50	6,000	4,000,000	10,000	1.40	5,600
The Lanka Hospital Corporation PLC	309,949	20,545	40.70	12,615	309,949	20,545	42.60	13,204
		30,545		18,615		30,545		18,804
Hotels and Travels								
Aitken Spence Hotel Holdings PLC	2,547,422	232,670	27.10	69,035	2,547,422	232,670	27.00	68,780
Amaya Leisure PLC	593,120	53,020	36.70	21,768	593,110	53,019	40.00	23,724
Asian Hotels & Properties PLC	2,367,741	225,781	40.50	95,894	2,367,741	225,781	42.90	101,576
Citrus Leisure PLC	100,000	10,112	12.10	1,210	100,000	10,112	4.80	480
Eden Hotel Lanka PLC	775,550	41,864	18.40	14,270	775,550	41,864	13.50	10,470
Galadari Hotels (Lanka) PLC	37,280	566	9.10	339	37,280	566	6.90	257
Jetwing Symphony PLC	179,627	2,694	11.30	2,030	179,627	2,694	12.00	2,156
John Keells Hotels PLC	893,487	14,553	11.60	10,364	893,487	14,553	7.80	6,969
Marawila Resorts PLC	100,000	782	2.00	200	100,000	782	1.80	180
Tal Lanka Hotels PLC	447,400	30,043	14.40	6,443	447,400	30,043	13.00	5,816
Tangerine Beach Hotels PLC	50,000	5,056	40.00	2,000	50,000	5,056	36.40	1,820
The Fortress Resorts PLC	1,461,100	50,506	11.80	17,241	1,461,100	50,506	9.10	13,296
The Kingsbury PLC	224,170	3,527	13.10	2,937	224,166	3,526	15.20	3,407
Trans Asia Hotels PLC	477,200	48,407	69.70	33,261	477,200	48,407	87.80	41,898
		719,581		276,992		719,579		280,829
Investment Trusts								
Ambeon Holdings PLC	385,000	23,271	12.90	4,967	385,000	23,271	11.10	4,274
Ceylon Guardian Investment Trust PLC	107,847	32,747	91.30	9,846	107,847	32,747	66.10	7,129
Ceylon Investment PLC	446,206	73,124	51.50	22,980	446,203	73,124	39.00	17,402
Renuka Holdings PLC	1,454,654	44,249	19.30	28,075	1,211,821	39,639	16.60	20,116
		173,391		65,868		168,781		48,921
Land and Property								
Overseas Realty (Ceylon) PLC	957,794	24,786	16.00	15,325	957,792	24,815	16.50	15,804
		24,786		15,325		24,815		15,804

Notes to the Financial Statements

As at 31 December	Bank							
	2019				2018			
	No. of ordinary shares	Cost of investment	Market price per share	Market value	No. of ordinary shares	Cost of investment	Market price per share	Market value
		LKR '000	LKR	LKR '000		LKR '000	LKR	LKR '000
Manufacturing								
Abans Electricals PLC	**196,303**	**26,807**	**95.70**	**18,786**	196,303	26,807	57.70	11,327
ACL Cables PLC	**362,363**	**16,217**	**57.50**	**20,836**	1,005,246	45,924	37.00	37,194
ACME Printing & Packaging PLC	**1,078,700**	**35,020**	**4.90**	**5,286**	1,078,700	35,020	4.20	4,531
Central Industries PLC	**-**	**-**	**-**	**-**	62,560	2,575	28.10	1,758
Ceylon Grain Elevators PLC	**612,498**	**60,754**	**68.50**	**41,956**	612,498	60,754	59.50	36,444
Chevron Lubricants Lanka PLC	**979,440**	**165,861**	**74.90**	**73,360**	837,966	154,550	72.80	61,004
Kelani Tyres PLC	**1,016,213**	**75,060**	**49.60**	**50,404**	1,016,213	75,060	35.90	36,482
Lanka Cement PLC	**7,265,828**	**63,576**	**2.50**	**18,165**	7,265,828	63,576	2.50	18,165
Lanka Tiles PLC	**1,023,200**	**134,249**	**76.70**	**78,479**	973,200	130,512	73.10	71,141
Orient Garments PLC	**82,150**	**2,568**	**7.00**	**575**	82,150	2,568	7.00	575
Piramal Glass Ceylon PLC	**3,288,600**	**32,322**	**4.50**	**14,799**	3,288,600	32,322	3.80	12,497
Royal Ceramics Lanka PLC	**-**	**-**	**-**	**-**	1,399	165	74.60	104
Sierra Cables PLC	**329,525**	**1,090**	**3.30**	**1,087**	329,525	1,090	2.10	692
Swisstek (Ceylon) PLC	**170,956**	**10,241**	**51.70**	**8,838**	161,929	11,283	41.00	6,639
Tokyo Cement Company (Lanka) PLC - Voting	**-**	**-**	**-**	**-**	36,669	1,807	25.20	924
Tokyo Cement Company (Lanka) PLC - Non voting	**-**	**-**	**-**	**-**	96,000	3,400	23.00	2,208
		623,765		**332,571**		**647,413**		**301,685**
Motors								
C M Holdings PLC	**50,857**	**17,422**	**79.00**	**4,018**	50,857	17,422	45.00	2,289
Diesel & Motor Engineering PLC	**77,935**	**84,511**	**320.00**	**24,939**	77,935	84,514	343.50	26,771
Sathosa Motors PLC	**13,195**	**5,111**	**303.70**	**4,007**	13,195	5,111	534.50	7,053
United Motors Lanka PLC	**404,478**	**41,051**	**63.00**	**25,482**	404,478	41,051	78.00	31,549
		148,095		**58,446**		**148,098**		**67,662**
Oil Palms								
Bukit Darah PLC	**119,257**	**83,965**	**230.10**	**27,441**	119,257	83,965	205.10	24,460
		83,965		**27,441**		**83,965**		**24,460**
Plantations								
Agalawatte Plantations PLC	**45,600**	**4,608**	**15.10**	**689**	45,600	4,608	14.00	638
Balangoda Plantations PLC	**30,000**	**2,184**	**12.00**	**360**	30,000	2,184	12.70	381
Horana Plantations PLC	**513,000**	**43,752**	**21.90**	**11,235**	513,000	43,752	15.00	7,695
Kahawatte Plantations PLC	**756,484**	**30,600**	**36.50**	**27,612**	757,436	30,638	39.90	30,222
Kegalle Plantations PLC	**50,600**	**13,703**	**59.50**	**3,011**	50,600	13,703	55.00	2,783
Kotagala Plantations PLC	**729,997**	**34,709**	**7.20**	**5,256**	729,997	34,709	6.70	4,891
Namunukula Plantations PLC	**80,000**	**12,458**	**84.30**	**6,744**	80,000	12,458	63.80	5,104
		142,014		**54,907**		**142,052**		**51,714**

As at 31 December	Bank							
	2019				2018			
	No. of ordinary shares	Cost of investment	Market price per share	Market value	No. of ordinary shares	Cost of investment	Market price per share	Market value
		LKR '000	LKR	LKR '000		LKR '000	LKR	LKR '000
Power and Energy								
Laugfs Gas PLC - Voting	**168,727**	**4,688**	**17.50**	**2,953**	168,727	4,688	18.70	3,155
Laugfs Gas PLC - Non-voting	**3,420,538**	**142,754**	**13.20**	**45,151**	3,420,538	142,754	15.40	52,676
Laugfs Power PLC	**1,547,831**	**-**	**4.00**	**6,191**	-	-	-	-
Lotus Hydro Power PLC	**173,194**	**1,427**	**6.00**	**1,039**	173,194	1,427	4.50	779
LVL Energy Fund PLC	**648,100**	**6,481**	**7.50**	**4,861**	648,100	6,481	8.40	5,444
Panasian Power PLC	**1,029,200**	**6,407**	**3.20**	**3,293**	1,029,200	6,407	3.00	3,088
Resus Energy PLC	**1,445,397**	**52,878**	**25.00**	**36,135**	1,117,700	45,609	21.10	23,583
Vallibel Power Erathna PLC	**667,050**	**5,670**	**6.30**	**4,202**	667,050	5,670	6.40	4,269
		220,305		**103,825**		**213,036**		**92,994**
Services								
John Keells PLC	**250,200**	**22,759**	**49.00**	**12,260**	250,200	22,759	52.50	13,136
		22,759		**12,260**		**22,759**		**13,136**
Stores and Supplies								
Hunters & Company PLC	**27,100**	**21,923**	**399.90**	**10,837**	27,100	21,923	400.00	10,840
		21,923		**10,837**		**21,923**		**10,840**
Telecommunications								
Sri Lanka Telecom PLC	**214,000**	**7,496**	**31.90**	**6,827**	214,000	7,496	23.40	5,008
		7,496		**6,827**		**7,496**		**5,008**
Trading								
Brown & Company PLC	**809,616**	**133,026**	**72.90**	**59,021**	809,616	133,026	61.00	49,387
Ceylon & Foreign Trades PLC	**830,100**	**8,533**	**3.20**	**2,656**	830,100	8,533	3.20	2,656
C. W. Mackie PLC	**25,815**	**1,355**	**45.00**	**1,162**	25,812	1,355	44.00	1,136
		142,914		**62,839**		**142,914**		**53,179**
Total quoted equities		**4,593,748**		**2,596,152**		**4,623,341**		**2,507,508**

Notes to the Financial Statements

26.2.3 Quoted Equities - Group

As at 31 December	Group							
	2019				2018			
	No. of ordinary shares	Cost of investment	Market price per share	Market value	No. of ordinary shares	Cost of investment	Market price per share	Market value
		LKR '000	LKR	LKR '000		LKR '000	LKR	LKR '000
Banks, Finance and Insurance								
Alliance Finance Company PLC	**5,000**	**280**	**51.40**	**257**	-	-	-	-
Arpico Insurance PLC	**10,000**	**200**	**19.20**	**192**	8,900	165	18.30	163
Asia Asset Finance PLC	**113,928**	**1,623**	**8.80**	**1,003**	1,139,289	1,623	0.90	1,025
Central Finance Company PLC	**51,483**	**6,291**	**104.00**	**5,354**	50,970	6,291	88.70	4,521
Citizens Development Business Finance PLC - Non-voting	**9,543**	**824**	**67.50**	**644**	9,233	824	70.00	646
Commercial Bank of Ceylon PLC - Voting	**15,241**	**1,759**	**95.00**	**1,448**	15,000	1,759	115.00	1,725
Commercial Bank of Ceylon PLC - Non-voting	**54,194**	**5,410**	**83.00**	**4,498**	53,179	5,410	95.00	5,052
Commercial Credit and Finance PLC	**22,500**	**1,498**	**29.50**	**664**	22,500	1,498	28.50	641
DFCC Bank PLC	**120,000**	**24,535**	**91.90**	**11,028**	120,000	24,993	93.00	11,160
First Capital Holdings PLC	**37,500**	**1,953**	**40.40**	**1,515**	25,000	775	28.80	720
Hatton National Bank PLC - Voting	**62,374**	**14,167**	**172.20**	**10,741**	61,459	13,982	214.00	13,152
Hatton National Bank PLC - Non-voting	**10,191**	**1,820**	**135.50**	**1,381**	10,000	1,820	168.50	1,685
Janashakthi Insurance Company PLC	**135,000**	**4,467**	**32.50**	**4,388**	35,000	1,043	30.00	1,050
Lanka Orix Leasing Company PLC	**-**	**-**	**-**	**-**	32,500	3,431	89.90	2,922
LOLC Finance PLC	**225,101**	**849**	**3.90**	**878**	200,000	775	3.40	680
LB Finance PLC	**-**	**-**	**-**	**-**	12,500	1,645	123.00	1,538
Multi Finance PLC	**-**	**-**	**-**	**-**	20,000	280	13.90	278
National Development Bank PLC	**104,798**	**19,255**	**100.00**	**10,480**	99,374	18,797	106.80	10,613
Nations Trust Bank PLC	**209,949**	**19,546**	**80.00**	**16,796**	205,492	19,546	89.20	18,330
Orient Finance PLC	**175,000**	**2,466**	**11.90**	**2,083**	80,000	1,191	15.50	1,240
Pan Asia Banking Corporation PLC	**80,000**	**1,341**	**12.80**	**1,024**	80,000	1,341	14.80	1,184
People`s Merchant Finance PLC	**-**	**-**	**-**	**-**	2,500	27	11.40	29
Sanasa Development Bank PLC	**93,368**	**9,258**	**63.90**	**5,966**	93,368	9,258	75.00	7,003
Seylan Bank PLC - Voting	**192,917**	**16,028**	**52.50**	**10,128**	141,233	13,846	78.00	11,016
Seylan Bank PLC - Non-voting	**496,240**	**20,949**	**33.80**	**16,773**	354,984	17,834	44.50	15,797
Softlogic Capital PLC	**225,000**	**1,240**	**5.50**	**1,238**	-	-	-	-

As at 31 December	Group							
	2019				2018			
	No. of ordinary shares	Cost of investment	Market price per share	Market value	No. of ordinary shares	Cost of investment	Market price per share	Market value
		LKR '000	LKR	LKR '000		LKR '000	LKR	LKR '000
Softlogic Finance PLC	**67,215**	**3,532**	**16.70**	**1,122**	67,215	3,532	26.60	1,788
Sinhaputhra Finance PLC	**150,000**	**1,076**	**6.70**	**1,005**	5,000	45	8.80	44
The Finance Company PLC - Non-voting	**200,000**	**973**	**-**	**-**	200,000	1,000	1.10	220
Union Bank of Colombo PLC	**500,000**	**6,756**	**13.30**	**6,650**	662,828	8,977	11.00	7,291
		168,096		**117,256**		**161,708**		**121,513**
Beverage, Food and Tobacco								
Bairaha Farms PLC	**144,942**	**35,751**	**112.00**	16,234	144,942	35,752	124.70	18,074
Cargills (Ceylon) PLC	**1,485,775**	**267,594**	**193.00**	286,755	1,495,784	269,569	200.00	299,157
Ceylon Tobacco Company PLC	**143,177**	**137,100**	**1,100.30**	157,538	143,177	137,100	1,415.00	202,595
Distilleries Company of Sri Lanka PLC	**55,000**	**1,048**	**18.51**	1,018	55,000	1,048	16.10	886
HVA Foods PLC	**20,000**	**905**	**3.90**	78	36,850	988	4.40	162
Keells Food Products PLC	**39,058**	**6,240**	**122.51**	4,785	39,058	6,240	134.00	5,234
Lion Brewery Ceylon PLC	**-**	**-**	**-**	-	7,999	4,574	570.00	4,559
Lucky Lanka Milk Processing PLC - Voting	**3,514,546**	**20,958**	**1.10**	3,866	3,514,546	20,958	1.10	3,866
Lucky Lanka Milk Processing PLC - Non-voting	**91,900**	**276**	**0.80**	74	91,900	276	0.80	74
Renuka Agri Foods PLC	**-**	**-**	**-**	-	1,697,738	5,266	2.10	3,565
Renuka Foods PLC	**50,000**	**635**	**12.30**	615	29,535	488	13.90	411
		470,507		**470,963**		**482,259**		**538,583**
Chemicals and Pharmaceuticals								
Chemanex PLC	**100,000**	**16,685**	**58.50**	5,850	100,000	16,685	49.50	4,950
CIC Holdings PLC - Voting	**770,657**	**124,284**	**60.00**	46,239	798,657	125,814	39.60	31,627
CIC Holdings PLC - Non-voting	**463,189**	**42,233**	**47.60**	22,048	466,333	42,494	30.00	13,990
Haycarb PLC	**251,067**	**48,262**	**190.00**	47,703	251,067	48,262	130.00	32,639
Lankem Ceylon PLC	**72,400**	**32,703**	**25.50**	1,846	72,400	32,703	25.00	1,810
		264,167		**123,686**		**265,958**		**85,016**
Construction and Engineering								
Access Engineering PLC	**-**	**-**	**-**	-	196,950	4,445	14.10	2,777
Colombo Dockyard PLC	**897,622**	**201,955**	**62.00**	55,653	902,622	202,255	55.60	50,186
Lankem Developments PLC	**575,000**	**2,990**	**3.50**	2,013	275,000	1,900	4.10	1,128
MTD Walkers PLC	**165,000**	**6,751**	**14.80**	2,442	165,000	6,751	11.00	1,815
		211,696		**60,108**		**215,351**		**55,906**

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As at 31 December	Group							
	2019				2018			
	No. of ordinary shares	Cost of investment	Market price per share	Market value	No. of ordinary shares	Cost of investment	Market price per share	Market value
		LKR '000	LKR	LKR '000		LKR '000	LKR	LKR '000
Diversified Holdings								
Aitken Spence PLC	2,706,230	371,623	46.50	125,840	2,706,230	371,623	47.80	129,358
Browns Capital PLC	-	-	-	-	200,000	991	3.50	700
Browns Investments PLC	-	-	-	-	4,373,412	17,322	1.90	8,309
Carson Cumberbatch PLC	313,352	141,328	190.00	59,537	313,352	141,328	170.20	53,333
Dunamis Capital PLC	21,390	1,060	46.61	997	-	-	-	-
Expolanka Holdings PLC	1,716,193	15,964	5.10	8,753	2,441,193	19,512	4.00	9,765
Hayleys PLC	68,097	21,556	174.90	11,910	68,097	21,556	187.00	12,734
Hemas Holdings PLC	30,000	2,537	80.00	2,400	12,500	1,176	88.80	1,110
John Keells Holdings PLC	3,321,028	578,964	167.60	556,604	3,331,028	580,499	159.70	531,965
Melstacorp PLC	22,756	1,140	43.51	990	7,756	465	50.30	390
Richard Pieris and Company PLC	6,889,225	90,662	11.80	81,293	6,919,225	90,975	10.50	72,652
Softlogic Holdings PLC	350,000	5,763	15.90	5,565	50,000	1,030	21.50	1,075
Sunshine Holdings PLC	65,211	3,756	47.00	3,065	60,712	3,531	53.80	3,266
Taprobane Holdings PLC	250,000	1,283	5.00	1,250	250,000	1,283	4.00	1,000
The Colombo Fort Land & Building PLC	230,000	12,077	13.40	3,082	194,299	11,531	15.00	2,914
Vallibel One PLC	2,427,704	70,962	17.50	42,485	2,467,189	71,687	17.00	41,942
		1,318,675		**903,771**		**1,334,509**		**870,513**
Footwear and Textiles								
Hayleys Fabric PLC	971,398	14,569	17.90	17,388	1,454,506	23,487	9.10	13,236
ODEL PLC	222,295	9,325	26.00	5,780	222,295	9,325	25.50	5,669
		23,894		**23,168**		**32,812**		**18,905**
Health Care								
Ceylon Hospitals PLC	5,000	500	78.00	390	5,000	500	71.10	356
Nawaloka Hospitals PLC	44,000	467	10.09	444	-	-	-	-
Singhe Hospital PLC	4,000,000	10,000	1.50	6,000	4,000,000	10,000	1.40	5,600
The Lanka Hospital Corporation PLC	344,949	22,015	40.70	14,039	309,949	20,545	42.60	13,204
		32,982		**20,873**		**31,045**		**19,160**
Hotels and Travels								
Aitken Spence Hotel Holdings PLC	2,610,641	238,449	27.10	70,748	2,610,641	238,463	27.00	70,487
Amaya Leisure PLC	609,553	53,918	36.70	22,371	593,110	53,019	40.00	23,724
Asian Hotels & Properties PLC	2,382,741	226,443	40.50	96,501	2,375,782	226,206	42.90	101,921
Beruwala Resorts PLC	-	-	-	-	200,000	180	0.70	140
Citrus Leisure PLC	100,000	10,112	12.10	1,210	100,000	10,112	4.80	480
Eden Hotel Lanka PLC	804,265	45,541	18.40	14,798	890,888	45,184	13.50	12,027

As at 31 December	Group							
	2019				2018			
	No. of ordinary shares	Cost of investment	Market price per share	Market value	No. of ordinary shares	Cost of investment	Market price per share	Market value
		LKR '000	LKR	LKR '000		LKR '000	LKR	LKR '000
Galadari Hotels (Lanka) PLC	**37,280**	**566**	**9.10**	**339**	37,280	566	6.90	257
Jetwing Symphony PLC	**179,627**	**2,694**	**11.30**	**2,030**	179,627	2,694	12.00	2,156
John Keells Hotels PLC	**1,118,487**	**17,108**	**11.60**	**12,974**	1,093,487	16,888	7.80	8,529
Marawila Resorts PLC	**100,000**	**782**	**2.00**	**200**	100,000	782	1.80	180
Palm Garden Hotels PLC	**147,472**	**10,890**	**27.10**	**3,996**	147,472	10,928	21.40	3,156
Tal Lanka Hotels PLC	**447,400**	**30,043**	**14.40**	**6,443**	447,400	30,043	13.00	5,816
Tangerine Beach Hotels PLC	**50,000**	**5,056**	**40.00**	**2,000**	50,000	5,056	36.40	1,820
The Fortress Resorts PLC	**1,461,100**	**50,506**	**11.80**	**17,241**	1,461,100	50,506	9.10	13,296
The Kingsbury PLC	**2,161,893**	**45,360**	**13.10**	**28,321**	2,161,893	45,359	15.20	32,861
Trans Asia Hotels PLC	**477,200**	**48,407**	**69.70**	**33,261**	477,200	48,407	87.80	41,898
Waskaduwa Beach Resort PLC	**-**	**-**	**-**	**-**	110,000	464	2.50	275
		785,875		**312,433**		**784,857**		**319,023**
Investment Trusts								
Ambeon Holdings PLC	**385,000**	**23,271**	**12.90**	**4,967**	1,085,000	32,634	11.10	12,044
Ceylon Guardian Investment Trust PLC	**107,847**	**32,747**	**91.30**	**9,846**	107,847	32,747	66.10	7,129
Ceylon Investment PLC	**511,930**	**79,535**	**51.50**	**26,364**	511,930	79,535	39.00	19,965
Guardian Capital Partners PLC	**18,472**	**1,006**	**29.99**	**554**	18,472	1,006	24.00	443
Lanka Realty Invesments PLC	**750,000**	**9,841**	**12.90**	**9,675**	10,000	250	20.60	206
Renuka Holdings PLC	**1,454,654**	**44,249**	**19.30**	**28,075**	1,211,821	39,639	16.60	20,116
		190,649		**79,481**		**185,811**		**59,903**
Land and Property								
Cargo Boat Development Company PLC	**9,984**	**899**	**53.49**	**534**	9,984	899	73.00	729
City Housing & Real Estate CO. PLC	**38,435**	**190**	**3.59**	**138**	35,935	178	4.90	176
Colombo Land & Development Company PLC	**2,700**	**96**	**25.93**	**70**	2,700	96	15.00	41
Commercial Development Company PLC	**4,649**	**451**	**79.16**	**368**	4,649	451	70.10	326
East West Properties PLC	**304,020**	**5,446**	**8.40**	**2,554**	45,000	768	13.00	585
Kelsey Developments PLC	**-**	**-**	**-**	**-**	2,000	70	30.40	61
Overseas Realty (Ceylon) PLC	**957,792**	**24,815**	**16.00**	**15,325**	957,792	24,815	16.50	15,804
Property Development PLC	**8,547**	**1,057**	**140.28**	**1,199**	8,532	1,057	119.20	1,017
Seylan Developments PLC	**160,750**	**2,194**	**11.50**	**1,849**	100,000	1,610	11.00	1,100
		35,148		**22,037**		**29,944**		**19,839**

Notes to the Financial Statements

As at 31 December	Group							
	2019				2018			
	No. of ordinary shares	Cost of investment	Market price per share	Market value	No. of ordinary shares	Cost of investment	Market price per share	Market value
		LKR '000	LKR	LKR '000		LKR '000	LKR	LKR '000
Manufacturing								
Abans Electricals PLC	**201,303**	**27,308**	**95.70**	**19,265**	202,720	27,449	57.70	11,697
ACL Cables PLC	**362,363**	**16,217**	**57.50**	**20,836**	1,065,246	45,924	37.00	39,414
ACME Printing & Packaging PLC	**1,078,700**	**35,020**	**4.90**	**5,286**	1,078,700	35,020	4.20	4,531
Alufab PLC	**60,000**	**1,660**	**13.80**	**828**	60,000	1,660	16.50	990
Alumex PLC	**130,000**	**2,031**	**14.80**	**1,924**	80,000	1,386	13.50	1,080
BPPL Holding PLC	**100,000**	**1,205**	**12.20**	**1,220**	-	-	-	-
Central Industries PLC	**-**	**-**	**-**	**-**	62,560	2,575	28.10	1,758
Ceylon Grain Elevators PLC	**637,508**	**62,445**	**68.50**	**43,669**	672,498	64,940	59.50	40,014
Chevron Lubricants Lanka PLC	**1,016,940**	**169,692**	**74.90**	**76,169**	875,394	158,380	72.80	63,729
Dankotuwa Porcelain PLC	**-**	**-**	**-**	**-**	9,100	64	6.50	59
Dipped Products PLC	**16,380**	**1,431**	**84.00**	**1,376**	-	-	-	-
Hayleys Fibre PLC	**1,931**	**183**	**92.00**	**178**	-	-	-	-
Kelani Tyres PLC	**1,131,213**	**84,083**	**49.60**	**56,108**	1,131,213	84,083	35.90	40,611
Lanka Cement PLC	**7,265,828**	**63,576**	**2.50**	**18,165**	7,265,828	63,576	2.50	18,165
Lanka Tiles PLC	**1,023,200**	**134,249**	**76.70**	**78,479**	973,200	130,512	73.10	71,141
Lanka Walltiles PLC	**14,659**	**1,048**	**72.50**	**1,063**	-	-	-	-
Orient Garments PLC	**82,150**	**2,568**	**7.00**	**575**	82,150	2,568	7.00	575
Pelwatte Sugar Industries PLC	**68,400**	**2,925**	**-**	**-**	-	-	-	-
Piramal Glass Ceylon PLC	**3,288,600**	**32,322**	**4.50**	**14,799**	3,288,600	32,322	3.80	12,497
Richard Pieris Exports PLC	**-**	**-**	**-**	**-**	2,000	470	214.90	430
Royal Ceramics Lanka PLC	**87,000**	**10,557**	**88.50**	**7,700**	88,399	10,722	74.60	6,595
Sierra Cables PLC	**1,829,525**	**7,120**	**3.30**	**6,037**	1,719,525	7,247	2.10	3,611
Swisstek (Ceylon) PLC	**170,956**	**10,241**	**51.70**	**8,838**	176,674	11,924	41.00	7,244
Teejay Lanka PLC	**-**	**-**	**-**	**-**	250,000	8,343	32.50	8,125
Tokyo Cement Company (Lanka) PLC - Voting	**-**	**-**	**-**	**-**	36,669	1,807	25.20	924
Tokyo Cement Company (Lanka) PLC - Non voting	**-**	**-**	**-**	**-**	171,833	5,635	23.00	3,952
		665,881		**362,515**		**696,607**		**337,142**

As at 31 December	Group							
	2019				2018			
	No. of ordinary shares	Cost of investment	Market price per share	Market value	No. of ordinary shares	Cost of investment	Market price per share	Market value
		LKR '000	LKR	LKR '000		LKR '000	LKR	LKR '000
Motors								
C M Holdings PLC	**50,857**	**17,422**	**79.00**	**4,018**	50,857	17,422	45.00	2,289
Diesel & Motor Engineering PLC	**77,935**	**84,514**	**320.00**	**24,939**	77,935	84,514	343.50	26,771
Sathosa Motors PLC	**13,195**	**5,111**	**303.70**	**4,007**	13,195	5,111	534.50	7,053
United Motors Lanka PLC	**421,978**	**42,235**	**63.00**	**26,585**	404,478	41,051	78.00	31,549
		149,282		**59,549**		**148,098**		**67,662**
Oil Palms								
Bukit Darah PLC	**119,257**	**83,965**	**230.10**	27,441	119,257	83,965	205.10	24,460
		83,965		**27,441**		**83,965**		**24,460**
Plantations								
Agalawatte Plantations PLC	**45,600**	**4,608**	**15.10**	689	45,600	4,608	14.00	638
Balangoda Plantations PLC	**30,000**	**2,184**	**12.00**	360	30,000	2,184	12.70	381
Elpitiya Plantations PLC	**60,000**	**1,704**	**18.90**	1,134	50,000	1,496	19.80	990
Hatton Plantation PLC	**50,000**	**425**	**6.90**	345	-	-	-	-
Horana Plantations PLC	**513,000**	**43,752**	**21.90**	11,235	513,000	43,752	15.00	7,695
Kahawatte Plantations PLC	**756,484**	**30,600**	**36.50**	27,612	757,436	30,638	39.90	30,222
Kegalle Plantations PLC	**50,600**	**13,703**	**59.50**	3,011	50,600	13,703	55.00	2,783
Kotagala Plantations PLC	**729,997**	**34,709**	**7.20**	5,256	729,997	34,709	6.70	4,891
Malwatte Valley Plantations PLC - Voting	**64,429**	**353**	**4.00**	258	64,634	353	4.10	265
Malwatte Valley Plantations PLC - Non Voting	**50,000**	**340**	**6.20**	310	-	-	-	-
Namunukula Plantations PLC	**80,000**	**12,458**	**84.30**	6,744	80,000	12,458	63.80	5,104
Watawala Plantations PLC	**19,725**	**577**	**26.01**	513	19,498	577	19.10	372
		145,413		**57,467**		**144,478**		**53,341**

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As at 31 December	Group							
	2019				2018			
	No. of ordinary shares	Cost of investment	Market price per share	Market value	No. of ordinary shares	Cost of investment	Market price per share	Market value
		LKR '000	LKR	LKR		LKR '000	LKR	LKR '000
Power and Energy								
Laugfs Gas PLC - Voting	**343,727**	**8,068**	**17.50**	6,015	240,171	6,256	18.70	4,491
Laugfs Gas PLC - Non voting	**3,453,038**	**143,425**	**13.20**	45,580	3,445,538	143,705	15.40	53,061
Laugfs Power PLC	**1,547,831**	**-**	**4.00**	6,191	-	-	-	-
Lotus Hydro Power PLC	**173,194**	**1,427**	**6.00**	1,039	173,194	1,427	4.50	779
LVL Energy Fund PLC	**648,100**	**6,481**	**7.50**	4,861	648,100	6,481	8.40	5,444
Panasian Power PLC	**1,129,200**	**6,757**	**3.20**	3,613	1,529,200	7,957	3.00	4,588
Resus Energy PLC	**1,668,778**	**56,285**	**25.00**	41,719	1,290,437	49,016	21.10	27,228
Vallibel Power Erathna PLC	**917,050**	**7,583**	**6.30**	5,777	917,050	7,583	6.40	5,869
		230,026		**114,795**		**222,425**		**101,460**
Services								
Ceylon Tea Brokers PLC	**-**	**-**	**-**	-	114,778	556	2.80	321
John Keells PLC	**250,200**	**22,759**	**49.00**	12,260	250,200	22,759	52.50	13,136
Kalamazoo Systems PLC	**13,500**	**172**	**3.70**	50	-	-	-	-
Renuka Capital PLC	**405,000**	**1,800**	**3.70**	1,499	113,500	700	3.80	431
		24,731		**13,809**		**24,015**		**13,888**
Stores and Supplies								
Hunters & Company PLC	**27,100**	**21,923**	**399.90**	10,837	27,100	21,923	400.00	10,840
		21,923		**10,837**		**21,923**		**10,840**
Telecommunications								
Dialog Axiata PLC	**-**	**-**	**-**	-	75,000	750	10.10	758
Sri Lanka Telecom PLC	**214,000**	**7,496**	**31.90**	6,827	214,000	7,496	23.40	5,008
		7,496		**6,827**	**-**	**8,246**		**5,766**
Trading								
Brown & Company PLC	**922,116**	**141,367**	**72.90**	67,222	881,625	138,363	61.00	53,779
Ceylon & Foreign Trades PLC	**830,100**	**8,533**	**3.20**	2,656	830,100	8,533	3.20	2,656
C. W. Mackie PLC	**25,812**	**1,355**	**45.00**	1,162	25,812	1,355	44.00	1,136
		151,255		**71,040**		**148,251**		**57,571**
Total quoted equities		**4,981,661**		**2,858,056**		**5,022,262**		**2,780,491**

26.3 Quoted Debt Securities

As at 31 December	Group							
	2019				2018			
	No. of Debentures	Cost of investment	Market Price per Debentures	Market value	No. of Debentures	Cost of investment	Market price per Debentures	Market value
		LKR '000	LKR	LKR '000		LKR '000	LKR	LKR '000
Listed Debentures								
Hatton National Bank PLC	**17,500**	**1,600**	**91.40**	**1,600**	17,500	1,600	98.00	1,715
Total quoted debt securities		**1,600**		**1,600**		**1,600**		**1,715**

26.4 Units in Unit Trusts

As at 31 December	2019			2018		
	No. of units	Cost of investment	Market Value	No. of units	Cost of investment	Market Value
		LKR '000	LKR '000		LKR '000	LKR '000
Bank						
Ceybank Unit Trust	**111,307,627**	**1,738,215**	**2,321,877**	111,307,627	1,738,215	2,159,368
Ceybank Century Growth Fund	**7,539,256**	**132,952**	**470,676**	7,539,256	132,952	444,364
Ceybank Surekum Gilt Edged Fund	**4,921**	**50**	**58**	4,921	50	53
Total units in unit trusts		**1,871,217**	**2,792,611**		**1,871,217**	**2,603,785**
Group						
Ceybank Unit Trust	**111,307,627**	**1,738,215**	**2,321,877**	111,307,627	1,738,215	2,159,368
Ceybank Century Growth Fund	**7,539,256**	**132,952**	**470,676**	7,539,256	132,952	444,364
Ceybank Surekum Gilt Edged Fund	**4,921**	**50**	**58**	4,921	50	53
Comtrust Money Market Fund	**163,821**	**1,500**	**1,654**	163,821	1,500	1,225
First Capital Asset Management Limited	**25,932**	**29,350**	**40,661**	25,932	29,350	30,106
Total units in unit trusts		**1,902,067**	**2,834,926**		**1,902,067**	**2,635,116**

Notes to the Financial Statements

27 Financial Assets at Amortised Cost - Loans and Advances

Accounting Policy

"Loans and advances" include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at fair value through profit or loss

- Those that the Bank, upon initial recognition, designates as fair value through OCI

- Those for which the Bank may not recover substantially all of its initial investment, other than due to credit deterioration

"Loans and advances" are initially measured at fair value and subsequently measured at amortised cost using the Effective Interest Rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in "Interest income" (Note 8.1) in the Statement of Profit or Loss. The losses arising from impairment are recognised in "Impairment charge/(reversal) for loans and other losses" (Note 14) in the Statement of Profit or Loss.

Write-off of Loans and Advances

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised . If a write-off is later recovered, the recovery is recognised in the "Net Other operating income" (Note 13).

Collateral Valuation

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, securities, letters of credit/ guarantees, real estate, inventories, other non-financial assets and credit enhancements such as netting arrangements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by Central Bank of Sri Lanka, there on.

Non-financial collaterals, including immovable and movables, are valued based on data provided by the independent professional valuers and Audited Financial Statements.

Collaterals Repossessed

The Group's policy is to dispose of repossessed properties (Foreclosed properties) in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Renegotiated Loans (Restructured or Rescheduled)

Where possible, the Group seeks to renegotiate loans rather than take possession of collateral. This may involve extending the payment arrangements and agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. The management continously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. Further the Bank may consider modifications for original terms and conditions to retain customer, support customer or/ and expansions.

Expected Credit Loss (ECL)

The Bank's impairment provisioning method has fundamentaly changed due to the adoption of SLFRS 9 by replacing LKAS 39 incurred loss approach with forward looking expected loss approach as mentioned in Note 4.5.11 to this Financial Statements. Accordingly, the Bank has recorded an expected credit loss allowance for all loans and other debt financial

assets except which are held at FVPL, together with loan commitments and financial guarantee contracts which are commonly referred to as "financial instruments".

The ECL allowance is based on the credit losses expected to arise over the life of the asset, the Lifetime Expected Credit Loss (LTECL) as outlined in Notes 4.5.11.2 and 4.5.11.3, if there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in Note 4.5.11.1 to the Financial Statements. The Bank's policies for determining whether there has been a significant increase in credit risk are set out in this note.

Both LTECLs and 12mECLs are calculated either on an individual basis or on collective basis, depending on the nature and size of the underlying portfolio of financial instruments. The Bank's policy for grouping financial instruments measured on a collective basis is explained in Note 4.5.11.5.

The Bank has established a policy to perform an assessment, at the end of each Reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank grouped its loans into Stage 1, Stage 2, Stage 3 as described in Note 4.5.11.1 to 4.5.11.3 to this Financial Statements.

For financial assets in respect of which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced.

The componenets of the ECL calculation is outlined under Note 4.5.11.4 to this Financial Statements and when estimating the ECLs, the Bank considers three economic scenarios (base case, best case and worst case). Each of these scenarios are associated with different loss rates.

For all products the Bank considers the maximum period over which the credit losses are determined is the contractual life of a financial instrument.

Impairment losses and reversals are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The methodology of the ECL are summarised below:

Stage 1 The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the Reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the Reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.

Stage 2 When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are based over the lifetime of the facility. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3 For loans considered credit-impaired, the Bank recognises LTECLs. The method is similar to that of Stage 2, but PD is considered as 100%.

Notes to the Financial Statements

Loan Commitments and Letters of Credit

When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For credit cards and revolving facilities, that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan, loan commitments, letters of credit, guarantees and acceptances.

Financial Guarantee Contracts

The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of profit or loss, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios.

Revolving Facilities

The Bank's product offering includes a variety of corporate and retail overdraft and credit card facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's delinquency.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made on an individual basis for individually significant loans and on a collective basis for other loans. The collective assessments are made separately for portfolios of facilities with similar homogeneous characteristics.

Forward Looking Information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Interest rate
- Inflation
- Exchange rate
- Unemployment rates
- Average LTV
- Government policies, status of the industry and impact of regulatory changes etc.

Impairment Assessment

Definition of Default and Upgrade

The Bank considers a financial instrument defaulted and therefore assessed in Stage 3 (as credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments or the credit facility/ customer is classified as a non-performing advance in accordance with CBSL directions.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Reduction/ downgrading of internal rating of the borrower indicating default or near-default
- Modifications of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants etc. (restructuring)
- The borrower having past due liabilities to other financial institutions
- Existing or forecast adverse changes in business operations including geographical locations or natural catastrophes, financial or economic condition that are expected to cause significant change in the borrower's ability to meet it's obligation
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's operating results or the loss of a major customer
- Customer is significantly subject to litigation, that seviourly affects the performance of the credit facility
- An Actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that result in a significant change in the borrower's ability to meet the debt obligation
- Significant changes such as reduction in financial support from a parent entity or other affiliate or an actual or expected reductions in borrowers economic incentives to make scheduled contractual payments
- Delay in the commencement of business operations/projects by more than two years from the originally agreed date due to deteriorating the credit worthiness of the customer

It is the Bank's policy to consider a financial instrument as "upgraded" and therefore re-classified out of Stage 3 when none of the default criteria is no longer present. The decision whether to classify an asset as Stage 2 or Stage 1 once upgraded depends on the updated credit grade, at the time of the upgrade, and whether there has been a significant increase in credit risk compared to initial recognition. Further restructured facilities are considered as "upgraded" once a satisfactory performing period of a minimum 90 days subsequent to the first capital and/ or interest installment post-restructure is in place, while upgrading of rescheduled facilities are carried out in accordance with the Banking Act Directions No. 3 and 4 of 2008 on "Classification of Loans and Advances, Income Recognition and Provisioning".

Probability of Default Estimation Process

The Bank estimates the Probability of Default (PD) based on historical information with regard to delinquency of loans and advances. In this process historical information pertaining to 3-5 years have been used depending on the nature of the product

Exposure at Default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

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To calculate the EAD for a Stage 1 loan facilities, the Bank assesses the possible default events within 12 months in the calculation of the 12mECL. For Stage 2, Stage 3 and Purchased or Originated Credit Impaires (POCI) financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time. PDs are then assigned to the EAD so derived.

Loss Given Default

The Bank segments its lending portfolio into homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The loss given default is estimated based on historically collected loss data.

Increase in Credit Risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk when the borrower becomes 30 days past due from the contractual due date.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or reschedulement or restructure. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets, the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Grouping Financial Assets Measured on an Individual Basis/ Collective Basis

ECLs are calculated either on a collective or an individual basis, depends on the following factors.

The Bank calculates ECL on an individual basis for corporate and SME exposures identified as individually significant loans and investments in debt securities. All other exposures other than the above together with individually significant exposures not attracting an ISL provision are assessed for ECL on a collective basis. The Bank groups these exposures into smaller homogeneous portfolios, based on product type sector and customer segment.

27.1 Financial Assets at Amortised Cost - Loans and Advances

As at 31 December	Bank 2019	Bank 2018	Group 2019	Group 2018
	LKR '000	LKR '000	LKR '000	LKR '000
Gross loans and advances	1,648,760,589	1,510,534,078	1,682,589,120	1,544,355,486
Stage 1	1,380,927,013	1,294,790,735	1,396,100,809	1,319,427,641
Stage 2	101,146,342	78,528,007	106,780,647	82,329,469
Stage 3	166,687,234	137,215,336	179,707,664	142,598,376
Less : Accumulated impairment	98,955,718	81,426,897	101,640,095	83,736,898
Stage 1 [Note 27.2]	6,954,029	10,091,396	7,087,327	10,437,278
Stage 2 [Note 27.2]	9,530,117	10,140,798	9,646,175	10,383,179
Stage 3 [Note 27.2]	82,471,572	61,194,703	84,906,593	62,916,441
Net loans and advances	1,549,804,871	1,429,107,181	1,580,949,025	1,460,618,588

27.1.1 Analysis of Gross Loans and Advances - by Product

As at 31 December	Bank 2019			Bank 2018		
	Local currency loans	Foreign currency loans	Total	Local currency loans	Foreign currency loans	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Term loans	452,776,469	312,849,314	765,625,783	332,813,980	299,677,694	632,491,674
Loans under schemes	76,944,532	-	76,944,532	68,916,645	-	68,916,645
Housing loans	76,065,512	376,549	76,442,061	67,516,430	259,951	67,776,381
Trade finance	61,494,354	34,715,177	96,209,531	53,171,938	37,391,521	90,563,459
Personal loans	214,236,288	-	214,236,288	207,143,891	-	207,143,891
Overdrafts	237,239,577	33,887,024	271,126,601	269,901,138	26,993,663	296,894,801
Credit cards	5,037,574	-	5,037,574	4,345,178	-	4,345,178
Lease rental receivables [Note 27.4]	39,233,313	237,828	39,471,141	47,746,892	215,693	47,962,585
Pawning	69,089,836	-	69,089,836	57,873,578	-	57,873,578
Foreclosed properties	1,523,199	4,487	1,527,686	1,283,378	625,879	1,909,257
Staff loans	20,701,770	14,506	20,716,276	16,774,028	12,426	16,786,454
Other	9,618,713	2,714,567	12,333,280	14,831,527	3,038,648	17,870,175
	1,263,961,137	384,799,452	1,648,760,589	1,142,318,603	368,215,475	1,510,534,078

Notes to the Financial Statements

As at 31 December	Group					
	2019			2018		
	Local currency loans	Foreign currency loans	Total	Local currency loans	Foreign currency loans	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Term loans	459,252,616	314,743,458	773,996,074	337,897,738	302,527,377	640,425,115
Loans under schemes	77,930,003	-	77,930,003	69,873,066	-	69,873,066
Housing loans	77,960,039	376,549	78,336,588	68,751,323	259,951	69,011,274
Trade finance	61,719,233	35,120,389	96,839,622	53,342,440	37,391,521	90,733,961
Personal loans	215,814,602	-	215,814,602	211,868,476	-	211,868,476
Overdrafts	237,161,078	34,875,569	272,036,647	269,522,956	27,088,774	296,611,730
Credit cards	5,037,574	-	5,037,574	4,345,178	-	4,345,178
Lease rental receivables [Note 27.4]	56,081,004	237,828	56,318,832	65,073,155	215,693	65,288,848
Pawning	70,703,614	-	70,703,614	59,349,689	-	59,349,689
Foreclosed properties	1,523,199	4,487	1,527,686	1,283,378	625,879	1,909,257
Staff loans	21,690,284	24,314	21,714,598	17,047,122	21,595	17,068,717
Other	9,618,713	2,714,567	12,333,280	14,831,527	3,038,648	17,870,175
	1,294,491,959	388,097,161	1,682,589,120	1,173,186,048	371,169,438	1,544,355,486

27.1.2 Analysis of gross loans and advances - by currency

As at 31 December	Bank		Group	
	2019	2018	2019	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Sri Lankan Rupees	1,263,961,137	1,142,318,603	1,294,491,959	1,173,186,048
United States Dollar	362,383,222	349,705,155	362,252,540	349,705,155
Great Britain Pound	321,229	487,348	3,749,621	3,441,311
Maldevian Rufiyaa	9,059,543	7,885,935	9,059,543	7,885,935
Euro	710,662	619,114	710,661	619,114
Indian Rupee	9,995,210	8,219,428	9,995,210	8,219,428
Seychellois Rupee	2,324,856	1,229,463	2,324,856	1,229,463
Other	4,730	69,032	4,730	69,032
Gross Total	1,648,760,589	1,510,534,078	1,682,589,120	1,544,355,486

27.2 Movement in Provision for Impairment during the year

	Bank		Group	
	2019	2018	2019	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Movement in Stage 1 Impairment				
Opening balance as at 1 January	10,091,396	8,033,120	10,437,278	8,350,557
Charge/ (Reversal) during the year	(3,135,377)	2,010,203	(3,268,464)	2,038,648
Amount recovered/ reversal during the year	-	-	-	-
Exchange rate variance on foreign currency impairment	(1,990)	48,073	(1,990)	48,073
Amount written-off during the year	-	-	-	-
Other movements	-	-	(79,497)	-
Closing balance as at 31 December	6,954,029	10,091,396	7,087,327	10,437,278

	Bank		Group	
	2019	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Movement in Stage 2 Impairment				
Opening balance as at 1 January	**10,140,798**	11,950,472	**10,383,179**	12,185,663
Charge/ (Reversal) during the year	**45,356**	(2,123,633)	**(31,134)**	(2,116,443)
Amount recovered/ reversal during the year	**-**	-	**-**	-
Exchange rate variance on foreign currency impairment	**7,009**	310,827	**7,009**	310,827
Amount written-off during the year	**(93,842)**	-	**(93,842)**	-
Other movements	**(569,204)**	3,132	**(619,037)**	3,132
Closing balance as at 31 December	**9,530,117**	**10,140,798**	**9,646,175**	**10,383,179**

	Bank		Group	
	2019	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Movement in Stage 3 Impairment				
Opening balance as at 1 January	**61,194,703**	46,458,951	**62,916,441**	48,304,169
Charge/ (Reversal) during the year	**27,304,614**	18,844,621	**27,604,313**	18,943,309
Amount recovered during the year	**(6,029,897)**	(4,466,761)	**(6,029,897)**	(4,466,761)
Exchange rate variance on foreign currency impairment	**2,152**	323,523	**2,152**	323,523
Amount written-off during the year	**-**	(35,064)	**-**	(35,064)
Other movements	**-**	69,433	**413,584**	(152,735)
Closing balance as at 31 December	**82,471,572**	**61,194,703**	**84,906,593**	**62,916,441**

	Bank		Group	
	2019	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Movement in Total Impairment				
Opening balance as at 1 January	**81,426,897**	66,442,543	**83,736,898**	68,840,389
Charge/ (Reversal) during the year	**24,214,593**	18,731,191	**24,304,715**	18,865,514
Amount recovered during the year	**(6,029,897)**	(4,466,761)	**(6,029,897)**	(4,466,761)
Exchange rate variance on foreign currency impairment	**7,171**	682,423	**7,171**	682,423
Amount written-off during the year	**(93,842)**	(35,064)	**(93,842)**	(35,064)
Other movements	**(569,204)**	72,565	**(284,950)**	(149,603)
Closing balance as at 31 December	**98,955,718**	**81,426,897**	**101,640,095**	**83,736,898**

27.3 Sensitivity Factors Used to Calculate Impairement Provision

As at 31 December 2019	Sensitivity	Sensitivity Effect on Impairment Provisions
		LKR '000
Change in Loss Given Default (LGD)	1%	**3,308,449**
	-1%	**(3,308,449)**
Change in Economic Factor Adjustment (EFA)	Worst case degrades by 5%	**266,811**
	Worst case upgrades by 5%	**(117,321)**
Change in deemed closed period	Advanced by one year	**1,087,073**
	Deferred by one year	**(691,047)**

Notes to the Financial Statements

27.4 Lease Rentals Receivable

Accounting Policy

Assets leased to customers, which transfer substantially all the risks and rewards associated with ownership, other than legal title, are classified as finance leases. Amounts receivable under finance leases are classified as lease and hire purchase receivables and presented within loans and receivables to customers in the Statement of Financial Position, after deduction of unearned lease income and the impairment for rentals doubtful of recovery. Lease receivables are collectively assessed for impairment to the Financial Statements.

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Gross lease rentals receivable				
Less than one year	**19,515,078**	24,184,301	**19,515,078**	24,184,301
One to five years	**28,107,784**	33,098,757	**48,183,942**	54,871,750
More than five years	**217,022**	398,055	**217,022**	398,055
Total lease rental receivables	**47,839,884**	**57,681,113**	**67,916,042**	**79,454,106**
Less : Unearned finance income	**8,368,743**	9,718,528	**11,597,210**	14,165,258
Gross lease rentals receivable	**39,471,141**	**47,962,585**	**56,318,832**	**65,288,848**
Less : Provision for impairment losses	**951,025**	643,537	**2,205,989**	1,522,041
Net lease rentals receivable	**38,520,116**	**47,319,048**	**54,112,843**	**63,766,807**

28 Financial Assets at Amortised Cost - Debt and Other Instruments

Accounting Policy

Financial assets measured at amortised cost - debt instruments are initially measured at fair value. After initial measurement, subsequently measured at amortised cost using the Effective Interest Rate (EIR) less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in "Interest income" (Note 8.1) in the Statement of Profit or Loss. The losses arising from impairment of such investments are recognised in the Statement of Profit or Loss under " Impairment charge/ (reversal) for loans and other losses" (Note 14).

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Government securities				
Treasury bills	**86,244,210**	82,811,177	**86,259,781**	82,827,270
Treasury bonds	**264,122,853**	242,438,336	**264,124,367**	242,600,418
Sri Lanka soverign bonds	**27,554,926**	7,098,782	**27,760,406**	7,627,488
Sri Lanka Development Bonds [Note 28.4]	**171,518,741**	195,282,304	**171,882,799**	195,282,304
Governement of Sri Lanka Restructuring Bonds [Note 28.5]	**8,968,474**	8,968,474	**8,968,474**	8,968,474
Debentures [Note 28.6]	**6,157,124**	7,491,679	**6,157,124**	7,367,880
Trust certificates [Note 28.7]	**338,826**	676,557	**338,826**	676,557
Government securities - Other countries	**10,016,586**	8,857,014	**10,016,586**	8,857,014
Corporate bonds	**-**	-	**596,692**	547,710
Other Investments	**-**	-	**79,607**	65,142
Gross financial assets at amortised cost - debt and other instruments	**574,921,740**	553,624,323	**576,184,662**	554,820,257
Less: Accumulated impairment [Note 28.3]	**2,173,931**	1,784,874	**2,207,332**	1,787,107
Net financial assets at amortised cost - debt and other instruments	**572,747,809**	**551,839,449**	**573,977,330**	**553,033,150**

28.1 By Currency

As at 31 December	Bank 2019	Bank 2018	Group 2019	Group 2018
	LKR '000	LKR '000	LKR '000	LKR '000
Sri Lankan Rupee	365,831,487	342,386,223	365,848,572	342,460,599
United States Dollar	199,073,667	202,381,086	199,643,205	202,909,792
Great Britain Pound	-	-	676,299	612,852
Maldivian Rufiyaa	10,016,586	8,857,014	10,016,586	8,837,014
Total	574,921,740	553,624,323	576,184,662	554,820,257

28.2 Analysis of Financial Assets at Amortised Cost - Debt and Other Instruments based on Exposure to Credit Risk

Bank

As at 31 December	2019				2018
	Stage 1	Stage 2	Stage 3	Total	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Sri Lanka soverign bonds	27,554,926	-	-	27,554,926	7,098,782
Sri Lanka Development Bonds	171,518,741	-	-	171,518,741	195,282,304
Debentures	6,130,912	-	26,212	6,157,124	7,491,679
Trust certificates	338,826	-	-	338,826	676,557
Government securities - Other countries	10,016,586	-	-	10,016,586	8,857,014
	215,559,991	-	26,212	215,586,203	219,406,336
Less: Accumulated impairment	2,147,719	-	26,212	2,173,931	1,784,874
Total	213,412,272	-	-	213,412,272	217,621,462

Group

As at 31 December	2019				2018
	Stage 1	Stage 2	Stage 3	Total	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Sri Lanka soverign bonds	27,760,406	-	-	27,760,406	7,627,488
Sri Lanka Development Bonds	171,882,799	-	-	171,882,799	195,282,304
Debentures	6,130,912	-	26,212	6, 157,124	7,367,880
Trust certificates	338,826	-	-	338,826	676,557
Government securities - Other countries	10,016,586	-	-	10,016,586	8,857,014
Corporate bonds	596,692	-	-	596,692	547,710
Other investments	79,607	-	-	79,607	65,142
	216,805,828	-	26,212	216,832,040	220,424,095
Less: Accumulated impairment	2,181,120	-	26,212	2,207,332	1,787,107
Total	214,624,708	-	-	214,624,708	218,636,988

Notes to the Financial Statements

28.3 Movement in Impairment During the Year

	Bank		Group	
	2019	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Stage 1				
Openning balance as at 1 January	**1,758,662**	1,038,872	**1,760,895**	1,039,648
Charge/(Reversal) during the year	**389,057**	731,392	**420,224**	732,850
Exchange rate adjustments and other movements	**-**	(11,602)	**1**	(11,603)
Closing Balance as at 31 December	**2,147,719**	**1,758,662**	**2,181,120**	**1,760,895**

	Bank		Group	
	2019	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Stage 3				
Openning balance as at 1 January	**26,212**	-	**26,212**	-
Charge/(Reversal) during the year	**-**	26,212	**-**	26,212
Closing Balance as at 31 December	**26,212**	**26,212**	**26,212**	**26,212**

	Bank		Group	
	2019	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Total				
Openning balance as at 1 January	**1,784,874**	1,038,872	**1,787,107**	1,039,648
Charge/(Reversal) during the year	**389,057**	757,604	**420,224**	759,062
Exchange rate adjustments and other movements	**-**	**(11,602)**	**1**	(11,603)
Closing Balance as at 31 December	**2,173,931**	**1,784,874**	**2,207,332**	**1,787,107**

28.4 Sri Lanka Development Bonds (US Dollar bonds)

As at 31 December		Bank			
		2019		2018	
	Date of maturity	Cost of investment	Amortised cost	Cost of investment	Amortised cost
		LKR '000	LKR '000	LKR '000	LKR '000
Fixed Rate					
Sri Lanka Development Bonds - Fixed Rate 5.25%	01.05.2021	126,015,853	127,127,121	126,790,053	127,908,229
Sri Lanka Development Bonds - Fixed Rate 5.70%	01.05.2022	908,170	916,859	913,750	922,492
Sri Lanka Development Bonds - Fixed Rate 5.75%	01.05.2022	908,170	916,934	913,750	922,568
Sri Lanka Development Bonds - Fixed Rate 5.80%	01.05.2022	908,170	917,010	913,750	922,644
Sri Lanka Development Bonds - Fixed Rate 5.85%	01.05.2022	908,170	917,085	913,750	922,720
Sri Lanka Development Bonds - Fixed Rate 5.90%	01.05.2022	908,170	917,161	913,750	922,796
Sri Lanka Development Bonds - Fixed Rate 5.75%	01.05.2023	908,170	916,934	913,750	922,568
Floating Rate					
6 months LIBOR plus 325 basis points	30.01.2019	-	-	4,568,748	4,682,037
6 months LIBOR plus 335 basis points	30.01.2019	-	-	4,568,747	4,683,995
6 months LIBOR plus 345 basis points	30.01.2019	-	-	4,568,748	4,685,953
6 months LIBOR plus 330 basis points	17.03.2019	-	-	5,482,497	5,576,639
6 months LIBOR plus 335 basis points	17.03.2019	-	-	5,482,497	5,577,436
6 months LIBOR plus 340 basis points	17.03.2019	-	-	4,875,767	4,960,909
6 months LIBOR plus 370 basis points	17.03.2020	4,540,850	4,617,232	4,568,748	4,652,513
6 months LIBOR plus 375 basis points	17.03.2020	5,449,020	5,541,472	5,482,497	5,583,813
6 months LIBOR plus 380 basis points	17.03.2020	908,170	923,711	913,750	930,768
6 months LIBOR plus 360 basis points	01.04.2020	4,540,850	4,606,102	4,568,748	4,640,590
6 months LIBOR plus 370 basis points	01.04.2020	4,540,850	4,607,246	4,568,748	4,641,740
6 months LIBOR plus 340 basis points	30.07.2020	1,816,340	1,860,074	-	-
6 months LIBOR plus 365 basis points	30.07.2020	908,170	931,010	-	-
6 months LIBOR plus 390 basis points	30.07.2020	908,170	931,983	-	-
6 months LIBOR plus 415 basis points	30.07.2020	908,170	932,956	-	-
6 months LIBOR plus 430 basis points	30.07.2020	908,170	933,539	-	-
6 months LIBOR plus 440 basis points	30.07.2020	1,816,340	1,867,857	-	-
6 months LIBOR plus 350 basis points	22.01.2022	908,170	931,464	913,750	938,642
6 months LIBOR plus 355 basis points	22.01.2022	908,170	931,669	913,750	938,849
6 months LIBOR plus 365 basis points	22.01.2022	908,170	932,079	913,750	939,261
6 months LIBOR plus 375 basis points	22.01.2022	908,170	932,489	913,750	939,673
6 months LIBOR plus 380 basis points	16.03.2022	908,170	923,874	913,750	930,930
6 months LIBOR plus 385 basis points	16.03.2022	908,170	924,007	913,750	931,064
6 months LIBOR plus 385 basis points	17.03.2022	1,816,340	1,847,686	1,827,491	1,861,802
6 months LIBOR plus 370 basis points	22.01.2023	908,170	932,284	913,750	939,467
6 months LIBOR plus 375 basis points	22.01.2023	908,170	932,489	913,750	939,674
6 months LIBOR plus 390 basis points	16.03.2023	908,170	924,140	913,750	931,199
6 months LIBOR plus 395 basis points	16.03.2023	908,170	924,274	913,750	931,333
Total Sri Lanka Development Bonds		169,608,013	171,518,741	192,887,039	195,282,304

Notes to the Financial Statements

28.4 Sri Lanka Development Bonds (US Dollar bonds)

As at 31 December	Date of maturity	Group 2019 Cost of investment	Group 2019 Amortised cost	Group 2018 Cost of investment	Group 2018 Amortised cost
		LKR '000	LKR '000	LKR '000	LKR '000
Fixed Rate					
Sri Lanka Development Bonds - Fixed Rate 5.25%	01.05.2021	**126,015,853**	**127,127,121**	126,790,053	127,908,229
Sri Lanka Development Bonds - Fixed Rate 5.70%	01.05.2022	**908,170**	**916,859**	913,750	922,492
Sri Lanka Development Bonds - Fixed Rate 5.75%	01.05.2022	**908,170**	**916,934**	913,750	922,568
Sri Lanka Development Bonds - Fixed Rate 5.80%	01.05.2022	**908,170**	**917,010**	913,750	922,644
Sri Lanka Development Bonds - Fixed Rate 5.85%	01.05.2022	**908,170**	**917,085**	913,750	922,720
Sri Lanka Development Bonds - Fixed Rate 5.90%	01.05.2022	**908,170**	**917,161**	913,750	922,796
Sri Lanka Development Bonds - Fixed Rate 5.75%	01.05.2023	**908,170**	**916,934**	913,750	922,568
Floating Rate					
6 months LIBOR plus 325 basis points	30.01.2019	**-**	**-**	4,568,748	4,682,037
6 months LIBOR plus 335 basis points	30.01.2019	**-**	**-**	4,568,747	4,683,995
6 months LIBOR plus 345 basis points	30.01.2019	**-**	**-**	4,568,748	4,685,953
6 months LIBOR plus 330 basis points	17.03.2019	**-**	**-**	5,482,497	5,576,639
6 months LIBOR plus 335 basis points	17.03.2019	**-**	**-**	5,482,497	5,577,436
6 months LIBOR plus 340 basis points	17.03.2019	**-**	**-**	4,875,767	4,960,909
6 months LIBOR plus 370 basis points	17.03.2020	**4,540,850**	**4,617,232**	4,568,748	4,652,513
6 months LIBOR plus 375 basis points	17.03.2020	**5,449,020**	**5,541,472**	5,482,497	5,583,813
6 months LIBOR plus 380 basis points	17.03.2020	**908,170**	**923,711**	913,750	930,768
6 months LIBOR plus 360 basis points	01.04.2020	**4,540,850**	**4,606,102**	4,568,748	4,640,590
6 months LIBOR plus 370 basis points	01.04.2020	**4,540,850**	**4,607,246**	4,568,748	4,641,740
6 months LIBOR plus 340 basis points	30.07.2020	**1,816,340**	**1,860,074**	-	-
6 months LIBOR plus 365 basis points	30.07.2020	**908,170**	**931,010**	-	-
6 months LIBOR plus 390 basis points	30.07.2020	**908,170**	**931,983**	-	-
6 months LIBOR plus 415 basis points	30.07.2020	**908,170**	**932,956**	-	-
6 months LIBOR plus 430 basis points	30.07.2020	**908,170**	**933,539**	-	-
6 months LIBOR plus 440 basis points	30.07.2020	**2,179,600**	**2,231,915**	-	-
6 months LIBOR plus 350 basis points	22.01.2022	**908,170**	**931,464**	913,750	938,642
6 months LIBOR plus 355 basis points	22.01.2022	**908,170**	**931,669**	913,750	938,849
6 months LIBOR plus 365 basis points	22.01.2022	**908,170**	**932,079**	913,750	939,261
6 months LIBOR plus 375 basis points	22.01.2022	**908,170**	**932,489**	913,750	939,673
6 months LIBOR plus 380 basis points	16.03.2022	**908,170**	**923,874**	913,750	930,930
6 months LIBOR plus 385 basis points	16.03.2022	**908,170**	**924,007**	913,750	931,064
6 months LIBOR plus 385 basis points	17.03.2022	**1,816,340**	**1,847,686**	1,827,491	1,861,802
6 months LIBOR plus 370 basis points	22.01.2023	**908,170**	**932,284**	913,750	939,467
6 months LIBOR plus 375 basis points	22.01.2023	**908,170**	**932,489**	913,750	939,674
6 months LIBOR plus 390 basis points	16.03.2023	**908,170**	**924,140**	913,750	931,199
6 months LIBOR plus 395 basis points	16.03.2023	**908,170**	**924,274**	913,750	931,333
Total Sri Lanka Development Bonds		**169,971,273**	**171,882,799**	**192,887,039**	**195,282,304**

28.5 Government of Sri Lanka Restructuring Bonds

As at 31 December				Bank/ Group			
				2019		2018	
	Rate %	Date of Issue	Date of maturity	Cost of investment	Amortised cost	Cost of investment	Amortised cost
				LKR '000	LKR '000	LKR '000	LKR '000
For recapitalisation purpose	12.00	24.03.1993	24.03.2023	**4,780,000**	**5,015,714**	4,780,000	5,015,714
For settlement of loans	12.00	24.03.1993	24.03.2023	**3,767,000**	**3,952,760**	3,767,000	3,952,760
Total Government of Sri Lanka Restructuring Bonds				**8,547,000**	**8,968,474**	8,547,000	8,968,474

28.6 Debentures

As at 31 December			Bank					
			2019			2018		
	Date of maturity	Coupon rate %	No. of debentures	Cost of investment	Amortised cost	No. of Debentures	Cost of investment	Amortised cost
				LKR '000	LKR '000		LKR '000	LKR '000
Access Engineering PLC	18.11.2020	10.25	**2,000,000**	**200,000**	**202,368**	2,000,000	200,000	202,369
Citizen Development Business Finance PLC	03.06.2021	12.75	**500,000**	**50,000**	**50,486**	500,000	50,000	50,483
Citizen Development Business Finance PLC	27.03.2023	14.20	**2,000,000**	**200,000**	**221,156**	2,000,000	200,000	221,284
Commercial Bank of Ceylon PLC	08.03.2021	10.75	**1,000,000**	**100,000**	**103,325**	1,000,000	100,000	103,326
Commercial Bank of Ceylon PLC	27.10.2021	12.00	**779,600**	**77,960**	**79,523**	779,600	77,960	79,579
Commercial Credit and Finance PLC	01.06.2020	10.50	**530,519**	**53,052**	**53,319**	530,519	53,052	54,454
Commercial Credit and Finance PLC	10.12.2020	10.40	**3,665,600**	**366,560**	**368,700**	3,665,600	366,560	368,702
Commercial Leasing & Finance PLC	21.07.2020	9.75	**750,000**	**75,000**	**82,373**	750,000	75,000	82,336
DFCC Bank PLC	18.03.2019	10.63	**-**	**-**	**-**	2,500,000	250,000	270,733
DFCC Bank PLC	10.06.2020	9.40	**332,100**	**33,210**	**34,920**	332,100	33,210	34,913
DFCC Bank PLC	09.11.2021	12.15	**1,892,800**	**189,280**	**192,388**	1,892,800	189,280	192,388
DFCC Bank PLC	29.03.2025	13.00	**2,250,000**	**225,000**	**246,741**	2,250,000	225,000	246,866
First Capital Treasuries PLC	05.02.2020	9.50	**500,000**	**50,000**	**54,726**	500,000	50,000	54,726
Hatton National Bank PLC	28.03.2021	11.25	**1,000,000**	**100,000**	**108,428**	1,000,000	100,000	108,455
Hatton National Bank PLC	01.11.2023	13.00	**193,300**	**19,330**	**19,722**	193,300	19,330	19,722
Hayleys PLC	31.05.2019	12.35	**-**	**-**	**-**	1,000,000	100,000	101,297
Hayleys PLC	31.07.2023	12.50	**2,500,000**	**250,000**	**263,119**	2,500,000	250,000	263,026
Hayleys PLC	26.08.2024	12.93	**1,000,000**	**100,000**	**104,456**	-	-	-
Hayleys PLC	26.08.2024	13.00	**311,500**	**31,150**	**32,545**	-	-	-
Hayleys PLC	26.08.2024	13.00	**1,500,000**	**150,000**	**151,353**	-	-	-
HDFC Bank of Sri Lanka	20.11.2020	10.50	**2,000,000**	**200,000**	**202,308**	2,000,000	200,000	202,307
Hemas Holdings PLC	29.04.2019	11.00	**-**	**-**	**-**	173,500	17,350	17,828
Kotagala Plantations PLC	26.05.2019	14.50	**-**	**-**	**-**	165,975	16,598	17,816
Kotagala Plantations PLC	26.05.2020	14.75	**165,975**	**16,598**	**17,837**	165,975	16,598	17,834
Kotagala Plantations PLC	26.05.2021	15.00	**165,975**	**16,598**	**17,856**	165,975	16,598	17,853

Notes to the Financial Statements

As at 31 December			Bank					
			2019			2018		
	Date of maturity	Coupon rate %	No. of debentures	Cost of investment	Amortised cost	No. of Debentures	Cost of investment	Amortised cost
				LKR '000	LKR '000		LKR '000	LKR '000
Lanka Orix Leasing Company PLC	24.11.2019	9.00	-	-	-	1,000,000	100,000	102,264
Lanka Orix Leasing Company PLC	30.07.2022	13.00	**2,500,000**	**250,000**	**263,679**	2,500,000	250,000	263,621
LB Finance PLC	11.12.2022	12.75	**2,500,000**	**250,000**	**251,654**	2,500,000	250,000	251,761
Merchant Bank of Sri Lanka & Finance PLC	12.11.2019	9.00	-	-	-	1,135,200	113,520	123,799
MTD Walkers PLC	30.09.2019	11.75	**254,784**	**25,478**	**29,766**	254,784	25,477	26,212
National Development Bank PLC	24.06.2020	9.40	**534,500**	**53,450**	**58,517**	534,500	53,450	58,492
Nawaloka Hospitals PLC	30.09.2019	14.15	-	-	-	1,000,000	100,000	106,227
Orient Finance PLC	26.12.2019	9.05	-	-	-	500,000	50,000	52,414
Pan Asia Banking Corporation PLC	29.09.2019	10.00	-	-	-	486,112	48,611	49,827
People's Leasing & Finance PLC	12.11.2019	9.60	-	-	-	945,000	94,500	95,672
People's Leasing & Finance PLC	16.11.2021	12.60	**2,000,000**	**200,000**	**203,027**	2,000,000	200,000	203,028
People's Leasing & Finance PLC	18.04.2023	12.80	**2,500,000**	**250,000**	**272,114**	2,500,000	250,000	272,037
Regional Development Bank	29.01.2020	9.00	**4,250,000**	**425,000**	**463,107**	4,250,000	425,000	463,107
Sampath Bank PLC	14.12.2019	8.25	-	-	-	1,000,000	100,000	108,276
Sampath Bank PLC	18.11.2020	9.90	**898,400**	**89,840**	**90,872**	898,400	89,840	90,876
Sampath Bank PLC	10.06.2021	12.75	**1,500,000**	**150,000**	**160,398**	1,500,000	150,000	160,400
Sampath Bank PLC	21.12.2022	12.50	**2,270,000**	**227,000**	**227,239**	2,270,000	227,000	242,232
Sampath Bank PLC	20.03.2023	12.50	**2,500,000**	**250,000**	**258,702**	2,500,000	250,000	258,703
Sanasa Development Bank PLC	31.12.2020	10.00	**1,500,000**	**150,000**	**157,530**	1,500,000	150,000	157,864
Sanasa Development Bank PLC	31.12.2020	10.30	**1,500,000**	**150,000**	**157,755**	1,500,000	150,000	157,635
Senkadagala Finance PLC	10.11.2019	13.25	-	-	-	320,000	32,000	32,578
Seylan Bank PLC	22.12.2019	8.60	-	-	-	1,500,000	150,000	150,270
Seylan Bank PLC	15.07.2021	13.00	**451,600**	**45,160**	**47,870**	451,600	45,160	47,870
Seylan Bank PLC	29.03.2023	12.85	**2,500,000**	**250,000**	**258,053**	2,500,000	250,000	258,133
Singer Finance PLC	06.04.2020	12.00	**1,000,000**	**100,000**	**102,783**	1,000,000	100,000	102,784
Singer (Sri Lanka) PLC	14.03.2019	10.50	-	-	-	2,500,000	250,000	257,699
Singer (Sri Lanka) PLC	17.06.2020	9.95	**309,300**	**30,930**	**34,035**	309,300	30,930	34,022
Siyapatha Finance PLC	20.09.2019	13.00	-	-	-	1,000,000	100,000	103,472
Softlogic Finance PLC	29.08.2019	10.00	-	-	-	190,900	19,090	19,572
Sri Lanka Telecom PLC	19.04.2028	12.75	**5,000,000**	**500,000**	**512,374**	5,000,000	500,000	512,535
Total debentures				**5,900,596**	**6,157,124**		**7,161,114**	**7,491,679**

28.6 Debentures

As at 31 December			Group					
			2019			2018		
	Date of maturity	Coupon rate %	No of debentures	Cost of investment	Amortised cost	No of debentures	Cost of investment	Amortised cost
				LKR '000	LKR '000		LKR '000	LKR '000
Access Engineering PLC	18.11.2020	10.25	**2,000,000**	**200,000**	**202,368**	2,000,000	200,000	202,369
Citizen Development Business Finance PLC	03.06.2021	12.75	**500,000**	**50,000**	**50,486**	500,000	50,000	50,483
Citizen Development Business Finance PLC	27.03.2023	14.20	**2,000,000**	**200,000**	**221,156**	2,000,000	200,000	221,284
Commercial Bank of Ceylon PLC	08.03.2021	10.75	**1,000,000**	**100,000**	**103,325**	1,000,000	100,000	103,326
Commercial Bank of Ceylon PLC	27.10.2021	12.00	**779,600**	**77,960**	**79,523**	779,600	77,960	79,579
Commercial Credit and Finance PLC	01.06.2020	10.50	**530,519**	**53,052**	**53,319**	530,519	53,052	54,454
Commercial Credit and Finance PLC	10.12.2020	10.40	**3,665,600**	**366,560**	**368,700**	3,665,600	366,560	368,702
Commercial Leasing & Finance PLC	21.07.2020	9.75	**750,000**	**75,000**	**82,373**	750,000	75,000	82,336
DFCC Bank PLC	18.03.2019	10.63	-	-	-	2,500,000	250,000	270,733
DFCC Bank PLC	10.06.2020	9.40	**332,100**	**33,210**	**34,920**	332,100	33,210	34,913
DFCC Bank PLC	09.11.2021	12.15	**1,892,800**	**189,280**	**192,388**	1,892,800	189,280	192,388
DFCC Bank PLC	29.03.2025	13.00	**2,250,000**	**225,000**	**246,741**	2,250,000	225,000	246,866
First Capital Treasuries PLC	05.02.2020	9.50	**500,000**	**50,000**	**54,726**	500,000	50,000	54,726
Hatton National Bank PLC	28.03.2021	11.25	**1,000,000**	**100,000**	**108,428**	1,000,000	100,000	108,455
Hatton National Bank PLC	01.11.2023	13.00	**193,300**	**19,330**	**19,722**	193,300	19,330	19,722
Hayleys PLC	31.05.2019	12.35	-	-	-	1,000,000	100,000	101,297
Hayleys PLC	31.07.2023	12.50	**2,500,000**	**250,000**	**263,119**	2,500,000	250,000	263,026
Hayleys PLC	26.08.2024	12.93	**1,000,000**	**100,000**	**104,456**	-	-	-
Hayleys PLC	26.08.2024	13.00	**1,811,500**	**181,150**	**183,898**	-	-	-
HDFC Bank of Sri Lanka	20.11.2020	10.50	**2,000,000**	**200,000**	**202,308**	2,000,000	200,000	202,307
Hemas Holdings PLC	29.04.2019	11.00	-	-	-	173,500	17,350	17,828
Kotagala Plantations PLC	26.05.2019	14.50	-	-	-	165,975	16,598	17,816
Kotagala Plantations PLC	26.05.2020	14.75	**165,975**	**16,598**	**17,837**	165,975	16,598	17,834
Kotagala Plantations PLC	26.05.2021	15.00	**165,975**	**16,598**	**17,856**	165,975	16,598	17,853
Lanka Orix Leasing Company PLC	24.11.2019	9.00	-	-	-	1,000,000	100,000	102,264
Lanka Orix Leasing Company PLC	30.07.2022	13.00	**2,500,000**	**250,000**	**263,679**	2,500,000	250,000	263,621
LB Finance PLC	11.12.2022	12.75	**2,500,000**	**250,000**	**251,654**	2,500,000	250,000	251,761
MTD Walkers PLC	30.09.2019	11.75	**254,784**	**25,478**	**29,766**	254,784	25,487	26,212
National Development Bank PLC	24.06.2020	9.40	**534,500**	**53,450**	**58,517**	534,500	53,450	58,492
Nawaloka Hospitals PLC	30.09.2019	14.15	-	-	-	1,000,000	100,000	106,227
Orient Finance PLC	26.12.2019	9.05	-	-	-	500,000	50,000	52,414
Pan Asia Banking Corporation PLC	29.09.2019	10.00	-	-	-	486,112	48,611	49,827
People's Leasing & Finance PLC	12.11.2019	9.60	-	-	-	945,000	94,500	95,672

Notes to the Financial Statements

As at 31 December			Group					
			2019			2018		
	Date of maturity	Coupon rate %	No of debentures	Cost of investment	Amortised cost	No of debentures	Cost of investment	Amortised cost
				LKR '000	LKR '000		LKR '000	LKR '000
People's Leasing & Finance PLC	16.11.2021	12.60	**2,000,000**	**200,000**	**203,027**	2,000,000	200,000	203,028
People's Leasing & Finance PLC	18.04.2023	12.80	**2,500,000**	**250,000**	**272,114**	2,500,000	250,000	272,037
Regional Development Bank	29.01.2020	9.00	**4,250,000**	**425,000**	**463,107**	4,250,000	425,000	463,107
Sampath Bank PLC	14.12.2019	8.25	-	-	-	1,000,000	100,000	108,276
Sampath Bank PLC	18.11.2020	9.90	**898,400**	**89,840**	**90,872**	898,400	89,840	90,876
Sampath Bank PLC	10.06.2021	12.75	**1,500,000**	**150,000**	**160,398**	1,500,000	150,000	160,400
Sampath Bank PLC	21.12.2022	12.50	**2,270,000**	**227,000**	**227,239**	2,270,000	227,000	242,232
Sampath Bank PLC	20.03.2023	12.50	**2,500,000**	**250,000**	**258,702**	2,500,000	250,000	258,703
Sanasa Development Bank PLC	31.12.2020	10.00	**1,500,000**	**150,000**	**157,530**	1,500,000	150,000	157,864
Sanasa Development Bank PLC	31.12.2020	10.30	**1,500,000**	**150,000**	**157,755**	1,500,000	150,000	157,635
Senkadagala Finance PLC	10.11.2019	12.50	-	-	-	320,000	32,000	32,578
Seylan Bank PLC	22.12.2019	8.60	-	-	-	1,500,000	150,000	150,270
Seylan Bank PLC	15.07.2021	13.00	**451,600**	**45,160**	**47,870**	451,600	45,160	47,870
Seylan Bank PLC	29.03.2023	12.85	**2,500,000**	**250,000**	**258,053**	2,500,000	250,000	258,133
Singer Finance PLC	06.04.2020	12.00	**1,000,000**	**100,000**	**102,783**	1,000,000	100,000	102,784
Singer (Sri Lanka) PLC	14.03.2019	10.50	-	-	-	2,500,000	250,000	257,699
Singer (Sri Lanka) PLC	17.06.2020	9.95	**309,300**	**30,930**	**34,035**	309,300	30,930	34,022
Siyapatha Finance PLC	20.09.2019	13.00	-	-	-	1,000,000	100,000	103,472
Softlogic Finance PLC	29.08.2019	10.00	-	-	-	190,900	19,090	19,572
Sri Lanka Telecom PLC	19.04.2028	12.75	**5,000,000**	**500,000**	**512,374**	5,000,000	500,000	512,535
Total debentures				**5,900,596**	**6,157,124**		**7,047,604**	**7,367,880**

28.7 Trust Certificates

As at 31 December	Bank/ Group			
	2019		2018	
	Cost of investment	Amortised cost	Cost of investment	Amortised cost
	LKR '000	LKR '000	LKR '000	LKR '000
LOLC Finance PLC	-	-	147,334	186,257
Citizen Development Bank	**176,588**	**208,103**	285,000	296,874
Softlogic Finance PLC	**110,500**	**130,723**	188,500	193,426
Total trust certificates	**287,088**	**338,826**	**620,834**	**676,557**

29 Financial Assets Measured at Fair Value Through OCI

Financial assets measured at fair value through OCI include equity instruments which are elected fair value through OCI option at the initial recognition and debt instruments which contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

All Financial assets measured at fair value through OCI are initially and subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity in the "OCI reserve" through Other Comprehensive Income. When the debt instrument under FVTOCI is disposed off, the cumulative gain or loss previously recognised in OCI reserve is recognised in the Statement of Profit or Loss and reflected in "Net gains/(losses) from derecognition of financial assets". When the equity instrument under FVTOCI is disposed off, the cumulative gain or loss previously recognised in OCI reserve is not recognised in the Statement of Profit or Loss. Interest earned whilst holding financial assets measured at fair value through OCI is reported as "Interest income" (Note 8.1). Dividends earned whilst holding financial assets measured at fair value through OCI are recognised in the Statement of Profit or Loss under in "Net Other Operating Income" (Note 13) when the right of the payment has been established.

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Government Securities in Sri Lanka				
Treasury bills	**6,343,043**	**4,550,469**	**7,891,144**	5,718,800
Treasury bonds	**1,881,395**	**6,178,278**	**2,203,866**	6,695,169
Government Securities In other countries	**1,445,693**	**1,587,030**	**1,445,693**	1,587,030
Quoted equities [Note 29.2]	**2,808,684**	**3,142,087**	**3,676,774**	4,050,702
Unquoted Equities [Note 29.3]	**1,757,275**	**1,241,718**	**1,799,076**	1,287,082
Total finanacial assets measured at FVTOCI	**14,236,090**	**16,699,582**	**17,016,553**	**19,338,783**

29.1 By Currency

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Sri Lankan Rupee	**11,262,429**	**14,100,141**	**14,042,892**	16,739,342
United States Dollar	**1,527,968**	1,012,411	**1,527,968**	1,012,411
Indian Rupee	**1,445,693**	1,587,030	**1,445,693**	1,587,030
Total	**14,236,090**	**16,699,582**	**17,016,553**	**19,338,783**

Notes to the Financial Statements

29.2 Quoted Equities

As at 31 December	Bank					
	2019			2018		
	No. of Ordinary Shares	Cost of investment	Market Value	No. of Ordinary Shares	Cost of investment	Market Value
		LKR '000	LKR '000		LKR '000	LKR '000
National Development Bank PLC	**18,548,111**	**969,285**	**1,854,810**	17,587,570	867,596	1,878,385
People's Leasing & Finance PLC	**11,800,434**	**211,090**	**211,228**	11,453,600	206,165	186,694
Seylan Bank PLC	**14,145,629**	**547,486**	**742,646**	13,507,800	523,736	1,077,008
Total quoted equites		**1,727,861**	**2,808,684**		**1,597,497**	**3,142,087**

As at 31 December	Group					
	2019			2018		
	No. of Ordinary Shares	Cost of investment	Market Value	No. of Ordinary Shares	Cost of investment	Market Value
		LKR '000	LKR '000		LKR '000	LKR '000
National Development Bank PLC	**18,548,111**	**969,285**	**1,854,810**	17,587,570	867,556	1,878,385
People's Leasing & Finance PLC	**11,800,434**	**211,090**	**211,228**	11,453,600	206,165	186,694
Seylan Bank PLC	**14,145,629**	**547,486**	**742,646**	13,807,800	523,736	1,077,008
The Lanka Hospital Corporation PLC	**21,329,000**	**213,290**	**868,090**	21,329,000	213,290	908,615
Total quoted equites		**1,941,151**	**3,676,774**		**1,810,747**	**4,050,702**

29.3 Unquoted Equities

As at 31 December	Bank					
	2019			2018		
	No. of Ordinary Shares	Cost of investment	Market Value	No. of Ordinary Shares	Cost of investment	Market Value
		LKR '000	LKR '000		LKR '000	LKR '000
Credit Information Bureau of Sri Lanka	**46,800**	**43,132**	**43,132**	46,800	43,132	43,132
Fitch Ratings Lanka Limited	**62,500**	**625**	**625**	62,500	625	625
LankaClear (Private) Limited	**2,100,000**	**21,000**	**21,000**	2,100,000	21,000	21,000
Lanka Financial Services Bureau Limited	**225,000**	**2,250**	**2,250**	225,000	2,250	2,250
Magpek Exports Limited	**-**	**-**	**-**	300,000	4,355	-
MasterCard Incorporated	**17,200**	**-**	**932,826**	17,200	-	591,946
Regional Development Bank	**16,448,448**	**162,300**	**162,300**	16,448,448	162,300	162,300
Visa Inc.	**17,438**	**-**	**595,142**	17,438	-	420,465
		229,307	**1,757,275**		**233,662**	**1,241,718**
Fair value adjustment		**1,527,968**			1,012,411	
Provision for impairment [Note 29.4]		**-**			(4,355)	
Total unquoted equities		**1,757,275**	**1,757,275**		**1,241,718**	**1,241,718**

As at 31 December	Group					
	2019			2018		
	No of Ordinary Shares	Cost of investment	Market Value	No of Ordinary Shares	Cost of investment	Market Value
		LKR '000	LKR '000		LKR '000	LKR '000
Ceylinco Investment Company Limited	500,000	5,000	-	500,000	5,000	-
Credit Information Bureau of Sri Lanka	47,340	43,185	43,185	47,340	43,185	43,185
Fitch Ratings Lanka Limited	62,500	625	625	62,500	625	625
LankaClear (Private) Limited	2,100,000	21,000	21,000	2,100,000	21,000	21,000
Lanka Financial Services Bureau Limited	225,000	2,250	2,250	225,000	2,250	2,250
LVL Energy Fund (Private) Limited	2,500,000	20,000	19,125	2,500,000	20,000	21,420
Magpek Export Limited	-	-	-	300,000	4,355	-
MasterCard Incorporated	17,200	-	932,826	17,200	-	591,946
Mega Containers Limited	1,000,000	10,000	21,781	1,000,000	10,000	22,601
Regional Development Bank	16,448,448	162,300	162,300	16,448,448	162,300	162,300
Ranwan Industries (Private) Limited	165,790	3,600	-	165,790	3,600	-
San Michele Limited	50,000	500	-	50,000	500	-
UB Finance Company Limited	2,506,562	17,546	842	2,506,562	17,546	1,290
Visa Inc.	17,438	-	595,142	17,438	-	420,465
		286,006	1,799,076		290,361	1,287,082
Fair value adjustment		1,538,874			1,026,432	
Provision for impairment [Note 29.4]		(25,804)			(29,711)	
Total unquoted equities		1,799,076	1,799,076		1,287,082	1,287,082

29.4 Movement in Impairment During the Year

	Bank		Group	
	2019	2018	2019	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Stage 1				
Opening balance as at 1 January	4,355	4,355	29,711	29,794
Charge/ (Reversal) during the year	-	-	448	(83)
Writte - off during the year	(4,355)	-	(4,355)	-
Closing balance at 31 December	-	4,355	25,804	29,711

	Bank		Group	
	2019	2018	2019	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Total				
Opening balance as at 1 January	4,355	4,355	29,711	29,794
Charge/ (Reversal) during the year	-	-	448	(83)
Writte - off during the year	(4,355)	-	(4,355)	-
Closing balance at 31 December	-	4,355	25,804	29,711

Notes to the Financial Statements

30 Investment in Subsidiary Companies

Accounting Policy

Subsidiaries are entities that are controlled by the Bank. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect the returns of those investees through its power over the investee. Specifically, the Bank controls an investee if, and only if, the Bank has:

- power over the investee
- exposure or rights to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect its returns

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 Bank reassesses whether it has control if there are changes to one or more of the elements of control. A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, Non-Controlling Interest (NCI) and other components of equity, while any resultant gain or loss is recognised in Profit or Loss. Any investment retained is recognised at fair value at the date of loss of control.

The Consolidated Financial Statements are prepared for the common financial year end of 31 December and have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

All intra group balances, income and expenses (except for foreign currency translation gains or losses) arising from intra group transactions are eliminated on consolidation. Unrealized gains and losses resulting from transactions between the Group and its associates are also eliminated on consolidation to the extent of the Group's interests in the associates. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

There are no significant restrictions on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans and advances. All Subsidiaries of the Bank have been incorporated in Sri Lanka except for Bank of Ceylon (UK) Limited, which is incorporated in the United Kingdom. A list of the Bank's Subsidiaries is given in Note 30.5 to the Financial Statements.

	Bank	
As at 31 December	2019	2018
	LKR '000	LKR '000
Investment in quoted subsidiaries [Note 30.3]	3,114,952	3,114,952
Investment in unquoted subsidiaries [Note 30.4]	3,798,096	3,798,096
Total investment in subsidiaries	6,913,048	6,913,048
Less : Provision for impairment of investment in subsidiaries [Note 30.2]	400,000	400,000
Carrying value of investment in subsidiary companies	6,513,048	6,513,048

30.1 Movement in Investment in Subsidiary Companies

	2019	2018
	LKR '000	LKR '000
Balance as at 1 January	**6,913,048**	6,913,048
Increase/ (Decrease) in investments	**-**	-
Balance as at 31 December	**6,913,048**	**6,913,048**

30.2 Provision for Impairment of Investment in Subsidiaries *

	2019	2018
	LKR '000	LKR '000
Balance as at 1 January	**400,000**	400,000
Impairment charge/ (reversal) during the year	**-**	-
Balance as at 31 December	**400,000**	**400,000**

* The Bank has made the provision of impairment for investment of Bank of Ceylon (UK) Limited.

30.3 Investment in Quoted Subsidiaries

	Bank			
As at 31 December	2019		2018	
	Cost	Market Value	Cost	Market Value
	LKR '000	LKR '000	LKR '000	LKR '000
Property Development PLC (63,064,957 Ordinary shares)	**860,270**	**8,848,013**	860,270	7,517,343
Merchant Bank of Sri Lanka & Finance PLC (123,562,267 Ordinary shares)	**2,254,682**	**1,186,198**	2,254,682	1,186,198
Total investment in quoted subsidiaries	**3,114,952**	**10,034,211**	**3,114,952**	**8,703,541**

30.4 Investment in Unquoted Subsidiaries

	Bank			
As at 31 December	2019		2018	
	Cost	Directors' Valuation	Cost	Directors' Valuation
	LKR '000	LKR '000	LKR '000	LKR '000
BOC Management & Support Services (Private) Limited (99,996 Ordinary shares)	**1,000**	**1,000**	1,000	1,000
BOC Property Development & Management (Private) Limited (100,999,998 Ordinary shares)	**1,010,000**	**1,010,000**	1,010,000	1,010,000
BOC Travels (Private) Limited (250,004 Ordinary shares)	**2,500**	**2,500**	2,500	2,500
Bank of Ceylon (UK) Limited (15,000,000 Ordinary shares)	**2,683,859**	**2,283,859**	2,683,859	2,283,859
Hotels Colombo (1963) Limited (10,073,667 Ordinary shares)	**100,737**	**100,737**	100,737	100,737
Total investment in unquoted subsidiaries	**3,798,096**	**3,398,096**	**3,798,096**	**3,398,096**

Notes to the Financial Statements

30.5 Information Relating to Subsidiaries of the Bank

As at 31 December	Ownership interest held by the Bank	
	2019	2018
	%	%
Quoted subsidiaries		
Property Development PLC (PDL)	**95.55**	95.55
Merchant Bank of Sri Lanka & Finance PLC (MBSL)	**74.49**	74.49
Unquoted subsidiaries		
BOC Management & Support Services (Private) Limited (MSS)***	**100.00**	100.00
BOC Property Development & Management (Private) Limited (PDML)	**100.00**	100.00
BOC Travels (Private) Limited (TRAVELS)	**100.00**	100.00
Hotels Colombo (1963) Limited (HCL)	**99.99**	99.99
Ceybank Holiday Homes (Private) Limited (HH) *	**100.00**	100.00
MBSL Insurance Company Limited (MBSL INS)**	**40.08**	62.66
Koladeniya Hydropower (Private) Limited (KHP)*	**95.55**	95.55
Bank of Ceylon (UK) Limited (BOC UK)	**100.00**	100.00

* Ceybank Holiday Homes (Private) Limited, MBSL Insurance Company Limited and Koladeniya Hydropower (Private) Limited are indirect subsidiaries of tha Bank.

** MBSL's holding in MBSL INS diluted from 84.12% to 53.8%. Accordingly indirect holding of the Bank reduce from 62.66% to 40.08%

*** Not in operation and in the process of liquidation.

30.6 Non-Controlling Interest (NCI) of Subsidiaries

	2019				
	PDL	MBSL	MBSL INS	KHP	HCL
Equity interest held by the NCI (%)	**4.45**	**25.51**	**59.92**	**4.45**	**0.01**
Profit/ (Loss) allocated during the year (LKR '000)	**30,472**	**45,228**	**(17,583)**	**2,089**	**(5)**
Accumulated balance of NCI as at 31 December (LKR '000)	**236,321**	**659,561**	**869,291**	**19,906**	**9**
Dividends paid to NCI (LKR '000)	**11,014**	**-**	**-**	**7,484**	**-**

	2018				
	PDL	MBSL	MBSL INS	KHP	HCL
Equity interest held by the NCI (%)	4.45	25.51	37.34	4.45	0.01
Profit/ (Loss) allocated during the year (LKR '000)	22,152	39,895	(67,383)	1,763	(3)
Accumulated balance of NCI as at 31 December (LKR '000)	165,212	561,889	(57,265)	25,299	14
Dividends paid to NCI (LKR '000)	10,280	-	-	2,414	-

30.7 Summarised Financial Information of Subsidiaries

For the year ended 31 December	2019				
	PDL	MBSL	MSS	PDML	TRAVELS
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Statement of Profit or Loss					
Total income	1,290,747	6,823,574	-	450,320	1,299,813
Profit/ (Loss) after tax	696,007	177,296	-	219,320	30,935
Other comprehensive income	(43,689)	(11,145)	-	(43)	-
Total comprehensive income	652,318	166,151	-	219,277	30,935
Statement of Financial Position					
Total assets	4,443,630	37,176,614	1,470	1,927,136	373,328
Total liabilities	706,556	34,486,359	470	98,551	99,137
Net assets	3,737,074	2,690,255	1,000	1,828,585	274,191
Dividends paid	247,500	-	-	111,100	4,500
Statement of Cash Flows					
Operating cash flows	268,626	2,827,670	-	131,188	8,925
Investing cash flows	(179,236)	(2,074,271)	-	(11,818)	282
Financing cash flows	(246,334)	(514,038)	-	(110,299)	(5,930)
Net increase/ (decrease) in cash and cash equivalents	(156,944)	239,561	-	9,071	3,277

For the year ended 31 December	2018				
	PDL	MBSL	MSS	PDML	TRAVELS
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Statement of Profit or Loss					
Total income	1,040,710	6,549,905	-	400,337	1,231,265
Profit/ (Loss) after tax	497,794	156,390	-	190,033	30,253
Other comprehensive income	(414,054)	882	-	(44)	-
Total comprehensive income	83,740	157,272	-	189,989	30,253
Statement of Financial Position					
Total assets	3,900,467	35,638,974	1,470	1,814,305	347,618
Total liabilities	569,348	33,331,466	472	91,614	91,569
Net assets	3,331,119	2,307,508	998	1,722,691	256,049
Dividends paid	231,000	-	-	101,000	4,500
Statement of Cash Flows					
Operating cash flows	264,817	(3,835,271)	-	144,728	(15,390)
Investing cash flows	106,789	1,878,702	-	(35,423)	1,622
Financing cash flows	(229,114)	1,445,713	-	(101,000)	(6,733)
Net increase/ (decrease) in cash and cash equivalents	142,492	(510,856)	-	8,305	(20,501)

Notes to the Financial Statements

For the year ended 31 December	2019				
	HCL	HH	MBSL INS	KHP	BoC UK
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Statement of Profit or Loss					
Total income	221,252	122,719	378,097	107,123	740,866
Profit/ (Loss) after tax	(54,037)	(3,449)	(47,090)	46,951	25,192
Other comprehensive income	-	-	4,220	17	54,302
Total comprehensive income	(54,037)	(3,449)	(42,870)	46,968	79,494
Statement of Financial Position					
Total assets	317,610	34,482	3,027,663	474,336	40,222,495
Total liabilities	214,451	37,691	1,485,360	156,976	37,040,575
Net assets	103,159	(3,209)	1,542,303	317,360	3,181,920
Dividends paid	-	-	-	168,175	-
Statement of Cash Flows					
Operating cash flows	(53,453)	(2,613)	7,086	36,162	40,820
Investing cash flows	12,916	(895)	(1,284,562)	106,248	(10,272)
Financing cash flows	44,456	(137)	1,200,000	(59,675)	-
Net increase/ (decrease) in cash and cash equivalents	3,919	(3,371)	(77,476)	82,735	30,548

For the year ended 31 December	2018				
	HCL	HH	MBSL INS	KHP	BoC UK
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Statement of Profit or Loss					
Total income	207,064	72,538	207,731	115,920	599,206
Profit/ (Loss) after tax	(31,087)	(1,651)	(180,459)	39,610	18,433
Other comprehensive income	1,289	-	(3)	77	342,346
Total comprehensive income	(29,798)	(1,651)	(180,462)	39,687	360,779
Statement of Financial Position					
Total assets	297,083	36,878	1,278,366	486,288	36,707,727
Total liabilities	152,284	35,817	1,431,728	47,721	33,605,300
Net assets	144,799	1,061	(153,362)	438,567	3,102,427
Dividends paid	4,332	-	-	54,250	-
Statement of Cash Flows					
Operating cash flows	(17,234)	2,223	28,320	44,203	29,910
Investing cash flows	(6,962)	(591)	12,907	4,496	(4,869)
Financing cash flows	(1,300)	-	-	(54,250)	-
Net increase/ (decrease) in cash and cash equivalents	(25,496)	1,632	41,227	5,551	25,041

31 Investment in Associate Companies

Associates are those entities in which the Bank has significant influence, but not control, over the financial and operating policies. Investments in associate entities are accounted for using the equity method (equity-accounted investees) and are recognised initially at cost. The cost of the investment includes transaction costs.

The Consolidated Financial Statements include the Bank's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Bank's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long term investments, is reported at nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. If the associate subsequently reports profits, the Bank resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

A list of the Bank's associates is shown in Note 31.4 to the Financial Statements.

The Bank discontinues the use of the Equity Method from the date that it ceases to have significant influence over an associate and accounts for such investments in accordance with the Sri Lanka Accounting Standard – SLFRS 9 on 'Financial Instruments'.

Upon loss of significant influence over the associate, the Bank measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

31.1 Unquoted Associates

	Bank				Group			
As at 31 December	**2019**		2018		**2019**		2018	
	Cost	Directors' valuation	Cost	Directors' Cost	Equity value	Directors' valuation	Equity value	Directors' valuation
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Ceybank Asset Management Limited (1,240,002 ordinary shares)	**31,048**	**31,048**	31,048	31,048	**233,951**	**233,951**	224,367	224,367
Lanka Securities (Private) Limited (3,594,857 Ordinary shares)	**41,940**	**41,940**	41,940	41,940	**109,901**	**109,901**	119,885	119,885
Southern Development Financial Company Limited (2,500,001 ordinary shares)	**25,000**	**-**	25,000	-	**-**	**-**	-	-
Transnational Lanka Records Solutions (Private) Limited (2,000,000 ordinary shares)	**20,000**	**20,000**	20,000	20,000	**103,183**	**103,183**	96,974	96,974
Total investment in unquoted associates	**117,988**	**92,988**	**117,988**	**92,988**	**447,035**	**447,035**	**441,226**	**441,226**
Provision for impairment of investments in associates (Note 31.3)	**(25,000)**		(25,000)	-			-	-
Net investment in unquoted associates	**92,988**	**92,988**	**92,988**	**92,988**	**447,035**	**447,035**	**441,226**	**441,226**

Notes to the Financial Statements

31.2 Movement in Investment in Associate Companies

	Bank		Group	
	Cost		Equity value	
	2019	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 1 January	**117,988**	117,988	**441,226**	446,793
Share of profit/ (loss), net of tax	**-**	-	**48,187**	9,269
Share of other comprehensive income, net of tax	**-**	-	**(7,078)**	3,464
Share of dividends	**-**	-	**(35,300)**	(18,300)
Balance as at 31 December	**117,988**	**117,988**	**447,035**	**441,226**

31.3 Movement in Provision for Impairment of Investment in Associate Companies

	Bank	
	2019	2018
	LKR '000	LKR '000
Balance as at 1 January	**25,000**	25,000
Impairment charge/ (reversal) during the year	**-**	-
Balance as at 31 December	**25,000**	**25,000**

31.4 Share Holding Structure of Associate Companies

	Equity interest %		Shareholding structure	
Name of the Company	**2019**	2018	Name	Holding %
Ceybank Asset Management Limited (CAML)	**43.36**	43.36	Bank of Ceylon	43.36
			Sri Lanka Insurance Corporation	26.57
			Unit Trust of India	17.48
			Carson Cumberbatch PLC	12.59
Lanka Securities (Private) Limited (LSL)	**41.60**	41.60	First Capital Securities Corporation Limited	51.00
			Merchant Bank of Sri Lanka & Finance PLC	29.00
			Bank of Ceylon (Bank of Ceylon indirectly hold 21.6%)	20.00
Transnational Lanka Records Solutions (Private) Limited (TLRS)	**24.69**	24.69	Transnational (Pte) Ltd - Singapore	62.96
			Bank of Ceylon	24.69
			Seylan Bank PLC	12.35
Southern Development Financial Company Limited (SDFC) *	**41.67**	41.67	Bank of Ceylon	41.67
			People's Bank	41.67
			Southern Development Authority of Sri Lanka	16.66

* SDFC is not in operation and in the process of liquidation.

31.5 Summarised Financial Information of Associates

For the year ended 31 December	2019		
	CAML	LSL	TLRS
	LKR '000	LKR '000	LKR '000
Statement of Profit or Loss			
Total income	110,390	85,073	138,689
Profit/ (Loss) before tax	20,678	(26,902)	110,434
Profit/ (Loss) after tax	14,409	(26,901)	102,846
Other comprehensive income	(16,324)	-	-
Total comprehensive income	(1,915)	(26,901)	102,846
Statement of Financial Position			
Current assets	323,357	357,793	61,267
Total assets	578,627	363,932	643,300
Current liabilities	12,331	102,954	23,041
Total liabilities	39,072	99,747	190,375
Net assets	539,555	264,185	452,925
Dividends paid	21,450	-	40,500
Dividends received to the Bank (net)	8,089	-	26,000

For the year ended 31 December	2018		
	CAML	LSL	TLRS
	LKR '000	LKR '000	LKR '000
Statement of Profit or Loss			
Total income	132,829	84,394	83,723
Profit/ (Loss) before tax	38,456	(30,618)	112,512
Profit/ (Loss) after tax	27,600	(30,618)	84,549
Other comprehensive income	(8,819)	-	-
Total comprehensive income	18,781	(30,618)	84,549
Statement of Financial Position			
Current assets	307,709	343,056	69,236
Total assets	556,755	349,875	605,079
Current liabilities	14,490	62,242	5,891
Total liabilities	39,302	61,690	212,315
Net assets	517,453	288,185	392,764
Dividends paid	21,450	-	40,500
Dividends received to the Bank (net)	8,004	-	9,000

Notes to the Financial Statements

32 Investment Properties

Accounting Policy

Recognition

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Measurement

Investment property is accounted for under Cost Model in the Financial Statements. Accordingly, after initial recognition as an asset, the property is carried at its cost, less accumulated depreciation and impairment losses.

If any property is reclassified to investment property due to changes in its use, fair value of such property at the date of reclassification becomes its cost for subsequent accounting.

Depreciation

Depreciation is provided on a straight-line basis over the estimated life of the class of asset from the date of purchase up to the date of disposal. Provision for depreciation is made over the period of 20 years at the rate of 5% per annum using the straight-line method for buildings classified as investment property. Land is not depreciated under normal circumstances.

Derecognition

Investment properties are derecognised when they are disposed of, or permanently withdrawn from use since no future economic benefits are expected. Transfers are made to and from investment property only when there is a change in use. When the use of a property changes such that it is reclassified as Property, Plant and Equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

	Bank		Group	
	2019	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Cost				
Balance as at 1 January	**3,000,000**	3,000,000	**148,409**	149,094
Disposals during the year	**-**	-	**-**	(685)
Transfers from Property, Plant and Equipment	**-**	-	**-**	-
Balance as at 31 December	**3,000,000**	**3,000,000**	**148,409**	**148,409**
Less : Accumulated depreciation				
Balance as at 1 January	**234,144**	117,072	**28,227**	25,321
Charge for the year	**117,072**	117,072	**2,906**	2,906
Disposal/ Transfer	**-**	-	**-**	-
Balance as at 31 December	**351,216**	**234,144**	**31,133**	**28,227**
Net investment properties	**2,648,784**	**2,765,856**	**117,276**	**120,182**

32.1 Unobservable Inputs Considered in Measuring Fair Value

Significant unobservable inputs	Range of estimates for unobservable inputs	Sensitivity of fair value to unobservable inputs
Estimated value per perch	LKR 12.0 million - LKR 16.0 million	Positive correlated sensitivity

32.2 Investment Properties Held By the Bank and Group

32.2.1 Bank

As at 31 December	Building	Extent of Land	2019 Cost Land	2019 Cost Building	2019 Cost Total	2019 Fair value Total	2018 Cost Total	2018 Fair value Total
	(sq.ft)	(Perches)	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
York street building, No.02, York Street, Colombo 01	261,610	181.85	2,414,640	**585,360**	**3,000,000**	**3,000,000**	3,000,000	3,000,000
Total			**2,414,640**	**585,360**	**3,000,000**	**3,000,000**	**3,000,000**	**3,000,000**

32.2.2. Group

As at 31 December	Building	Extent of Land	2019 Cost Land	2019 Cost Building	2019 Cost Total	2019 Fair value Total	2018 Cost Total	2018 Fair value Total
	(sq.ft)	(Perches)	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Nos. 64 and 66, Nonagama Road, Pallegama, Embilipitiya	-	16.61	**1,751**	**-**	**1,751**	**30,000**	1,751	30,000
No. 385/1, Kotte Road, Pittakotte	2,896	19.01	**2,958**	**1,730**	**4,688**	**53,000**	4,688	5,298
No. 116/4,116/7,116/26, 116/27, 116/29 1st Cross Street, Colombo 01	-	12.35	**1,249**	**-**	**1,249**	**5,000**	1,249	2,602
No. 102 and 104, Dam Street, Colombo 12	20,368	50.70	**17,970**	**11,989**	**29,959**	**188,000**	29,959	233,000
Kumbuththukuliya watte, Bangadeniya Road, Puttalam	-	320.00	**600**	**-**	**600**	**55,000**	600	3,400
Mirissawelawatta hena; Thekkawatta, Dambadeniya.	-	188.00	**162**	**-**	**162**	**2,000**	162	600
No. 50/21, Old Kesbawa Road, Raththanapitiya, Boralesgamuwa	54,826	364.35	**65,604**	**44,396**	**110,000**	**200,191**	110,000	298,015
Total			**90,294**	**58,115**	**148,409**	**533,191**	**148,409**	**572,915**

Note : The fair value of the investment properties as at 31 December 2019 was based on market valuations carried out in the year 2013, 2014, 2016 and 2019 by Mr D N Dhammika Baranage [RICS (UK), DIV AIS (SL)] and Mr H A W Perera [B Sc Estate Management and Valuation (Special)], Mr Samantha Kumara Madawan Arachchi [B Sc Estate Management and Valuation (Special), City Planning (JP), Dip(UPM)NI, AIREV] and Mr. A G Gunarathne [B.Sc. Estate Mgt & Valuation, F.I.V (Sri Lanka)], Mr L G T Thungasiri [(AIV) F.I.V (Sri Lanka), Dip. in Valuation (SLTC)], who are independent valuers not connected with the companies. The directors have reviewed values of the investment properties as at 31 December 2019 and concluded that there was no impairment.

Notes to the Financial Statements

33 Property, Plant and Equipment

Recognition

Property, Plant and Equipment (PPE) are recognised if it is probable that future economic benefits associated with the assets will flow to the Group and the cost of the asset can be reliably measured.

Measurement

Cost of Property, Plant and Equipment includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Items of Property, Plant and Equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Revaluation model is applied for entire class of freehold land and buildings and buildings on leasehold lands. The Market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use are taken into account in measuring the fair value.

Properties that carried at revaluation amount being their fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold land and building of the Group are revalued every three to five years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the Reporting date. Any surplus arising on revaluation of an asset is accumulated under the Revaluation Reserve in Equity through Other Comprehensive Income. However, if there is any revaluation deficit of the same asset previously recognised on profit or loss, revaluation surplus is recognised on Profit or Loss to the extent it reverse such deficit. Any deficit arising on revaluation of a assets is recognised on Profit or Loss and such deficit is recognised in Other Comprehensive Income to the extend of any credit balance existing in the revaluation reserve in respect of that asset.

Accumulated depreciation as at revaluation date is eliminated against the gross carrying amount of assets and the net amount restated to the revalued amount of the assets. Where the carrying value of the Property, Plant and Equipment are reviewed for impairment, when an event or changes in circumstances indicate that the carrying value may not be recoverable.

When parts of an item of Property, Plant and Equipment have different useful lives, they are accounted for as separate items (major components) of Property, Plant and Equipment.

Subsequent Costs

The cost of replacing a part of an item of PPE is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day to day servicing of Property, Plant and Equipment are recognised in the Statement of Profit or Loss in "Other expenses" (Note 16) as incurred.

Capital Work in Progress

Capital work in progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, awaiting capitalisation.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Bank incurs in connection with the borrowing of funds.

Depreciation

Depreciation is recognised in Statement of Profit or Loss on a straight line basis over the estimated useful lives of each part of an item of Property, Plant and Equipment since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. Further, cost of expansion and major renovations on the building are depreciated over the remaining useful lives of the original buildings.

Provisioning for depreciation of PPE is made on pro rata basis

The Group's estimated useful lives for the current and comparative periods are as follows:

Freehold buildings	40 - 60 years
Office equipment	08 years
Furniture and fittings	08 years
Computer equipment	05 years
Motor vehicles	04 years
Power plant	20 years

Depreciation methods, useful lives and residual values are reassessed at each financial year end and adjusted if appropriate.

Useful Life and Residual Values

Residual value is the amount that Group could receive for an asset at the Reporting date if the asset was already at the age and in the condition that it will be in when the Group expects to dispose it.

The residual and useful life of an asset are reviewed at least at each Reporting date, changes in the residual value and useful life are accounted for prospectively as a change in an accounting estimate only if the residual value is material.

Derecognition

The carrying amount of an item of Property, Plant and Equipment is derecognised on disposal, replacement or when no future economic benefits are expected from its use. The gain or loss arising from the derecognition of an item of Property, Plant and Equipment is included in the "Net other operating income" (Note 13) "Other expenses" (Note 16) in the Statement of Profit or Loss in the year the item is derecognised.

Reclassification as Investment Property

When the use of property changes such that is reclassified as investment property, its fair value at the date of reclassification becomes its cost for subsequent accounting. Any gain arising on re-measurement is recognised in the Statement of Profit or Loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in Other Comprehensive Income and presented in revaluation reserve in equity. Any loss is recognised immediately in the Statement of Profit or Loss.

Notes to the Financial Statements

33.1 Bank

	Freehold land	Freehold building	Buildings on leasehold land	Equipment [Note 33.12.1]	Motor vehicles	Leasehold motor vehicles	Capital work in progress	2019 Total	2018 Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cost or valuation									
As at 1 January	12,967,284	3,380,769	2,455,874	14,528,740	1,702,075	43,317	242,740	35,320,799	32,651,197
Additions during the year									
Acquisitions	642,463	103,354	48,335	1,920,301	106,453	-	550,444	3,371,350	3,399,832
Capitalisations	-	156,338	44,586	13,517	-	-	(214,441)	-	-
Changes in revaluation surplus/ (deficit)	-	-	-	-	-	-	-	-	(337,522)
Transfer of accumulated depreciation on asset revaluation	-	-	-	-	-	-	-	-	-
Disposals during the year	-	(4,800)	-	(252,848)	(101,480)	(5,769)	-	(364,897)	(425,507)
Impairment to profit/ loss	-	-	-	-	-	-	-	-	-
Exchange rate adjustments	-	-	-	(4,313)	(233)	-	-	(4,546)	31,239
Transfers/ adjustments	-	(59,692)	59,692	(3,433)	-	-	(80,520)	(83,953)	1,560
As at 31 December	13,609,747	3,575,969	2,608,487	16,201,964	1,706,815	37,548	498,223	38,238,753	35,320,799
Accumulated depreciation									
As at 1 January	-	130,224	215,111	9,594,443	1,159,549	43,317	-	11,142,644	9,605,083
Charge for the year	-	110,630	78,205	1,431,308	252,063	-	-	1,872,206	1,700,038
Transfer of accumulated depreciation on assets revaluation	-	-	-	-	-	-	-	-	-
Disposals during the year	-	(1,950)	-	(249,364)	(93,715)	(5,769)	-	(350,798)	(355,471)
Exchange rate adjustments	-	-	-	(4,022)	(207)	-	-	(4,229)	26,184
Transfers/ adjustments	-	(108)	108	(135)	-	-	-	(135)	166,810
As at 31 December	-	238,796	293,424	10,772,230	1,317,690	37,548	-	12,659,688	11,142,644
Net book value as at 31 December 2019	13,609,747	3,337,173	2,315,063	5,429,734	389,125	-	498,223	25,579,065	-
Net book value as at 31 December 2018	12,967,284	3,250,545	2,240,763	4,934,297	542,526	-	242,740	-	24,178,155

33.2 Group

	Freehold land	Freehold building	Buildings on leasehold land	Equipment [Note 33.12.2]	Motor vehicles	Leasehold motor vehicles	Capital work in progress	2019 Total	2018 Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cost or valuation									
As at 1 January	15,878,365	6,465,075	10,379,114	16,062,997	1,865,478	66,693	320,622	51,038,344	48,076,083
Additions during the year									
Acquisitions	642,463	105,033	148,957	2,032,055	151,309	-	631,965	3,711,782	3,569,916
Capitalisations	-	156,338	44,586	13,517	-	-	(214,441)	-	-
Changes in revaluation surplus/ (deficit)	-	7,217	767,682	-	-	-	-	774,899	136,882
Transfer of accumulated depreciation on asset revaluation	-	(30,718)	(330,559)	-	-	-	-	(361,277)	-
Disposals during the year	-	(7,742)	-	(269,381)	(110,861)	(5,769)	(100,949)	(494,702)	(517,961)
Impairment to profit/ loss	-	-	-	-	-	-	-	-	-
Exchange rate adjustments	9,562	9,891	-	(2,487)	(233)	-	-	16,733	115,537
Transfers/ adjustments	-	(59,692)	59,521	(3,213)	-	-	(80,520)	(83,904)	(342,113)
As at 31 December	16,530,390	6,645,402	11,069,301	17,833,488	1,905,693	60,924	556,677	54,601,875	51,038,344
Accumulated depreciation									
As at 1 January	-	688,316	742,667	10,541,384	1,251,260	52,208	-	13,275,835	11,467,164
Charge for the year	-	294,891	450,887	1,553,373	271,437	5,486	-	2,576,074	2,376,170
Transfer of accumulated depreciation on asset revalution	-	(30,718)	(330,559)	-	-	-	-	(361,277)	-
Disposals during the year	-	(1,950)	-	(264,342)	(103,096)	(5,769)	-	(375,157)	(422,323)
Exchange rate adjustments	-	2,271	-	(1,900)	(207)	-	-	164	33,476
Transfers/ adjustments	-	(108)	108	(144)	789	(789)	-	(144)	(178,652)
As at 31 December	-	952,702	863,103	11,828,371	1,420,183	51,136	-	15,115,495	13,275,835
Net book value as at 31 December 2019	16,530,390	5,692,700	10,206,198	6,005,117	485,510	9,788	556,677	39,486,380	-
Net book value as at 31 December 2018	15,878,365	5,776,759	9,636,447	5,521,613	614,218	14,485	320,622	-	37,762,509

Notes to the Financial Statements

33.3 Title Restriction on Property, Plant and Equipment

There were no restrictions that existed in the title of the Property, Plant and Equipment of the Bank and the Group as at the Reporting date.

33.4 Property, Plant and Equipment Pledged as Security for Liabilities

No freehold Property, Plant and Equipment have been pledged as security for any liability.

33.5 Compensation from Third Parties for Items of Property, Plant and Equipment

There were no compensation received/ receivable from third parties for items of Property, Plant and Equipment which were impaired or given up.

33.6 Fully Depreciated Property, Plant & Equipment

The initial cost of fully depreciated Property, Plant and Equipment which are still in use are as follows :

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Motor vehicles	**818,935**	801,143	**827,502**	854,026
Computer equipments	**3,663,338**	3,025,018	**3,665,481**	3,253,241
Equipment, furniture, and fittings	**1,641,669**	1,473,627	**1,671,293**	1,654,837
Buildings on leasehold lands	**35,655**	28,079	**35,655**	28,079
Plant and machinery	**1,275,012**	1,182,280	**1,275,386**	1,182,556
Total	**7,434,609**	**6,510,147**	**7,475,317**	**6,972,739**

33.7 Temporarily Idle Property, Plant and Equipment

There were no temporarily idle Property, Plant and Equipment as at the Reporting date.

33.8 Property, Plant and Equipment Retired from Active Use

The Group held no Property, Plant and Equipment retired from active use and which were not classified as held for sale in accordance with SLFRS 5 -"Non-current assets held for sale and discontinued operations".

33.9 Freehold Properties

The carrying value of freehold properties, that would have been recognised in the Financial Statements, if they were carried at cost less accumulated depreciation is as follows:

33.9.1 Bank

As at 31 December	**2019**			2018		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Land	**2,014,740**	**-**	**2,014,740**	1,372,277	-	1,372,277
Building	**1,954,066**	**(664,833)**	**1,289,233**	1,694,375	(574,675)	1,119,700
Total	**3,968,806**	**(664,833)**	**3,303,973**	**3,066,652**	**(574,675)**	**2,491,977**

33.9.2 Group

As at 31 December	2019			2018		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Land	**2,038,701**	**-**	**2,038,701**	1,396,238	-	1,396,238
Building	**3,077,810**	**(1,107,771)**	**1,970,039**	2,816,439	(1,030,826)	1,785,613
Total	**5,116,511**	**(1,107,771)**	**4,008,740**	**4,212,677**	**(1,030,826)**	**3,181,851**

33.10 Revaluation of Leasehold/ Freehold Properties - Group

The following buildings on leasehold/ freehold lands of the subsidiaries were revalued during the year by professionally qualified independent valuers.

Leasehold Building

Details of properties	2019				
	Valuer	Basis of valuation	Carrying value	Revalued amount of Building	Surplus/ (Loss) of Building
			LKR '000	LKR '000	LKR '000
Property Development PLC Bank of Ceylon Head Office Building "BOC Square", Colombo 01 (Revalued as at 31 December 2019)	M/s P B Kalugalagedara & Associates	Market value method	6,914,200	7,392,750	478,550
BOC Property Development & Management (Private) Limited Bank of Ceylon - Ceybank house No. 86, Sri Dalada Veediya, Kandy (Revalued as at 31 December 2019)	M/s P B Kalugalagedara & Associates	Market value method	460,615	493,000	32,385

Freehold Land

Details of properties	2019				
	Valuer	Basis of valuation	Carrying value	Revalued amount of Land	Surplus/ (Loss) of Land
			LKR '000	LKR '000	LKR '000
Merchant Bank of Sri Lanka & Finance PLC No: 470, Hendala Road, Wattala (Revalued as at 31 December 2017)	Mr.S A N A Perera	Market value method	**9,961**	**75,200**	**65,239**
Merchant Bank of Sri Lanka & Finance PLC Kurunduwatta Ekala (Revalued as at 31 December 2017)	Mr D N Dhammika Baranage	Market value method	**14,000**	**95,000**	**81,000**

Notes to the Financial Statements

Freehold Building

Details of properties	2019				
	Valuer	Basis of valuation	Carrying value	Revalued amount of Building	Surplus/ (Loss) of Building
			LKR '000	LKR '000	LKR '000
BOC Property Development & Management (Private) Limited Bank of Ceylon - Merchant Tower St. Micheal's Road, Colombo 03 (Revalued as at 31 December 2019)	M/s P B Kalugalagedara & Associates	Market value method	**1,946,500**	**1,898,678**	**(47,822)**
Merchant Bank of Sri Lanka & Finance PLC No: 470, Hendala Road, Wattala (Revalued as at 31 December 2017)	Mr S A N A Perera	Market value method	**1,190**	**4,200**	**3,010**

33.11 Unobservable Inputs Considered in Measuring Fair Value

The following table depicts information about significant unobservable inputs used in measuring fair value of the assets categorised under Level 3 of the fair value hierarchy.

33.11.1 Bank

Type of asset	2019				
	Fair value as at **31.12.2019**	Valuation technique	Significant unobservable inputs	Range of estimates for unobservable inputs	Sensitivity of fair value to unobservable inputs
	LKR '000				
Freehold land	**13,609,747**	Market comparable method	Estimated cost per perch	LKR 24,500 - LKR 14,493,000	Positively correlated sensitivity
Freehold buildings	**3,337,173**	Market comparable method	Estimated cost per square feet	LKR 400 - LKR 55,400	Positively correlated sensitivity
Buildings on leasehold lands	**2,315,063**	Rental value basis	Estimated rental value per square feet	LKR 110 - LKR 11,250	Positively correlated sensitivity
			Expected market rental growth p.a	5%	Positively correlated sensitivity
			Anticipated maintenance cost	40%	Positively correlated sensitivity
			Discount rate	5.50%	Negatively correlated sensitivity

33.11.2 Group

Type of asset	2019				
	Fair value as at **31.12.2019**	Valuation technique	Significant unobservable inputs	Range of estimates for unobservable inputs	Sensitivity of fair value to unobservable inputs
	LKR '000				
Freehold land	**16,530,390**	Market comparable method	Estimated cost per perch	LKR 24,500 - LKR 14,493,000	Positively correlated sensitivity
Freehold buildings	**5,692,700**	Market comparable method	Estimated cost per square feet	LKR 400 - LKR 55,400	Positively correlated sensitivity
Buildings on leasehold lands	**10,206,198**	Rental value basis	Estimated rental value per square feet	LKR 110 - LKR 6,426	Positively correlated sensitivity
			Expected market rental growth p.a	5%	Positively correlated sensitivity
			Anticipated maintenance cost	40%	Positively correlated sensitivity
			Discount rate	5.5%-8.0%	Negatively correlated sensitivity

33.12 Equipment

33.12.1 Bank

	Computer Equipment	Furniture and Fittings	Office Equipment	**2019 Total**	2018 Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cost					
Balance as at 1 January	7,613,941	4,091,852	2,822,947	**14,528,740**	12,845,291
Additions during the year	956,781	715,251	248,269	**1,920,301**	2,077,458
Capitalisations	-	13,517	-	**13,517**	-
Disposals during the year	(109,213)	(69,225)	(74,410)	**(252,848)**	(250,572)
Exchange rate adjustments	(3,830)	(180)	(303)	**(4,313)**	29,178
Transfers/ adjustments	(2,534)	-	(899)	**(3,433)**	(172,615)
Balance as at 31 December	**8,455,145**	**4,751,215**	**2,995,604**	**16,201,964**	**14,528,740**
Accumulated Depreciation					
Balance as at 1 January	5,023,571	2,556,208	2,014,664	**9,594,443**	8,508,989
Charge for the year	872,356	358,693	200,259	**1,431,308**	1,308,439
Transfers/ adjustments	226	(449)	88	**(135)**	(2,302)
Disposals during the year	(108,423)	(67,258)	(73,683)	**(249,364)**	(245,373)
Exchange rate adjustments	(3,722)	(220)	(80)	**(4,022)**	24,690
Balance as at 31 December	**5,784,008**	**2,846,974**	**2,141,248**	**10,772,230**	**9,594,443**
Net book value as at 31 December 2019	**2,671,137**	**1,904,241**	**854,356**	**5,429,734**	**-**
Net book value as at 31 December 2018	**2,590,370**	**1,535,644**	**808,283**	**-**	**4,934,297**

Notes to the Financial Statements

33.12.2 Group

	Computer Equipment	Furniture and Fittings	Office Equipment	Power Plant	**2019 Total**	2018 Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cost						
Balance as at 1 January	8,082,017	4,815,527	2,866,455	298,998	**16,062,997**	14,337,783
Additions during the year						
Acquisitions	1,008,222	786,115	237,718	-	**2,032,055**	2,172,539
Capitalisation	-	-	13,517	-	**13,517**	-
Disposals during the year	(116,054)	(78,155)	(75,172)	-	**(269,381)**	(310,527)
Exchange rate adjustments	(3,303)	1,119	(303)	-	**(2,487)**	35,810
Transfers/ Adjustments	(2,534)	220	(899)	-	**(3,213)**	(172,608)
Balance as at 31 December	**8,968,348**	**5,524,826**	**3,041,316**	**298,998**	**17,833,488**	**16,062,997**
Accumulated Depreciation						
Balance as at 1 January	5,370,584	3,019,421	2,052,081	99,298	**10,541,384**	9,386,381
Charge for the year	922,076	413,897	202,451	14,950	**1,553,373**	1,430,276
Disposals during the year	(115,262)	(74,645)	(74,435)	-	**(264,342)**	(300,819)
Exchange rate adjustments	(2,168)	348	(80)	-	**(1,900)**	27,849
Transfers/ Adjustments	226	(458)	88	-	**(144)**	(2,303)
Balance as at 31 December	**6,175,456**	**3,358,563**	**2,180,105**	**114,248**	**11,828,371**	**10,541,384**
Net book value as at 31 December 2019	**2,792,892**	**2,166,263**	**861,211**	**184,750**	**6,005,117**	**-**
Net book value as at 31 December 2018	**2,711,433**	**1,796,106**	**814,374**	**199,700**	**-**	**5,521,613**

33.13 The Details of Freehold Land and Building Held by the Bank as at 31 December 2019 are as Follows:

Name of Premises	Extent (Perches)	Building (Square Feet)	Date of Valuation	Revalued Amount of Land	Revalued Amount of Buildings	Total Value	Accumulated Depreciation	Written Down Value
				LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Central Province								
Galaha Branch								
59/37, Deltota Road, Galaha	15.00	5,353	30.09.2017	15,000	19,693	34,693	967	33,726
Gampola Branch								
44, Kadugannawa Road, Gampola	175.00	9,677	30.09.2017	105,000	31,000	136,000	1,550	134,450
Galewela Land								
158, Dhambulla Road, Galewela	47.00	-	24.03.2017	97,759	-	97,759	-	97,759
Hatton Branch and staff Quarters								
46, Circular Road, Hatton	139.50	15,359	30.09.2017	97,000	43,500	140,500	3,480	137,020
Kandy 2nd City Branch								
22, Dalada Veediya, Kandy	42.81	27,081	30.09.2017	428,000	27,000	455,000	2,699	452,301
Kandapola Branch								
Nuwara Eliya Road, Kandapola	14.10	4,284	11.07.2018	37,109	7,920	45,029	212	44,817
Maskeliya Branch								
66, Upcot Road, Maskeliya	42.05	6,130	30.09.2017	25,000	15,000	40,000	1,200	38,800
Nawalapitiya Branch								
106, Gampola Road, Nawalapitiya	21.92	5,534	30.09.2017	33,000	17,134	50,134	854	49,280
Nuwara Eliya Branch								
43, Lawson Street, Nuwara Eliya	133.50	9,713	30.09.2017	667,500	38,436	705,936	1,921	704,015
Nuwara Eliya Staff Quarters								
14,19, Hill Street, Nuwara Eliya	75.70	7,562	30.09.2017	98,400	13,519	111,919	1,075	110,844
Nuwara Eliya Property Ladies Staff Quarters								
12, Hill Street, Nuwara Eliya	82.53	4,638	30.09.2017	7,495	2,508	10,003	502	9,501
Rikillagaskada Branch								
38, Dimbulkubura Road, Rikillagaskada	19.60	4,450	26.07.2017	30,199	11,500	41,699	703	40,996
Thalawakele Branch								
23,25,29, Hatton Road, Talawakelle	25.30	7,332	30.09.2017	33,520	17,119	50,639	923	49,716
Thalawakele Staff Quarters								
Talawakele Estate Plantation	160.00	4,898	30.09.2017	10,400	11,635	22,035	582	21,453
				1,685,382	**255,964**	**1,941,346**	**16,668**	**1,924,678**

Notes to the Financial Statements

Name of Premises	Extent (Perches)	Building (Square Feet)	Date of Valuation	Revalued Amount of Land	Revalued Amount of Buildings	Total Value	Accumulated Depreciation	Written Down Value
				LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Eastern Province								
Batticaloa Branch 21 & 21 1/1 Govington Road, Batticaloa	64.85	7,774	30.09.2017	48,500	19,000	67,500	1,086	66,414
Mutur Branch (New) Ward No 7, Main street, Mutur	71.00	7,566	30.09.2017	15,585	41,600	57,185	2,080	55,105
Pottuvil Branch Main Street, Pottuvil	10.70	4,077	30.09.2017	17,000	13,000	30,000	650	29,350
Trincomalee Branch 28, Inner Harbour Road, Trincomalee	90.00	10,810	30.09.2017	72,000	25,149	97,149	6,287	90,862
Trincomalee City Branch 09, Main Street, Trincomalee	21.90	-	30.09.2017	35,000	-	35,000	-	35,000
Valachchenai Branch Main Street, Valachchenai	47.34	6,621	30.09.2017	30,500	14,500	45,000	1,450	43,550
				218,585	**113,249**	**331,834**	**11,553**	**320,281**
Northern Province								
Jaffna Area Office & Branch 56, Stanley Road, Jaffna	166.25	21,393	30.11.2014	249,500	37,083	286,583	9,201	277,382
Jaffna 2nd Branch 52, Stanley Road, Jaffna	33.89	12,700	30.10.2018	135,269	52,330	187,599	218	187,381
Karainagar Branch Post Office View, Karainagar	63.22	5,720	30.11.2014	3,300	5,890	9,190	1,453	7,737
Mannar manager and staff Quarters 52, Pallimunai Road, Grand Bazaar, Mannar	162.04	7,661	30.11.2014	9,500	9,627	19,127	2,234	16,893
Nelliadi Branch Thikkam Road, Karaveddy, Nelliady	22.11	2,718	30.11.2014	17,750	34,694	52,444	3,932	48,512
				415,319	**139,624**	**554,943**	**17,038**	**537,905**

Name of Premises	Extent (Perches)	Building (Square Feet)	Date of Valuation	Revalued Amount of Land	Revalued Amount of Buildings	Total Value	Accumulated Depreciation	Written Down Value
				LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
North Western Province								
Alawwa Branch								
64, Giriulla Road, Alawwa	30.80	7,011	30.09.2017	46,000	25,624	71,624	1,189	70,435
Bingiriya Land								
Wariyapola Road, Bingiriya	40.00	-	02.05.2017	21,199	-	21,199	-	21,199
Chilaw Branch								
Radaguru Edmund Peiris Mawatha, Chilaw	38.25	8,248	30.09.2017	66,000	24,000	90,000	1,200	88,800
Dankotuwa Land								
No 88A, Kahatagahawatte, Negombo Road, Dankotuwa	32.90	-	03.08.2017	49,973	-	49,973	-	49,973
Dummalasooriya Branch								
227, Kuliyapitiya - Madampe Road, Dummalasuriya	41.68	5,611	30.09.2017	30,000	16,000	46,000	1,067	44,933
Kurunegala Province Office AGM's Quarters & CM Quarters								
18, Mihindu mawatha, Kurunegala	225.00	19,437	30.09.2017	560,000	40,000	600,000	2,000	598,000
Kurunegala Super Grade Branch								
Commercial Complex, Kurunegala	-	12,242	30.09.2017	-	165,883	165,883	6,828	159,055
Kurunegala 2nd City Branch								
34, Colombo Road, Kurunegala	46.80	16,677	30.09.2017	234,000	18,617	252,617	4,701	247,916
Madampe Branch								
10, Station Road, Madampe	86.10	7,260	30.09.2017	38,000	22,319	60,319	1,021	59,298
Madurankuliya Branch								
66 , Colombo Road, Madurankuliya	46.00	6,083	30.09.2017	60,000	36,000	96,000	1,800	94,200
Malsiripura Land								
254, Dambulla Road, Malsiripura	46.20	-	06.06.2015	46,799	-	46,799	-	46,799
Marawila Land								
85, Negombo Road, Marawila	35.00	-	03.04.2018	48,879	-	48,879	-	48,879
Narammala Branch								
139, Negombo Road, Narammala	117.50	7,190	30.09.2017	87,000	39,500	126,500	1,975	124,525
Nattandiya Land								
115, Marawila Road, Nattandiya	67.50	-	18.01.2017	47,399	-	47,399	-	47,399
Waikkal Land								
Puttalam Road, Thoppuwa, Waikkal	36.00	-	05.03.2017	44,799	-	44,799	-	44,799
Wariyapola Land								
Makaduwapitiyewatte, Vilakatupotha, Wariyapola	40.80	-	26.09.2017	90,699	-	90,699	-	90,699
				1,470,747	**387,943**	**1,858,690**	**21,781**	**1,836,909**

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Name of Premises	Extent (Perches)	Building (Square Feet)	Date of Valuation	Revalued Amount of Land	Revalued Amount of Buildings	Total Value	Accumulated Depreciation	Written Down Value
				LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Sabaragamuwa Province								
Balangoda Branch								
137, Main Street, Balangoda	14.50	3,202	30.09.2017	40,000	1,488	41,488	558	40,930
Dehiowita Branch								
62 Main Street, Dehiowita	38.60	3,818	30.09.2017	15,180	2,568	17,748	1,027	16,721
Kegalle Branch								
110, Colombo Road, Kegalle	120.00	14,680	30.09.2017	146,000	40,047	186,047	2,898	183,149
Ratnapura Branch								
6, Dharmapala Mawatha, Ratnapura	99.70	9,808	30.09.2017	82,000	33,575	115,575	1,605	113,970
Rathnapura Land								
58, Main Street, Ratnapura	31.69	-	30.09.2017	85,000	-	85,000	-	85,000
				368,180	**77,678**	**445,858**	**6,088**	**439,770**
Southern Province								
Ambalangoda Branch								
274, Main Street, Ambalangoda	58.00	7,575	30.09.2017	203,000	25,500	228,500	1,275	227,225
Ambalantota Branch								
11 Wanduruppa Road, Ambalantota	38.00	5,410	30.09.2017	36,200	15,800	52,000	864	51,136
Ahangama Land								
Mathara Road, Ahangama	33.35	-	21.02.2017	20,007	-	20,007	-	20,007
Batapola Branch								
BB Hardware, Mahawatta, Batapola	46.80	3,024	27.01.2019	60,012	6,682	66,694	93	66,601
Beliatta Branch								
67, Walasmulla Road, Beliatta	53.02	6,200	30.09.2017	59,000	40,500	99,500	2,025	97,475
Galle Province Office								
2, Light House Street, Fort, Galle	32.63	14,250	30.09.2017	228,000	25,489	253,489	2,027	251,462
Galle Branch								
2, Gamini Road, Galle	31.50	10,800	30.09.2017	236,000	21,000	257,000	1,680	255,320
Galle City Branch								
163 & 161, Dewamitta Mawatha, Kumbalwella	27.14	-	05.03.2019	126,566	-	126,566	-	126,566
Hakmana Branch								
Beliatta Road, Hakmana	36.70	3,400	30.09.2017	36,700	8,800	45,500	503	44,997
Imaduwa Branch								
Ahangama Road, Imaduwa	83.50	3,300	30.09.2017	58,500	8,725	67,225	496	66,729
Karapitiya Land								
105, Hirimbura Cross Road, Karapitiya, Galle	35.00	-	01.02.2017	62,599	-	62,599	-	62,599
Matara Branch								
11, Kumaratunga Mawatha, Matara	104.40	15,905	30.09.2017	261,000	25,332	286,332	10,102	276,230
Matara Bazzar Branch								
Gunawardana Mawatha, Matara	49.25	7,105	30.09.2017	123,500	41,500	165,000	2,075	162,925
Nagoda Branch								
Nagoda	40.00	2,985	30.09.2017	16,000	12,000	28,000	600	27,400
Ranna Branch								
Kahandawa, Ranna	40.00	-	26.10.2018	28,199	-	28,199	-	28,199

Name of Premises	Extent (Perches)	Building (Square Feet)	Date of Valuation	Revalued Amount of Land	Revalued Amount of Buildings	Total Value	Accumulated Depreciation	Written Down Value
				LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Tangalle Branch								
145/147, Sea Street, Tangalle	21.05	5,370	30.09.2017	26,500	31,500	58,000	1,575	56,425
Weeraketiya Branch								
Belliatta Road, Weeraketiya	36.87	4,480	30.09.2017	42,600	25,900	68,500	1,295	67,205
Weligama Branch								
239 Main Street, Weligama	97.75	8,110	30.09.2017	73,300	22,915	96,215	1,305	94,910
Walasmulla Land								
453, Walasmulla South, Walasmulla	38.00	-	09.12.2016	32,717	-	32,717	-	32,717
				1,730,400	**311,643**	**2,042,043**	**25,915**	**2,016,128**
Uva Province								
Badulla Uva Province Office								
Bank Road, Badulla	118.75	7,366	30.11.2014	11,750	12,228	23,978	1,330	22,648
Bandarawela Branch								
230, Badulla Road, Bandarawela	10.60	7,731	30.09.2017	33,000	15,000	48,000	750	47,250
Ettampitiya Branch								
23, Nuwara Eliya Road, Ettampitiya	20.35	3,729	30.09.2017	10,105	9,956	20,061	498	19,563
Haputale Branch (Browns)								
20, Station Road, Haputale	158.70	7,361	30.09.2017	36,000	11,000	47,000	880	46,120
Monaragala Branch, Manager Quarters & staff Quarters								
401, Wellawaya Road, Moneragala	160.00	15,000	30.11.2014	50,000	32,870	82,870	3,978	78,892
Siyabalanduwa Branch								
Siyabalanduwa	28.00	5,564	01.11.2017	21,699	22,500	44,199	984	43,215
				162,554	**103,554**	**266,108**	**8,420**	**257,688**
Western Province North								
Borella Branch								
71, Danister de Silva Mawatha, Borella	48.65	20,173	30.09.2017	357,000	74,000	431,000	3,700	427,300
City Office								
41, Bristol Street, Colombo 1	39.50	31,443	30.09.2017	495,000	55,000	550,000	3,667	546,333
Grand Pass Branch								
703, Sirimavo Bandaranaike Mawatha, Grandpass	20.12	6,210	30.09.2017	120,720	24,280	145,000	1,518	143,482
Gampaha Branch								
170,Colombo Road, Gampaha	34.06	7,300	30.09.2017	85,000	99,035	184,035	206	183,829
Ganemulla Branch								
156, Kirindiwita Road, Ganemulla	43.61	-	26.01.2019	72,645	-	72,645	-	72,645
Ja Ela Branch								
19, Negombo Road, Ja-ela	40.64	8,090	30.09.2017	121,920	20,000	141,920	1,600	140,320
Kadawatha Branch								
469, Ragama Road, Kadawatha	30.71	6,138	30.09.2017	92,130	17,500	109,630	1,400	108,230
Kiribathgoda Land								
Kandy Road, Kiribathgoda	43.70	-	21.06.2018	249,963	-	249,963	-	249,963
Negombo Branch								
118, Rajapakse Broadway, Negombo	97.25	16,760	30.11.2014	171,160	41,915	213,075	8,298	204,777

Notes to the Financial Statements

Name of Premises	Extent (Perches)	Building (Square Feet)	Date of Valuation	Revalued Amount of Land	Revalued Amount of Buildings	Total Value	Accumulated Depreciation	Written Down Value
				LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Negombo City								
75,77, Main Street, Negombo	10.76	8,355	07.06.2017	46,998	57,000	103,998	3,593	100,405
Pettah Branch								
212/63, Gas Work Street, Colombo 11	28.29	25,222	30.09.2017	410,000	48,478	458,478	2,761	455,717
Dematagoda Land								
45, 47, Kolonnawa Road, Colombo	38.14	-	30.09.2017	205,000	-	205,000	-	205,000
				2,427,536	**437,208**	**2,864,744**	**26,743**	**2,838,001**
Western Province South								
Aluthgama Branch								
267, Galle Road, Aluthgama	36.60	7,914	30.09.2017	62,220	26,550	88,770	1,770	87,000
Bambalapitiya Branch								
10, Unity Plaza Building, Galle Road, Colombo 4	-	7,776	30.09.2017	-	204,971	204,971	10,202	194,769
Beruwala Branch								
165A, Galle Road, Beruwala	21.50	5,937	30.09.2017	48,375	11,497	59,872	1,533	58,339
Bulathsinhala Branch								
40, Horana Road, Athura, Bulathsinhala	53.85	7,190	30.09.2017	40,388	24,276	64,664	1,918	62,746
Dehiwala Branch								
207, Galle Road, Dehiwela	22.00	12,422	30.09.2017	99,000	34,000	133,000	1,943	131,057
Horana Branch								
87, Anguruwathota Road, Horana	70.02	10,611	30.09.2017	245,063	33,829	278,892	2,621	276,271
Idama Branch								
707, Galle Road, Moratuwa	61.12	8,272	30.09.2017	150,000	15,854	165,854	2,705	163,149
Kalutara Branch								
218, Galle Road, Kalutara South, Kalutara	45.86	11,436	30.09.2017	88,720	34,266	122,986	1,648	121,338
Kottawa Branch								
903, Avissawella Road, Kottawa	35.22	-	01.12.2018	219,772	-	219,772	-	219,772
Maharagama Branch & Central Training Institute								
88, Highlevel Road, Maharagama	179.21	82,121	30.09.2017	507,380	187,503	694,883	17,076	677,807
Matugama Branch								
72, Agalawatte Road, Matugama	9.50	4,158	30.09.2017	33,250	4,250	37,500	850	36,650
Nugegoda Branch								
174, Highlevel Road, Nugegoda,	67.50	45,584	30.09.2017	337,500	582,671	920,171	27,437	892,734
Panadura Branch								
4, Super Grade Branch, Susantha Mawatha, Panadura	80.00	10,509	30.09.2017	140,000	26,811	166,811	1,304	165,507
Panadura City Branch (Land)								
17/3D, Jayathilake Mawatha, Panadura	36.00	-	30.09.2017	36,000	-	36,000	-	36,000

Name of Premises	Extent (Perches)	Building (Square Feet)	Date of Valuation	Revalued Amount of Land	Revalued Amount of Buildings	Total Value	Accumulated Depreciation	Written Down Value
				LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Wadduwa Branch								
557A, Galle Road, Wadduwa	29.00	-	30.09.2017	40,600	-	40,600	-	40,600
Wellawatte Branch								
149, Galle Road, Colombo 6	51.25	15,832	30.09.2017	281,875	39,125	321,000	3,557	317,443
				2,330,143	**1,225,603**	**3,555,746**	**74,564**	**3,481,182**
Holiday Homes & Rests								
Badulla Fernham Bungalow & Property								
153, Spring Valley Road, Badulla	222.25	-	30.11.2012	20,000	-	20,000	-	20,000
Bandarawela Holiday Home								
Bandarawela	115.00	3,028	30.09.2017	14,400	7,300	21,700	417	21,283
Dickoya Upper Glencarn Bungalow								
Dickoya	189.65	8,665	30.09.2017	7,400	23,000	30,400	1,840	28,560
Dickoya lower Glencarn Bungalow								
Dickoya	100.00	5,925	30.09.2017	6,000	18,880	24,880	1,505	23,375
Haputale Woodland Bungalow								
Haputale	135.00	3,010	30.09.2017	14,862	6,600	21,462	528	20,934
Jaffna Bank Rest								
34-34/3, Rasavinthoddam road, Jaffna	166.25	-	30.11.2014	86,250	-	86,250	-	86,250
Kandy Holiday Home								
18/5, Dangolla Road, Getambe	39.00	3,600	07.10.2016	48,999	8,200	57,199	546	56,653
Lindula Ridge Holiday Home								
Lindula	175.00	3,010	30.09.2017	4,300	12,130	16,430	503	15,927
Nuwara Eliya Holiday Home								
16, Hill Street, Nuwara Eliya	35.27	3,388	30.09.2017	53,000	9,800	62,800	1,307	61,493
Cey Bank Rest Nuwara Eliya (Phase 1)								
12, Hill Street, Nuwara Eliya	67.54	3,820	30.09.2017	91,000	15,000	106,000	750	105,250
				346,211	**100,910**	**447,121**	**7,396**	**439,725**
Others								
Colombo 7 - GM's Bangalow								
75, Ananda Kumaraswamy Mawatha, Colombo 7	79.80	6,380	30.09.2017	798,000	40,100	838,100	1,652	836,448
Colombo Darly Road Stores								
Browns Building. 481, T B Jayah Mawatha, Colombo 10	151.00	28,777	30.09.2017	1,200,000	27,468	1,227,468	3,350	1,224,118
Colombo World Trade Centre								
08, 8-2/1, Bank of Ceylon Mawatha, Colombo 01	-	6,345	30.09.2017	-	355,025	355,025	17,628	337,397
Walker's & Sons								
28 St. Michael's Road, Cololmbo 03	57.00	-	30.09.2017	456,690	-	456,690	-	456,690
				2,454,690	**422,593**	**2,877,283**	**22,630**	**2,854,653**
Grand Total				**13,609,747**	**3,575,969**	**17,185,716**	**238,796**	**16,946,920**

Notes to the Financial Statements

34 Right of Use Assets/ Leasehold Properties

Initial Recognition and Measurement.

Lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments in the Statement of Financial Position.

Lessee measures right-of-use assets similarly to other non-financial assets (such as Property, Plant and Equipment) and lease liabilities similarly to other financial liabilities. Consequently, a lessee recognises amortisation of the right-of-use asset and interest on the lease liability.

Assets and liabilities arising from a lease are initially measured on a present value basis. The initial lease asset equals the lease liability in most cases.

At lease commencement, a lessee accounts for two elements:

(a) **Right-of-use asset:** Initially, a right-of-use asset is measured in the amount of the lease liability and initial direct costs. Then it is adjusted by the lease payments made before or on commencement date, lease incentives received, and any estimate of dismantling and restoration costs.

(b) **Lease liability:** The lease liability is in fact all payments not paid at the commencement date discounted to present value using the interest rate implicit in the lease or incremental borrowing rate if the implicit rate cannot be determined. These payments may include fixed payments, variable payments, payments under residual value guarantees, purchase price if purchase option will be exercised.

Subsequent Measurement

After commencement date, lessee needs to adjust both elements recognised initially. Lessee accretes the lease liability to reflect interest and reduce the liability to reflect lease payments made.

Right-of-Use Asset

Lessee shall measure the right-of-use asset using a cost model and depreciate the asset over the lease term on a straight-line basis. The resulted depreciation amount is charged to the Profit or Loss.

Lease Liability

Lessee shall recognise an interest on the lease liability and the lease payments are recognised as a reduction of the lease liability. Interest on lease liability is charged to the Profit or Loss.

Lessee shall re-measure the lease liability upon the occurrence of certain events (e.g. change in the lease term, change in variable rents based on an index or rate), which is generally recognised as an adjustment to the right-of-use asset.

Lessee can apply alternative subsequent measurement bases for the right-of-use asset under certain circumstances in accordance with LKAS 16: Property, Plant, Equipment, and LKAS 40: Investment Property. Right-of-use assets are subject to impairment testing under LKAS 36: Impairment of Assets, too.

It is the Bank's policy to consider the period of the rent agreement in calculating the present value of the right-of-use asset.

	Bank		Group	
	2019	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Cost				
Balance as at 1 January	**129,179**	129,179	**195,412**	195,412
Effect of adoption of IFRS 16 as at 1 January 2019	**4,546,721**	-	**2,005,305**	-
Additions during the year	**118,283**	-	**664,107**	-
Transfers during the year	**-**	-	**-**	-
Capitalised during the year	**-**	-	**-**	-
Disposals	**(352,084)**	-	**(16,435)**	-
Adjustments/ Transfers	**-**	-	**-**	-
Balance as at 31 December	**4,442,099**	**129,179**	**2,848,389**	**195,412**
Accumulated Amortisation				
Balance as at 1 January	**30,280**	27,698	**64,912**	60,972
Amortisation during the year	**1,283,966**	2,582	**612,290**	3,940
Disposals during the year	**(352,084)**	-	**(16,435)**	-
Adjustments/ Transfers	**-**	-	**-**	-
Balance as at 31 December	**962,162**	**30,280**	**660,767**	**64,912**
Net book value	**3,479,937**	**98,899**	**2,187,622**	**130,500**

Net book value of lease hold properties presented as at 31 December 2018 has been transferred to Right of Use Assets with the implementation of SLFRS 16 with effect from 1 January 2019. Prior period amount has not been restated. Leasehold properties represent the leasehold interest in the lands held for own use. The value of buildings situated in the leasehold land is shown seperately under Property, Plant and Equipment. The interest on leasehold land is stated at cost less accumulated amortisation.

34.1 Lease Liability

Carrying amounts of lease liabilities included under Other liabilities (Note 46) and the movement during the year is as follows.

	Bank	Group
	2019	**2019**
	LKR '000	LKR '000
Balance as at 1 January 2019	**-**	**20,605**
Effect of adoption of SLRS 16 as at 1 January 2019	**4,546,721**	**2,005,305**
Restated Balance as at 1 January 2019	**4,546,721**	**2,025,910**
Additions	**103,155**	**28,906**
Accretion of Interest	**356,196**	**230,196**
Payments	**(1,967,709)**	**(1,137,709)**
Balance as at 31 December	**3,038,363**	**1,147,303**

34.1.1 Maturity Analysis of Lease Liability

	Bank	Group
As at 31 December	**2019**	**2019**
	LKR '000	LKR '000
Less than 1 year	**1,337,779**	**505,153**
1 to 5 years	**1,485,327**	**560,868**
More than 5 years	**215,257**	**81,282**
	3,038,363	**1,147,303**

Notes to the Financial Statements

34.2 Sensitivity Factors Used to Calculate Right of Use Asset/ Lease Liability

	Sensitivity	Sensitivity Effect on Right of Use Asset	Sensitivity Effect on Lease Liability	Sensitivity Effect on Profit Before Tax
		LKR '000	LKR '000	LKR '000
Incremental Borrowing Rate	+1%	(60,671)	(53,374)	(7,297)
	-1%	62,748	55,050	7,698
Lease Term	Increased by 1 Year	1,409,897	1,472,596	(62,699)

35 Intangible Assets

Accounting Policy

Basis of Recognition

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. An intangible asset is initially measured at cost.

Intangible assets represent the value of computer application software and licenses, other than software applied to the operating software system of computers.

Measurement

Intangible assets acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure incurred on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation and Impairment

Amortisation is recognised in the Statement of Profit or Loss on a straight line basis over the estimated useful lives of the intangible assets, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of intangible assets is five years or the best estimate of its useful economic life whichever is lower. The intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised as expenses in the Statement of Profit or Loss to the extent that they are no longer probable of being recovered from the expected future benefits. Amortisation methods, useful lives and residual values are reviewed at each Reporting date and adjusted if appropriate.

Derecognition

Intangible assets are derecognised when it reveals that they will not generate economic benefits or circumstances indicate that the carrying value is impaired.

Gains or losses arising from derecognition of an intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the assets and are recognised in Statement of Profit or Loss.

	Bank		Group	
	2019	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Cost				
Balance as at 1 January	**3,343,082**	3,037,229	**3,929,772**	3,598,518
Additions during the year	**317,483**	783,598	**394,389**	790,386
Derecognised during the year	**-**	(477,745)	**(69,667)**	(477,745)
Exchange rate adjustment	**-**	-	**4,683**	18,613
Adjustments/ Transfers	**-**	-	**(2,319)**	-
Balance as at 31 December	**3,660,565**	**3,343,082**	**4,256,858**	**3,929,772**
Accumulated amortisation				
Balance as at 1 January	**2,142,441**	2,226,499	**2,510,687**	2,524,082
Amortisation during the year	**430,760**	406,772	**583,874**	430,453
Derecognised during the year	**-**	(477,745)	**(57,354)**	(477,745)
Exchange rate adjustment	**-**	-	**5,045**	16,330
Adjustments/ Transfers	**(2,098)**	(13,085)	**(109,707)**	17,567
Balance as at 31 December	**2,571,103**	**2,142,441**	**2,932,545**	**2,510,687**
Computer software under development	**37,545**	37,545	**37,545**	37,545
Net book value	**1,127,007**	**1,238,186**	**1,361,858**	**1,456,630**

35.1 Fully Amortised Intangible Assets

The initial cost of fully amortised intangible assets which are still in use are as follows:

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Computer software	**1,449,350**	1,412,467	**1,460,305**	1,423,422
	1,449,350	**1,412,467**	**1,460,305**	**1,423,422**

36 Deferred Tax (Assets)/ Liabilities

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

- The initial recognition of goodwill
- The initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss
- Differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the Reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Notes to the Financial Statements

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each Reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The following table shows deferred tax recorded in the Statement of Financial Position and charge/ (reversal) recorded in the income tax expense (Note 17.2).

36.1 Bank

As at 31 December	2019					2018				
	Deferred Tax Assets	Deferred Tax Liabilities	Impact to Retained Earnings	Statement of Profit or Loss	Other Comprehensive Income/ Equity	Deferred Tax Assets	Deferred Tax Liabilities	Impact to Retained Earnings	Statement of Profit or Loss	Other Comprehensive Income/ Equity
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Retirement benefits	-	(103,717)	-	(12,842)	(16,379)	-	(74,496)	-	(13,310)	(3,050)
Impairment allowance for loans and advances	-	-	-	-	-	-	-	-	890,683	-
Revaluation of Property, Plant and Equipment	-	4,474,240	-	-	-	-	4,474,240	-	-	(94,506)
Investment in financial instruments	-	539,909	-	-	224,638	-	315,271	-	-	6,711
Temporary difference for impairment	-	(3,585,986)	-	(123,709)	-	-	(3,462,277)	(3,345,868)	(116,409)	-
Other temporary differences	-	3,267,575	-	(553,213)	-	-	3,820,788	-	1,928,946	-
	-	4,592,021	-	(689,764)	208,259	-	5,073,526	(3,345,868)	2,689,910	(90,845)

36.2 Group

As at 31 December	2019					2018				
	Deferred Tax Assets	Deferred Tax Liabilities	Impact to Retained Earnings	Statement of Profit or Loss	Other Comprehensive Income/ Equity	Deferred Tax Assets	Deferred Tax Liabilities	Impact to Retained Earnings	Statement of Profit or Loss	Other Comprehensive Income/ Equity
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Retirement benefits	-	(190,348)	-	2,042	(34,000)	(6,088)	(152,302)	-	(101,164)	9,530
Impairment allowance for loans and advances	-	-	-	-	-	-	-	-	890,683	-
Revaluation of Property, Plant and Equipment	-	7,478,509	-	-	221,448	-	7,257,061	-	-	41,271
Investment in financial instruments	-	539,909	-	-	224,638	-	315,271	-	-	6,711
Temporary difference for impairement	-	(3,607,500)	-	120,708	-	-	(3,728,208)	(3,648,954)	(79,254)	-
Other temporary differences	(511,936)	2,962,296	-	(1,623,069)	-	3,036	4,070,392	-	2,023,741	-
	(511,936)	7,182,866	-	(1,500,319)	412,086	(3,052)	7,762,214	(3,648,954)	2,734,006	57,512

37 Other assets

Pre Paid Staff Cost

Staff loans are initially recognised at fair value according to Sri Lanka Accounting Standard SLFRS 9 - "Financial Instruments". The difference between granted amount and its fair value is treated as pre paid staff cost and amortised over the loan period.

Gold Stock in Hand

The gold inventory is valued at lower of cost or net realisable value. Cost includes all cost of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale.

Employee Benefit Asset

Employee benefit assets represents net retirement benefit assets of Bank of Ceylon widows'/ widowers' and orphans' pension fund and Bank of Ceylon Pension Fund-2014. For more details refer Note 47.

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Consumable stock in hand	**694,815**	747,383	**740,455**	795,588
Prepaid staff cost	**15,230,411**	13,133,342	**15,230,411**	13,133,342
Cheques in transit - Local	**1,646,526**	1,592,004	**1,646,526**	1,592,004
Cheques in transit - Foreign	**21,370**	17,948	**21,370**	17,948
Tax recoverable [Note 44]	**1,172,018**	-	**1,182,389**	10,876
Gold bullion and coins in hand	**125,714**	123,688	**125,714**	123,688
Gold stock in hand	**376**	300	**376**	300
Net Employee benefit asset [Note 47]	**13,475,453**	13,491,520	**13,475,453**	13,491,520
Other	**30,213,719**	28,130,552	**31,503,366**	29,384,303
Total other assets	**62,580,402**	**57,236,737**	**63,926,060**	**58,549,569**

38 Due to Banks

Accounting Policy

Due to banks represents credit balances in Nostro Accounts and short- term borrowings from banks. These are initially recognised at fair value. Subsequent to initial recognition, these are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any transaction costs that are an integral part of the EIR. The EIR amortisation is included in "Interest expenses" (Note 8.2) in the Statement of Profit or Loss.

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Deposits from other banks	**1,324,470**	1,546,737	**1,324,470**	1,546,737
Bank overdrafts	**1,344,937**	855,731	**1,608,480**	969,261
Total due to banks	**2,669,407**	**2,402,468**	**2,932,950**	**2,515,998**

Notes to the Financial Statements

39 Securities Sold Under Repurchase Agreements

Accounting Policy

Securities sold under repurchase agreements at a specified future date are not derecognised from the Statement of Financial Position as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest as a liability within "Other borrowings" (Note 42), reflect the transaction's economic substance as a borrowing to the Group. The difference between the sale and repurchase prices is treated as interest expense and is amortised over the life of agreement using EIR.

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
With Banks	**7,333,289**	54,017,168	**8,030,586**	54,041,111
With other Customers	**26,849,921**	43,382,191	**26,849,921**	43,382,191
Total Securities sold under repurchase agreements	**34,183,210**	**97,399,359**	**34,880,507**	**97,423,302**

40 Derivative Financial Instruments

Accounting Policy

Derivative financial instruments include contracts which are entered by the Bank that are not designated as hedging instruments in hedge relationships as per the Sri Lanka Accounting Standard –SLFRS 9 on "Financial Instruments".

Derivatives are recorded at fair value and carried as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in "Net gains/(losses) from trading" (Note 10) in Statement of Profit or Loss.

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Foreign Currency Derivatives				
Forward exchange contracts	**1,070**	31,736	**1,070**	31,736
Currency SWAPs	**105,607**	477,282	**105,607**	477,282
Total derivative financial instruments	**106,677**	**509,018**	**106,677**	**509,018**

41 Financial Liabilities at Amortised Cost - Due to Depositors

Accounting Policy

Financial liabilities at amortised cost - due to depositors include non-interest-bearing deposits, savings deposits, term deposits, deposits payable at call and certificate of deposits, which are initialy recognised at fair value. Subsequent to initial recognition, deposits are measured at their amortised cost using the Effective Interest Rate (EIR) method, except where the Group designates liabilities at fair value through profit or loss. The EIR amortisation is included in "Interest expenses" (Note 8.2) in the Statement of Profit or Loss.

41.1 By product

As at 31 December	Bank 2019 LKR '000	Bank 2018 LKR '000	Group 2019 LKR '000	Group 2018 LKR '000
Local Currency Deposits (LKR)				
Demand deposits	**103,815,364**	110,943,266	**103,681,039**	110,865,510
Savings deposits	**411,614,032**	365,545,986	**412,461,931**	366,430,640
Time deposits	**1,000,720,894**	870,604,853	**1,018,434,307**	887,498,448
Other deposits	**2,038,367**	3,409,352	**2,042,887**	3,413,872
Total local currency deposits	**1,518,188,657**	**1,350,503,457**	**1,536,620,164**	**1,368,208,470**
Foreign Currency Deposits (Non LKR)				
Demand deposits	**29,604,754**	26,779,911	**30,671,680**	27,531,733
Savings deposits	**91,337,588**	97,655,512	**91,720,706**	98,041,252
Time deposits	**364,794,113**	294,842,690	**364,904,801**	294,949,638
Other deposits	**1,286,682**	1,193,276	**1,286,682**	1,193,276
Total foreign currency deposits	**487,023,137**	**420,471,389**	**488,583,869**	**421,715,899**
Total deposits	**2,005,211,794**	**1,770,974,846**	**2,025,204,033**	**1,789,924,369**

41.2 By Currency

As at 31 December	Bank 2019 LKR '000	Bank 2018 LKR '000	Group 2019 LKR '000	Group 2018 LKR '000
Sri Lankan Rupee (LKR)	**1,518,188,657**	1,350,503,457	**1,536,620,164**	1,368,208,470
United States Dollar (USD)	**422,581,009**	358,314,513	**422,596,239**	358,326,657
Great Britain Pound (GBP)	**33,573,746**	32,367,504	**35,108,654**	33,591,422
Maldivian Rufiyaa (MVR)	**7,230,024**	5,791,464	**7,230,024**	5,791,464
Seychellois Rupee (SCR)	**1,503,717**	1,539,912	**1,503,717**	1,539,912
Euro (EUR)	**8,219,185**	8,168,732	**8,229,779**	8,177,180
Australian Dollar (AUD)	**7,501,525**	7,482,861	**7,501,525**	7,482,861
Indian Rupee (INR)	**4,625,119**	4,812,562	**4,625,119**	4,812,562
Other	**1,788,812**	1,993,841	**1,788,812**	1,993,841
Total deposits	**2,005,211,794**	**1,770,974,846**	**2,025,204,033**	**1,789,924,369**

Note : The maturity analysis of deposits is given in Note 58.

Notes to the Financial Statements

42 Financial Liabilities at Amortised Cost - Other Borrowings

Accounting Policy

Financial liabilities at amortised cost - other borrowings represent Standing Lending Facility, Senior notes, Term borrowings from banks in abroad and Sri Lanka, Term borrowings from other financial institutions in Sri Lanka and refinance borrowings which are initially recognised at fair value. Subsequent to initial recognition, these borrowings are measured at their amortised cost, using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in "Interest expenses" (Note 8.2) in the Statement of Profit or Loss.

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Standing Lending Facility	**-**	10,569,000	**-**	10,569,000
Call borrowings from banks and other financial institutions in Sri Lanka	**-**	4,751,162	**1,797,286**	8,937,963
Term borrowings from banks abroad	**96,433,248**	154,639,903	**99,215,953**	155,114,428
Term borrowings from banks and other financial institutions in Sri Lanka	**36,736,544**	27,642,383	**39,418,272**	28,242,557
Refinance borrowings	**4,663,751**	4,189,726	**4,663,751**	4,189,726
Total other borrowings	**137,833,543**	**201,792,174**	**145,095,262**	**207,053,674**

43 Debt Securities Issued

Accounting Policy

Debt securities issued represent funds borrowed for long-term funding purposes where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. Debt securities are initially recognised at fair value. Subsequent to initial recognition these are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in "Interest expenses" (Note 8.2) in the Statement of Profit or Loss.

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Issued by the Bank	**-**	-	**-**	-
Issued by other subsidiaries	**-**	-	**2,107,810**	4,105,681
Total	**-**	**-**	**2,107,810**	**4,105,681**

Note: The maturity analysis of debt securities issued is given in Note 58.

43.1 Senior Debentures

As at 31 December	Bank 2019	Bank 2018	Group 2019	Group 2018
	LKR '000	LKR '000	LKR '000	LKR '000
Listed debentures				
Unsecured, redeemable debentures of LKR 100 each	-	-	2,107,810	4,105,681
Total debt securities issued	-	-	2,107,810	4,105,681

43.2 Movement in Senior Debentures

	Bank 2019	Bank 2018	Group 2019	Group 2018
	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 1 January	-	-	4,105,681	5,667,514
Issued during the year	-	-	-	-
Redemptions	-	-	(1,999,123)	(1,560,494)
Amortisation adjustments	-	-	1,252	(1,339)
Balance as at 31 December	-	-	2,107,810	4,105,681

43.3 Senior Debentures

As at 31 December	Notes	Interest payable frequency	Issue date	Maturity date	Coupon rate 2019	Coupon rate 2018	Amount as at 31 December Bank 2019	Amount as at 31 December Bank 2018	Amount as at 31 December Group 2019	Amount as at 31 December Group 2018
					%	%	LKR '000	LKR '000	LKR '000	LKR '000
Fixed Interest Rate										
Unsecured, redeemable debentures	(a)	Annually	13.11.2014	12.11.2019	9.00	9.00	-	-	-	868,112
Unsecured, redeemable debentures	(a)	Annually	13.11.2014	12.11.2019	8.75	8.75	-	-	-	1,131,011
Unsecured, redeemable debentures	(a)	Annually	04.05.2017	03.05.2022	15.00	15.00	-	-	885,298	884,964
Unsecured, redeemable debentures	(a)	Semi-annually	04.05.2017	03.05.2022	14.50	14.50	-	-	1,221,479	1,220,562
Unsecured, redeemable debentures	(a)	Semi-annually	04.05.2017	03.05.2022	13.89	13.89	-	-	1,033	1,032
Total debt securities issued							-	-	2,107,810	4,105,681

Notes : (a) Debentures that are listed in Colombo Stock Exchange.

Notes to the Financial Statements

44 Current Tax Liabilities/ (Assets)

	Bank		Group	
	2019	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Opening balance as at 1 January	**3,922,189**	1,877,342	**4,028,504**	2,051,020
Current tax expense	**9,340,361**	9,723,515	**9,769,828**	9,918,315
Payments during the year	**(10,870,994)**	(10,136,932)	**(11,174,355)**	(10,389,879)
Adjustments	**(3,563,574)**	2,458,264	**(3,667,689)**	2,449,048
Closing balance as at 31 December	**(1,172,018)**	**3,922,189**	**(1,043,712)**	**4,028,504**
Current tax assets			**(1,182,389)**	(10,876)
Current tax liabilities			**138,677**	4,039,380
Current Tax Liabilities/ (Assets)			**(1,043,712)**	**4,028,504**

45 Insurance Contract Liabilities

Accounting Policy

Life Insurance Contract Liabilities

These liabilities are measured by using the gross premium valuation method as prescribed by the Regulation of Insurance Industry ACT, No. 43 of 2000. The liability is determined as the discounted value of the expected contractual cash outflows less the discounted value of the expected premiums. Valuation assumptions are derived based on the best estimate experience with a prescribed risk margin to allow for adverse deviations.

At each Reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate, by using a liability adequacy test.

Liability Adequacy Test (LAT)

At each Reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate by using an existing liability adequacy test as laid out under SLFRS 4. The liability value is adjusted to the extent that it is adequate to meet future benefits and expenses.

Any deficiency is recognised in the Statement of Profit or Loss by setting up a provision for liability adequacy.

Non-Life Insurance Contract Liabilities

Non-life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the Reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the Reporting date. The liability is calculated at the Reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

Liability Adequacy Test (LAT)

The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income. At each Reporting date the company reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums.

This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the statement of comprehensive income by setting up a provision for liability adequacy.

45.1 Insurance Provision - Life

	Group	
	2019	2018
	LKR '000	LKR '000
Opening balance as at 1 January	**575,625**	547,026
Increase/ (Decrease) in life fund	**(110,923)**	(19,736)
Fair value reserve	**1,658**	1,285
Unclaimed benefits	**44,731**	47,050
Closing balance as at 31 December	**511,091**	**575,625**

45.2 Insurance Provision - Non Life

	Group	
As at 31 December	**2019**	2018
	LKR '000	LKR '000
Provision for reported claims by policy holders	**308,044**	430,093
Provision for claims on Incurred But Not Reported (IBNR)	**5,917**	44,064
Outstanding claims provision	**313,961**	**474,157**
Provision for unearned premiums	**44,543**	172
Deferred acquisition	**-**	(107,711)
Total insurance provision - Non life	**358,504**	**366,618**

46 Other Liabilities

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Cheques sent on clearing	**434,397**	524,452	**434,397**	524,452
Lease creditors				
Within 12 months	**1,337,779**	-	**508,228**	8,245
Later than 12 months	**1,700,584**	-	**639,075**	12,360
Net employee benefit liabilities [Note 47]	**15,657,486**	5,028,513	**16,012,626**	5,359,107
Other	**14,885,442**	14,207,465	**17,163,718**	16,066,575
Total other liabilities	**34,015,688**	**19,760,430**	**34,758,044**	**21,970,739**

Notes to the Financial Statements

47 Employee Retirement Benefit Plans

Accounting Policy

The Bank has the pension schemes established under an Industrial Award which are solely funded by the Bank. There is also a Widows'/Widowers' and Orphans' Pension Scheme established by the members who joined the Bank before 1 January 1996.

The assets of these three plans are held independently of the Bank's assets and administered by Boards of Trustees/ Managers, representing the management and the employees, as provided in the Trust Deed/ Rules of the respective funds.

These funds are subject to annual audits independent to the audit of the Bank, by a firm/s of Chartered Accountants appointed by the members and actuarial valuations are carried out as per the rules governing these funds.

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Net Employee Benefit Liabilities				
Bank of Ceylon Pension Trust Fund [Note 47.1.3]	**14,685,437**	4,270,747	**14,685,437**	4,270,747
Provision for terminal gratuity [Note 47.3]	**370,415**	266,057	**725,555**	596,651
Provision for encashment of medical leave	**601,634**	491,709	**601,634**	491,709
Total net employee benefit liabilities	**15,657,486**	**5,028,513**	**16,012,626**	**5,359,107**
Net Employee Benefit Assets				
Bank of Ceylon Widows'/ Widowers' and Orphans' Pension Fund [Note 47.2.3]	**10,452,943**	10,727,802	**10,452,943**	10,727,802
Bank of Ceylon Pension Fund-2014 [Note 47.4]	**3,022,510**	2,763,718	**3,022,510**	2,763,718
Total net employee benefit assets	**13,475,453**	**13,491,520**	**13,475,453**	**13,491,520**

47.1 Bank of Ceylon Pension Trust Fund

The 'Bank of Ceylon Pension Trust Fund' is a funded, non contributory, defined retirement benefit plan, operated for the payment of pensions until death of the permanent employees who have completed a minimum of ten years of continuous service with the Bank, at their retirement on reaching the retirement age on or after 55 years or on medical grounds, before reaching retirement age. The pension is computed as a percentage of the last drawn salary excluding certain allowances.

Contributions to the Pension Trust Fund are made monthly, based on the advice of a qualified actuary, currently at 56.8% of gross salary. The Fund is valued by a qualified actuary annually. This fund has been approved by the Government and administrated independently. The subsidiaries and associate companies of the Group do not have pension funds.

An actuarial valuation of the Pension Trust Fund as at 31 December 2019 was carried out by Messrs Actuarial & Management Consultant (Pvt) Limited.

The valuation has been done using the "Projected Unit Credit Method", which is recommended in the Sri Lanka Accounting Standard -LKAS 19 "Employee Benefits". The benefit is available to all permanent employees who have joined the Bank prior to 1 January 1996. The results of the actuarial valuation of the Pension Trust Fund is summarised as follows:

47.1.1 Net Benefit Expense (Recognised Under Personnel Expenses)

	Bank/ Group	
For the year ended 31 December	**2019**	2018
	LKR '000	LKR '000
Current service cost	**199,223**	261,795
Net interest expenses	**512,490**	277,390
Net benefit expense	**711,713**	**539,185**

47.1.2 Amount Recognised in Other Comprehensive Income

	Bank/ Group	
For the year ended 31 December	**2019**	2018
	LKR '000	LKR '000
Actuarial losses on the defined benefit obligation	**6,796,014**	3,319,591
Actuarial (gains)/ losses on plan assets	**3,489,582**	(5,397,253)
Net actuarial (gains)/ losses recognised in other comprehensive income	**10,285,596**	**(2,077,662)**

47.1.3 Net Retirement Benefit Liability

	Bank/ Group	
As at 31 December	**2019**	2018
	LKR '000	LKR '000
Fair value of plan assets [Note 47.1.4]	**55,185,018**	58,455,386
Defined benefit obligation [Note 47.1.5]	**69,870,455**	62,726,133
Net retirement benefit liability	**14,685,437**	**4,270,747**

47.1.4 Changes in Fair Value of Plan Assets

	Bank/ Group	
	2019	2018
	LKR '000	LKR '000
Opening fair value of plan assets	**58,455,386**	62,827,692
Expected return	**7,014,646**	6,911,046
Contribution by employer	**582,619**	867,830
Benefits paid	**(7,378,051)**	(6,753,929)
Actuarial gains/ (losses)	**(3,489,582)**	(5,397,253)
Closing fair value of plan assets	**55,185,018**	**58,455,386**

Notes to the Financial Statements

47.1.5 Changes in the Present Value of the Defined Benefit Obligation

	Bank/ Group	
	2019	2018
	LKR '000	LKR '000
Opening defined benefit obligation	**62,726,133**	65,349,422
Interest cost	**7,527,136**	7,188,436
Current service cost	**199,223**	261,795
Benefits paid	**(7,378,051)**	(6,753,929)
Due to change in assumptions	**6,312,332**	(4,510,296)
Actuarial losses on obligation	**483,682**	1,190,705
Closing defined benefit obligation	**69,870,455**	**62,726,133**

The present value of the Defined Benefit Obligation as of the valuation date with respect to active employees and pensioners are LKR 6,216.2 million (2018 : LKR 8,290.7 million) and LKR 63,654.2 million (2018 : LKR 54,435.4 million) respectively.

47.1.6 Plan Assets Consist of the Following

	Bank/ Group	
As at 31 December	**2019**	2018
	LKR '000	LKR '000
Fixed deposits	**24,446,353**	21,859,550
Treasury bonds	**5,450,916**	6,837,474
Debentures	**19,753,122**	24,120,556
Investment in shares	**5,172,123**	5,215,001
Others	**362,504**	422,805
Total plan assets	**55,185,018**	**58,455,386**

47.1.7 Actuarial Assumptions

	Bank/ Group	
	2019	2018
	%	%
Future salary increment rate	**6.5 p.a**	6.5 p.a
Increase in future Cost of Living Allowance (COLA)	**4.5 p.a**	5.5 p.a
Increase in pension in payment (basic)	**Nill**	Nil
Discount rate	**10.0 p.a**	12.0 p.a
Attrition rate	**Nill**	Nil

The Bank uses IALM (2006-2008) Ultimate Mortality Table issued by the Institute of Actuaries of India

Increase/ decrease in the following assumptions will change the present value of defined benefit obligation as illustrated below;

	Bank/ Group	
	0.5% increase	0.5% decrease
	LKR '000	LKR '000
Discount rate	**67,423,566**	**72,483,655**
Salary increment	**69,943,983**	**69,798,599**
Cost of Living Allowance	**71,380,414**	**68,450,784**

Further, the remaining years of benefit payments are expected to be 7.9 years.

The following payments are expected from the Pension Trust Fund in future years.

	Bank/ Group	
As at 31 December	**2019**	2018
	LKR '000	LKR '000
Within the next 12 months	**6,882,922**	6,813,882
Between 1 and 5 years	**27,079,402**	25,271,940
Between 5 and 10 years	**17,231,607**	15,117,999
Beyond 10 years	**18,676,524**	15,522,312
Total expected payments	**69,870,455**	**62,726,133**

47.2 Bank of Ceylon Widows'/ Widowers' and Orphans' Pension Fund

The Bank is liable for and guarantees the payments to the beneficiaries of the 'Bank of Ceylon Widows'/ Widowers' and Orphans' Pension Fund' to which the Bank's employees monthly contribute 8% of their gross salary. The Bank's liability towards the beneficiaries of the employees arises when an employee who has contributed to the fund for five continuous years dies while in service or on the death of a pensioner where the Bank will be liable to pay Widows' and Orphans' Pension to his/ her beneficiaries monthly. The pension to the beneficiaries of an employee who dies while in service is based on the last drawn salary excluding certain allowances.

An actuarial valuation of the Widows'/Widowers' and Orphans' Pension Fund as at 31 December 2019 was carried out by Messrs Actuarial & Management Consultant (Pvt) Limited.

This fund has been approved by the Government and administered independently.

The valuation has been done using the "Projected Unit Credit Method", which is recommended in the Sri Lanka Accounting Standard -LKAS 19 "Employee Benefits". The results of the actuarial valuation of the Widows'/Widowers'and Orphans' Pension Fund is summarised as follows:

Notes to the Financial Statements

47.2.1 Net Benefit Expense (Recognised Under Personnel Expenses)

	Bank/ Group	
For the year ended 31 December	**2019**	2018
	LKR '000	LKR '000
Current service cost	**12,385**	23,970
Net interest income	**(1,287,337)**	(979,373)
Net benefit expense	**(1,274,952)**	**(955,403)**

47.2.2 Amount Recognised In Other Comprehensive Income

	Bank/ Group	
For the year ended 31 December	**2019**	2018
	LKR '000	LKR '000
Actuarial (gains)/ losses on the defined benefit obligation	**1,726,685**	1,459,920
Actuarial (gains)/ losses on plan assets	**92,263**	(1,159,445)
Actuarial gains/ (losses) on actuarial valuation	**1,818,948**	**300,475**

47.2.3 Retirement Benefit Assets

	Bank/ Group	
As at 31 December	**2019**	2018
	LKR '000	LKR '000
Fair value of plan assets [Note 47.2.4]	**25,813,906**	23,758,826
Defined benefit obligation [Note 47.2.5]	**(15,360,963)**	(13,031,024)
Retirement benefit assets	**10,452,943**	**10,727,802**

47.2.4 Changes in Fair Value of Plan Assets

	Bank/ Group	
	2019	2018
	LKR '000	LKR '000
Opening fair value of plan assets	**23,758,826**	22,692,572
Expected return	**2,851,059**	2,496,182
Contribution paid in to plan	**79,136**	112,529
Actual employer contribution	**190,000**	456,000
Benefits paid	**(972,852)**	(839,012)
Actuarial gains/ (losses) on plan asset	**(92,263)**	(1,159,445)
Closing fair value of plan assets	**25,813,906**	**23,758,826**

47.2.5 Changes in the Present Value of the Defined Benefit Obligation

	Bank/ Group	
	2019	2018
	LKR '000	LKR '000
Opening defined benefit obligation	**13,031,024**	13,789,177
Interest cost	**1,563,723**	1,516,809
Current service cost	**12,385**	23,970
Benefits paid	**(972,854)**	(839,012)
Actuarial (gains)/ losses on obligation	**280,404**	(51,055)
Gain due to change in assumptions	**1,446,281**	(1,408,865)
Closing defined benefit obligation	**15,360,963**	**13,031,024**

The present value of the Defined Benefit Obligation as of the valuation date with respect to active employees, pensioners and family pensioners who are receiving benefits are LKR 380.2 million (2018: LKR 756.2 million), LKR 5,593.2 million (2018: LKR 4,388.9 million) and LKR 9,387.5 million (2018: LKR 7,885.9 million) respectively.

47.2.6 Plan Assets Consist of the Following

	Bank/ Group	
As at 31 December	**2019**	2018
	LKR '000	LKR '000
Fixed deposits	**23,010,522**	20,807,604
Treasury bonds	**649,220**	641,352
Debentures	**2,153,448**	2,309,492
Others	**716**	378
Total plan assets	**25,813,906**	**23,758,826**

47.2.7 Actuarial Assumptions

	Bank/ Group	
	2019	2018
	%	%
Future salary increment rate	**6.5 p.a**	6.5 p.a
Increase in future Cost of Living Allowance (COLA)	**4.5 p.a**	5.5 p.a
Increase in widows'/ widowers' and orphans' pension in payment (Basic)	**Nill**	Nil
Discounting rate	**10.2 p.a**	12.0 p.a
Attrition rate	**Nill**	Nil

The Bank uses IALM (2006-2008) Ultimate Mortality Table issued by the Institute of Actuaries of India.

Notes to the Financial Statements

Increase/ decrease in the following assumptions will have an impact on the present value of defined benefit obligation as illustrated below;

	Bank/ Group	
	0.5% increase	0.5% decrease
	LKR '000	LKR '000
Discount rate	**14,631,212**	**16,153,309**
Salary increment	**15,363,571**	**15,358,412**
Cost of Living Allowance	**15,967,807**	**14,799,511**

Further, the remaining years of benefit payments are expected to be 10.9 years.

The following payments are expected from the fund in future years.

	Bank/ Group	
As at 31 December	**2019**	2018
	LKR '000	LKR '000
Within the next 12 months	**983,629**	857,510
Between 1 and 5 years	**4,384,140**	3,762,278
Between 6 and 10 years	**3,518,636**	2,941,954
Beyond 10 years	**6,474,558**	5,469,282
Total expected payments	**15,360,963**	**13,031,024**

47.3 Provision for Terminal Gratuity

In compliance with the Payment of Gratuity Act No 12 of 1983 provision is made in the accounts from the first year of service for gratuity payable to employees who has not completed ten years of service as they are not in pensionable service of the Bank. Provision has not been made in the Financial Statements for retirement gratuity for the employees who are eligible for the retirement benefits under the pension schemes in force. However, employees whose services are terminated after five years other than by retirement are eligible to receive a terminal gratuity under the Payment of Gratuity Act No. 12 of 1983, at the rate of one half of the basic or consolidated wage or salary, cost of living and all other allowances applicable to the last month of the financial year, for each year of continuous service.

In terms of Sri Lanka Accounting Standard LKAS 19 - "Employee Benefits", the Bank and its subsidiaries have calculated the post-employment benefit obligations, based on the actuarial valuation method recommended in the standard. The gratuity liabilities are not externally funded.

An actuarial valuation of the Gratuity Fund as at 31 December 2019 was carried out by Messrs Actuarial & Management Consultant (Pvt) Limited.

The valuation has been done using the "Projected Unit Credit Method", which is recommended in the Sri Lanka Accounting Standard -LKAS 19 "Employee Benefits".

	Bank		Group	
	2019	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 1 January	**266,057**	207,627	**596,651**	549,092
Provision charge/ (reversal) during the year	**66,517**	47,536	**133,491**	107,503
Actuarial (gain)/ losses	**58,495**	28,840	**99,478**	289
Payment made during the year	**(20,654)**	(17,946)	**(85,139)**	(63,409)
Adjustment/ transfers	**-**	-	**(18,926)**	3,176
Balance as at 31 December	**370,415**	**266,057**	**725,555**	**596,651**

The principal actuarial assumptions used in the valuation were as follows :

	Bank/ Group	
	2019	2018
	%	%
Future salary increment rate	**6.5 p.a**	6.5 p.a
Increase in future Cost of Living Allowance (COLA)	**4.5 p.a**	5.5 p.a
Discount rate	**10.1 p.a**	12.0 p.a

The Bank uses IALM (2006-2008) Ultimate Mortality Table issued by the Institute of Actuaries of India. Further, the remaining year of benefit payments are expected to be 11.3 years.

Increase/ decrease in the following assumptions will change the present value of defined benefit obligation as illustrated below:

	Bank		Group	
	0.5% increase	0.5% Decrease	0.5% increase	0.5% Decrease
	LKR '000	LKR '000	LKR '000	LKR '000
Discount rate	**352,098**	**390,282**	**689,676**	**764,469**
Salary increment	**385,831**	**356,126**	**755,751**	**697,566**

Notes to the Financial Statements

47.4 Bank of Ceylon Pension Fund - 2014

Under the directions of the Ministry of Finance and Planning, this pension scheme was approved by the Board of Directors of the Bank with effect from 16 December 2014 for the employees recruited to the Bank on or after 01 January 1996. Minimum period of 120 months uninterrupted active service in the Bank at the time of retirement is required to be eligible for any retirement benefit under this pension scheme. Further the beneficiaries under this pension scheme will not be entitled for rights and privileges under the current service gratuity scheme of the Bank except death gratuity payment. Contribution to this pension scheme is made monthly, based on the advice of a qualified actuary, currently at 12% of gross salary. The liability under this pension scheme has been valued by a qualified actuary at the year-end.

An actuarial valuation of this fund as at 31 December 2019 was carried out by M/s Actuarial & Management Consultant (Pvt) Limited.

The valuation has been done using the "Projected Unit Credit Method", which is recommended in the Sri Lanka Accounting Standard -LKAS 19 "Employee Benefits". The results of the actuarial valuation of this Pension Fund is summarised as follows:

47.4.1 Net Benefit Expense (Recognised Under Personnel Expenses)

	Bank/ Group	
For the year ended 31 December	**2019**	2018
	LKR '000	LKR '000
Current service cost	**525,207**	429,293
Net interest (Income)/ expenses	**(331,646)**	(241,042)
Net benefit expense	**193,561**	**188,251**

47.4.2 Amount Recognised in Other Comprehensive Income

	Bank/ Group	
For the year ended 31 December	**2019**	2018
	LKR '000	LKR '000
Actuarial (gains)/ losses on the defined benefit obligation	**193,866**	(232,450)
Actuarial (gains)/ losses on plan assets	**274,009**	311,792
Net actuarial gains/ (losses) recognised in other comprehensive income	**467,875**	**79,342**

47.4.3 Retirement Benefit Assets

	Bank/ Group	
As at 31 December	**2019**	2018
	LKR '000	LKR '000
Fair value of plan assets [Note 47.4.4]	**8,637,786**	7,138,966
Defined benefit obligation [Note 47.4.5]	**(5,615,276)**	(4,375,248)
Net retirement benefit assets	**3,022,510**	**2,763,718**

47.4.4 Changes in Fair Value of Plan Assets

	Bank/ Group	
	2019	2018
	LKR '000	LKR '000
Opening fair value of plan assets	**7,138,966**	5,429,485
Expected return	**856,676**	624,391
Actual employer contribution	**920,228**	776,608
Benefits paid	**(4,075)**	(3,310)
Actuarial gains/ (losses) on plan asset	**(274,009)**	311,792
Closing fair value of plan assets	**8,637,786**	**7,138,966**

47.4.5 Changes in Present Value of the Defined Benefit Obligation

	Bank/ Group	
	2019	2018
	LKR '000	LKR '000
Opening defined benefit obligation	**4,375,248**	3,333,466
Interest cost	**525,030**	383,349
Current service cost	**525,207**	429,293
Benefits paid	**(4,075)**	(3,310)
Actuarial (gains)/ losses on obligation	**(688,840)**	800,879
(Gains)/ losses due to change in assumptions	**882,706**	(568,429)
Closing defined benefit obligation	**5,615,276**	**4,375,248**

47.4.6 Plan Assets Consist of the Following

	Bank/ Group	
As at 31 December	**2019**	2018
	LKR '000	LKR '000
Treasury bonds	**-**	318,517
Fixed deposits	**4,700,007**	3,559,898
Debentures	**3,936,431**	3,260,325
Others	**1,348**	226
Total plan assets	**8,637,786**	**7,138,966**

Notes to the Financial Statements

47.4.7 Actuarial Assumptions

	Bank/ Group	
	2019	2018
	%	%
Future salary increment rate	**6.5 p.a**	6.5 p.a
Increase in future Cost of Living Allowance (COLA)	**4.5 p.a**	5.5 p.a
Increase in pension in payment (Basic)	**Nill**	Nil
Discounting rate	**10.7 p.a**	12.0 p.a
Attrition rate	**Nill**	Nil

The Bank uses IALM (2006-08) Ultimate Mortality Table issued by the Institute of Actuaries of India

Increase/ decrease in the following assumptions will have an impact on the present value of defined benefit obligation as illustrated below;

	Bank/ Group	
	0.5% increase	0.5% decrease
	LKR '000	LKR '000
Discount rate	**4,951,202**	**6,388,145**
Salary increment	**6,010,179**	**5,257,972**
Cost of Living Allowance	**5,752,441**	**5,491,503**

Further, the remaining years of benefit payments are expected to be 27.1 years.

The following payments are expected from the Pension Fund in future years.

	Bank/ Group	
As at 31 December	**2019**	2018
	LKR '000	LKR '000
Within the next 12 months	**5,650**	4,142
Between 1 and 5 years	**65,150**	75,527
Between 6 and 10 years	**248,776**	243,881
Beyond 10 years	**5,295,700**	4,051,698
Total expected payments	**5,615,276**	**4,375,248**

48 Subordinated Liabilities

Accounting Policy

Subordinated liabilities include funds borrowed for long term funding purposes which are subordinated to other claims. These are initially recognised at fair value. Subsequent to initial recognition subordinated liabilities are measured at their amortised cost, using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in "Interest expenses" (Note 8.2) in the Statement of Profit or Loss.

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Listed debentures				
Unsecured, subordinated, redeemable debentures of LKR 100 each	**22,138,938**	28,448,484	**22,128,928**	28,105,732
Unlisted debentures				
Unsecured, subordinated, redeemable debentures of LKR 100 each (private placement)	**32,082,614**	22,378,755	**32,082,614**	22,378,755
Total subordinated Liabilities	**54,221,552**	**50,827,239**	**54,211,542**	**50,484,487**

48.1 The Movement in Subordinated Liabilities

	Bank		Group	
	2019	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 1 January	**50,827,239**	42,570,457	**50,484,487**	42,226,067
Issued during the year	**9,210,000**	12,000,000	**9,210,000**	12,000,000
Redemptions	**(6,166,475)**	(4,090,400)	**(5,833,733)**	(4,090,400)
Amortisation adjustments	**350,788**	347,182	**350,788**	348,820
Balance as at 31 December	**54,221,552**	**50,827,239**	**54,211,542**	**50,484,487**

Notes to the Financial Statements

48.2 Type of Debentures

	Notes	Interest payable frequency	Issue date	Maturity date	Coupon rate		Amount as at 31 December			
							Bank		Group	
					2019	2018	**2019**	2018	**2019**	2018
					%	%	LKR '000	LKR '000	LKR '000	LKR '000
Fixed Interest Rate										
Unsecured, subordinated, redeemable debentures		Annually	25.10.2013	24.10.2021	**13.25**	13.25	**1,226,594**	1,226,594	**1,226,594**	1,226,594
Unsecured, subordinated, redeemable debentures		Annually	25.10.2013	24.10.2022	**13.25**	13.25	**1,227,617**	1,227,617	**1,227,617**	1,227,617
Unsecured, subordinated, redeemable debentures		Annually	25.10.2013	24.10.2023	**13.75**	13.75	**1,638,142**	1,638,142	**1,638,142**	1,638,142
Unsecured, subordinated, redeemable debentures		Annually	22.09.2014	21.09.2019	**-**	8.00	**-**	5,234,969	**-**	5,234,969
Unsecured, subordinated, redeemable debentures		Quarterly	22.09.2014	21.09.2019	**-**	7.75	**-**	216,182	**-**	216,182
Unsecured, subordinated, redeemable debentures		Annually	22.09.2014	21.09.2022	**8.25**	8.25	**1,873,793**	1,873,793	**1,873,793**	1,873,793
Unsecured, subordinated, redeemable debentures		Annually	06.10.2015	05.10.2020	**8.25**	8.25	**293,991**	293,991	**293,991**	293,991
Unsecured, subordinated, redeemable debentures		Quarterly	06.10.2015	05.10.2020	**8.00**	8.00	**12,449**	12,449	**12,449**	12,449
Unsecured, subordinated, redeemable debentures		Annually	06.10.2015	05.10.2023	**9.50**	9.50	**1,205,580**	1,205,580	**1,205,580**	1,205,580
Unsecured, subordinated, redeemable debentures		Annually	29.12.2016	28.12.2021	**13.25**	13.25	**8,003,631**	8,003,631	**7,993,621**	7,993,621
Unsecured, subordinated, redeemable debentures		Annually	29.12.2016	28.12.2024	**12.75**	12.75	**784**	784	**784**	784
Unsecured, subordinated, redeemable debentures		Annually	29.12.2017	28.12.2022	**12.50**	12.50	**5,003,228**	5,003,228	**5,003,228**	5,003,228
Unsecured, subordinated, redeemable debentures		Annually	29.12.2017	28.12.2025	**12.75**	12.75	**5,003,289**	5,003,289	**5,003,289**	5,003,289
Unsecured, subordinated, redeemable debentures		Annually	31.07.2018	30.07.2026	**12.00**	12.00	**7,026,114**	7,025,960	**7,026,114**	7,025,960
Unsecured, subordinated, redeemable debentures		Annually	03.12.2018	02.12.2023	**12.00**	12.00	**5,346,308**	5,346,278	**5,346,308**	5,346,278
Unsecured, subordinated, redeemable debentures		Annually	27.06.2019	26.06.2027	**11.75**	-	**3,175,700**	-	**3,175,700**	-
Unsecured, subordinated, redeemable debentures		Annually	17.07.2019	16.07.2024	**11.80**	-	**1,103,765**	-	**1,103,765**	-
Unsecured, subordinated, redeemable debentures		Annually	18.07.2019	17.07.2024	**11.80**	-	**2,314,479**	-	**2,314,479**	-
Unsecured, subordinated, redeemable debentures		Annually	23.07.2019	22.07.2024	**11.80**	-	**2,626,021**	-	**2,626,021**	-
Unsecured, subordinated, redeemable debentures		Annually	24.07.2019	23.07.2024	**11.50**	-	**419,549**	-	**419,549**	-
Unsecured, subordinated, redeemable debentures		Annually	26.07.2019	25.07.2027	**11.75**	-	**64,162**	-	**64,162**	-
Total fixed interest rate subordinated debentures							**47,565,196**	43,312,487	**47,555,186**	43,302,477

	Notes	Interest payable frequency	Issue date	Maturity date	Coupon rate		Amount as at 31 December			
							Bank		Group	
					2019	2018	**2019**	2018	**2019**	2018
					%	%	LKR '000	LKR '000	LKR '000	LKR '000
Floating Interest Rate										
Unsecured, subordinated, redeemable debentures (6 months TB rate (gross) plus 100 basis points)	(a)	Semi annually	25.10.2013	24.10.2021	**8.66**	9.52	**1,016**	1,019	**1,016**	1,019
Unsecured, subordinated, redeemable debentures (6 months TB rate (gross) plus 50 basis points)	(a)	Semi annually	22.09.2014	21.09.2019	**10.29**	9.97	**-**	845,442	**-**	512,700
Unsecured, subordinated, redeemable debentures (6 months TB rate (gross) plus 50 basis points)	(a)	Semi annually	22.09.2014	21.09.2022	**8.25**	9.97	**31**	31	**31**	31
Unsecured, subordinated, redeemable debentures (6 months TB rate (gross) plus 125 basis points)	(a)	Semi annually	06.10.2015	05.10.2020	**8.98**	10.72	**4,571,357**	4,580,255	**4,571,357**	4,580,255
Unsecured, subordinated, redeemable debentures (6 months TB rate (gross) plus 125 basis points)	(a)	Semi annually	06.10.2015	05.10.2023	**8.98**	10.72	**2,082,911**	2,086,964	**2,082,911**	2,086,964
Unsecured, subordinated, redeemable debentures (6 months TB rate (gross) plus 125 basis points)	(a)	Semi annually	29.12.2016	28.12.2021	**9.27**	11.24	**1,021**	1,021	**1,021**	1,021
Unsecured, subordinated, redeemable debentures (6 months TB rate (gross) plus 125 basis points)	(a)	Semi annually	29.12.2016	28.12.2024	**9.27**	11.24	**20**	20	**20**	20
Total floating interest rate subordinated debentures							**6,656,356**	**7,514,752**	**6,656,356**	**7,182,010**
Total subordinated debentures							**54,221,552**	**50,827,239**	**54,211,542**	**50,484,487**

Notes :

Debentures that are listed in the Colombo Stock Exchange. Some of these have been traded in the Colombo Stock Exchange during the year ended 31 December 2019

2014/2023 - (Highest Price - LKR 102.22, Lowest Price - LKR 102.22, Last Transaction Price - LKR 102.22)
2014/2019 - (Highest Price - LKR 97.31, Lowest Price - LKR 97.30, Last Transaction Price - LKR 97.30)
2014/2022 - (Highest Price - LKR 80.00, Lowest Price - LKR 80.00, Last Transaction Price - LKR 80.00)
2015/2020 - (Highest Price - LKR 98.50, Lowest Price - LKR 97.00, Last Transaction Price - LKR 97.00)
2016/2021 - (Highest Price - LKR 100.34, Lowest Price - LKR 98.20, Last Transaction Price - LKR 100.34)

b) Weighted average 6 months Treasury Bill interest rate before deducting relevant withholding tax at the primary quotations as announced by the Central Bank of Sri Lanka, at the preceding week of the interest resetting date.

Notes to the Financial Statements

49 Share Capital

49.1 Ordinary Shares

As at 31 December	Bank 2019	Bank 2018	Group 2019	Group 2018
	LKR '000	LKR '000	LKR '000	LKR '000
Authorised				
50,000,000 ordinary shares	**50,000,000**	50,000,000	**50,000,000**	50,000,000
Issued and fully paid				
Balance as at 1 January [20,000,000 (2018:15,000,000) ordinary shares]	**20,000,000**	15,000,000	**20,000,000**	15,000,000
Share issued during the year [5,000,000 ordinary shares]	**5,000,000**	5,000,000	**5,000,000**	5,000,000
Balance as at 31 December [25,000,000 (2018: 20,000,000) ordinary shares]	**25,000,000**	**20,000,000**	**25,000,000**	**20,000,000**
Assigned capital				
Capital infusion during the year	**-**	5,000,000	**-**	5,000,000
Balance as at 31 December	**25,000,000**	**25,000,000**	**25,000,000**	**25,000,000**

49.2 Net Assets Value Per Share

As at 31 December	Bank 2019	Bank 2018	Group 2019	Group 2018
Amount used as the Numerator				
Total equity attributable to equity holder of the bank (LKR '000)	**142,282,737**	132,169,824	**153,210,562**	142,173,299
Number of ordinary shares used as denominator				
Total number of ordinary shares issued	**25,000,000**	20,000,000	**25,000,000**	20,000,000
Net asset value per share (LKR)	**5,691.31**	**6,608.49**	**6,128.42**	**7,108.66**

50 Permanent Reserve Fund

	Bank 2019	Bank 2018	Group 2019	Group 2018
	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 1 January	**12,890,000**	10,427,000	**12,890,000**	10,427,000
Transfers during the year	**493,000**	2,463,000	**493,000**	2,463,000
Balance as at 31 December	**13,383,000**	**12,890,000**	**13,383,000**	**12,890,000**

The permanent reserve fund is maintained as required by Bank of Ceylon Ordinance (Chapter 397) whereby the Bank must, out of net profit after taxation, but before any dividend is declared, transfer to a reserve, a sum equivalent to not less than 20% of such profit, until the reserve is equivalent to 50% of the issued and paid-up capital and thereafter, an appropriate amount determined at 2% per annum in terms of section 20(1) and (2) of the Banking Act No. 30 of 1988 until the reserve is equal to the paid-up capital.

In order to meet the requirement, an amount of LKR 493.0 million was transferred to the permanent reserve during the year 2019. (2018 : LKR 2,463.0 million).

The balance in the permanent reserve fund will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

51 Retained Earnings

	Bank		Group	
	2019	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 1 January	**78,061,681**	63,472,250	**79,179,548**	65,100,871
Impact of adopting SLFRS 9 as at 1 January 2018	**-**	(9,562,471)	**-**	(10,369,633)
Deferred tax on transitional adjustments	**-**	3,345,868	**-**	3,571,637
Retirement benefit adjustment as at 1 January 2018	**-**	8,903,395	**-**	8,903,395
Total comprehensive income for the year	**10,463,277**	19,186,846	**10,795,358**	19,256,617
Net transfers between reserves	**(489,068)**	(2,437,797)	**(487,931)**	(2,436,929)
Dividend	**(346,410)**	(4,846,410)	**(346,410)**	(4,846,410)
Balance as at 31 December	**87,689,480**	**78,061,681**	**89,140,565**	**79,179,548**

52 Other Reserves

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Revaluation reserve [Note 52.1]	**11,694,338**	11,698,270	**19,287,824**	18,746,709
Free reserve	**169,067**	169,067	**366,644**	366,644
Exchange translation reserve [Note 52.2]	**2,370,251**	2,512,612	**3,101,761**	3,157,000
Fair value through OCI reserve [Note 52.3]	**1,976,601**	1,838,194	**2,571,824**	2,474,454
Statutory reserve - other [Note 52.4]	**-**	-	**358,944**	358,944
Total other reserves	**16,210,257**	**16,218,143**	**25,686,997**	**25,103,751**

52.1 Revaluation Reserve

	Bank		Group	
	2019	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 1 January	**11,698,270**	11,966,489	**18,746,709**	18,681,265
Change in revaluation surplus/ (deficit)	**-**	(337,522)	**790,887**	147,397
Deferred tax effect on changes in revaluation surplus/ (deficit)	**-**	94,506	**(221,448)**	(41,271)
Revaluation surplus of desposed property	**(3,932)**	(25,203)	**(3,932)**	(25,203)
Transferred to non-controlling interest	**-**	-	**(24,392)**	(15,479)
Balance as at 31 December	**11,694,338**	**11,698,270**	**19,287,824**	**18,746,709**

The revaluation reserve represents the surpluses arising on the revaluation of freehold properties which are still in use.

According to the Basel III regulatory directives, issued by Central Bank of Sri Lanka, the Bank can consider the revaluation surplus as supplimentary capital in computing capital adequacy ratio, once in every three years.

Notes to the Financial Statements

52.2 Exchange Translation Reserve

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 1 January	**2,512,612**	1,401,743	**3,157,000**	1,703,785
Exchange defferences on tranlations of foriegn operations	**(142,361)**	1,110,869	**(55,239)**	1,453,215
Balance as at 31 December	**2,370,251**	**2,512,612**	**3,101,761**	**3,157,000**

This represents the exchange differences arising from translating investments made in the capital and net exchange movement arising on the translation of net equity of Bank of Ceylon (UK) Limited and foreign branches and also exchange differences arising from translation of the results of foreign branches for this year from the average rate to the exchange rate ruling at the year end.

52.3 Fair Value Through OCI Reserve

	Bank		Group	
	2019	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 1 January	**1,838,194**	-	**2,474,454**	-
Impact of adopting SLFRS 9 as at 1 January 2018	**-**	2,541,656	**-**	3,583,746
Net gains/ (losses) on investments in debt instruments measured at FVTOCI	**76,949**	(271,351)	**79,550**	(285,389)
Deferred tax effect on net gains/ (losses) on investments in debt instruments measured at FVTOCI	**(80,282)**	-	**(80,282)**	-
Net gains/ (losses) on investments in debt instruments at FVTOCI reclassification to profit or loss	**231,126**	(15,232)	**231,126**	(15,232)
Change in fair value on investments in equity instruments designated at FVTOCI	**54,970**	(410,168)	**14,446**	(823,954)
Deferred tax effect on changes in fair value on investment in equity instruments designated at FVTOCI	**(144,356)**	(6,711)	**(144,356)**	(6,711)
Transferred to non-controlling interest	**-**	-	**(3,114)**	21,994
Balance as at 31 December	**1,976,601**	**1,838,194**	**2,571,824**	**2,474,454**

53 Non Controlling Interest

	Group	
As at 31 December	**2019**	2018
	LKR '000	LKR '000
Property Development PLC	**236,321**	165,212
Merchant Bank of Sri Lanka & Finance PLC	**659,561**	561,889
MBSL Insurance Company Limited	**869,291**	(57,265)
Hotels Colombo (1963) Limited	**9**	14
Koladeniya Hydropower (Private) Limited	**19,905**	25,299
Total non-controlling interest	**1,785,087**	**695,149**

54 Notes to the Statements of Cash Flows

54.1 Change in Operating Assets

	Bank		Group	
For the year ended 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Change in deposits with regulatory authorities	**11,085,935**	3,008,641	**11,085,935**	3,008,641
Change in loans and advances to customers	**(121,794,728)**	(273,084,476)	**(121,906,952)**	(274,766,771)
Net increase/ (decrease) of financial assets designated at fair value through profit or loss	**(795,451)**	(2,307,941)	**(1,486,776)**	(2,376,696)
Net (increase)/ decrease in securities purchased under resale agreements	**(6,205,703)**	(13,927,044)	**(8,775,529)**	(17,926,129)
Net (increase)/ decrease in derivative financial instruments	**1,073,567**	413,166	**1,073,567**	413,166
Change in other operating assets	**(7,140,965)**	(1,484,465)	**(6,496,945)**	(1,373,566)
Total	**(123,777,345)**	**(287,382,119)**	**(126,506,700)**	**(293,021,355)**

54.2 Change in Operating Liabilities

	Bank		Group	
For the year ended 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Net Increase/ (decrease) in deposits from banks	**(222,267)**	455,138	**(222,267)**	455,138
Net Increase/ (decrease) in deposits from customers	**228,719,884**	222,717,119	**229,762,601**	222,506,976
Net increase/ (decrease) in securities sold under repurchase agreements	**(63,216,149)**	52,911,898	**(62,542,795)**	52,794,616
Net increase/ (decrease) in short term borrowings	**5,011,412**	(189,627)	**7,486,156**	1,977,577
Net increase/ (decrease) in derivative financial instruments	**(402,341)**	438,303	**(402,341)**	438,303
Change in other operating liabilities	**6,419,749**	10,788,122	**6,022,600**	15,011,026
Total	**176,310,288**	**287,120,953**	**180,103,954**	**293,183,636**

54.3 Other Non Cash Items Included in Profit Before Tax

	Bank		Group	
For the year ended 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Exchange revaluation	**401,604**	(7,622,372)	**401,604**	(7,622,372)
Contribution paid to defined benefit plans	**(250,053)**	(132,434)	**(154,976)**	(70,992)
Impairment charges	**18,597,725**	15,040,961	**18,719,243**	15,176,472
Depreciation of investment property	**117,072**	117,072	**2,906**	2,906
Depreciation of property, plant and equipment	**1,874,304**	1,686,954	**2,626,836**	2,358,603
Amortisation of intangible assets and leasehold properties	**1,712,628**	396,268	**1,145,402**	451,960
Accrual for expenses and other non cash items	**893,810**	(2,713,072)	**1,250,553**	(2,802,540)
Total	**23,347,090**	**6,773,377**	**23,991,568**	**7,494,037**

Notes to the Financial Statements

55 Contingent Liabilities and Commitments

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard – LKAS 37 on 'Provisions, Contingent Liabilities and Contingent Assets'.

In the normal course of business, the Bank undertakes commitments and incurs contingent liabilities with legal recourse to its customers to accommodate the financial and investment needs of clients, to conduct trading activities and to manage its own exposure to risk. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans. Operating lease commitments of the Bank (as a lessor and as a lessee) and pending legal claims against the Bank also form part of commitments of the Bank.

Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote. These financial instruments generate interest or fees and carries elements of credit risk in excess of those amounts recognised as assets and liabilities in the Statement of Financial Position. However no material losses are anticipated as a result of these transactions.

These commitments and contingencies are quantified below :

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Contingent liabilities [Note 55.1]	**365,924,630**	373,074,988	**374,033,867**	377,523,369
Undrawn and undisbursed facilities [Note 55.2]	**130,185,074**	121,561,219	**130,351,632**	121,825,818
Capital commitments [Note 55.3]	**9,560,270**	11,053,804	**9,644,187**	11,214,075
Lease commitments [Note 55.4]	**2,547,987**	2,616,797	**2,603,293**	2,629,157
Total contingent liabilities and commitments	**508,217,961**	**508,306,808**	**516,632,979**	**513,192,419**

55.1 Contingent Liabilities

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Acceptances and documentary credit	**215,999,116**	225,582,120	**216,052,447**	225,672,891
Bills for collection	**20,291,631**	21,553,898	**20,291,631**	21,553,898
Forward exchange contracts	**5,212,914**	7,719,075	**5,212,914**	7,719,075
Guarantees	**101,124,860**	100,715,102	**101,243,188**	100,941,300
Other commitments [Note 55.1.1]	**23,296,109**	17,504,793	**31,233,687**	21,636,205
Total contingent liabilities	**365,924,630**	**373,074,988**	**374,033,867**	**377,523,369**

55.1.1 Other Commitments

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Forward Exchange contract with Financial institutions	**67,340**	284,631	**67,340**	284,631
Currency Swaps	**23,228,769**	17,220,162	**30,278,059**	20,410,557
Other commitments	**-**	-	**888,288**	941,017
Total other commitments	**23,296,109**	**17,504,793**	**31,233,687**	**21,636,205**

55.2 Undrawn and Undisbursed Facilities

The unutilised value of irrevocable commitments, which cannot be withdrawn at the discretion of the Bank, without risk of incurring significant penalties or expenses are as follows:

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Undisbursed amount of loans	**52,916,875**	36,230,934	**52,975,795**	36,370,051
Undrawn limits of overdrafts	**41,260,637**	41,749,673	**41,368,275**	41,875,155
Undrawn limits of credit cards	**10,041,613**	8,496,914	**10,041,613**	8,496,914
Undrawn limits of letters of credit	**18,323,563**	14,732,300	**18,323,563**	14,732,300
Undrawn limits of letters of guarantee	**7,642,386**	20,351,398	**7,642,386**	20,351,398
Total undrawn and undisbursed facilities	**130,185,074**	**121,561,219**	**130,351,632**	**121,825,818**

55.3 Capital Commitments

Capital expenditure approved by the Directors, for which, no provision has been made in the Financial Statements, amounts to:

55.3.1 Capital Commitments In Relation to Property, Plant and Equipment

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Approved and contracted for	**3,850,762**	2,992,528	**3,855,317**	3,140,225
Approved but not contracted for	**2,230,858**	4,145,165	**2,230,858**	4,145,165
Total capital commitments in relation to Property Plant and Equipment	**6,081,620**	**7,137,693**	**6,086,175**	**7,285,390**

Notes to the Financial Statements

55.3.2 Capital Commitments in Relation to Intangible Assets

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Approved and contracted for	**1,581,428**	2,311,147	**1,660,790**	2,323,721
Approved and not contracted for	**1,897,222**	1,604,964	**1,897,222**	1,604,964
Total capital commitments in relation to intangible assets	**3,478,650**	**3,916,111**	**3,558,012**	**3,928,685**
Total capital commitments	**9,560,270**	**11,053,804**	**9,644,187**	**11,214,075**

55.4 Lease Commitments

55.4.1 Operating Lease Commitments

Future minimum lease payments under non-cancellable operating leases, where the Bank is the lessee, are as follows;

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Not later than 1 year	**792,650**	1,032,633	**820,891**	1,032,633
Later than 1 year and not later than 5 years	**1,200,140**	1,283,406	**1,222,344**	1,283,406
Later than 5 years	**555,197**	300,758	**555,211**	300,758
Total operating lease commitments	**2,547,987**	**2,616,797**	**2,598,446**	**2,616,797**

55.4.2 Finance Lease Commitments

Future minimum lease payments under non-cancellable finance leases, where the Bank is the lessee, are as follows;

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Not later than 1 year	**-**	-	**3,184**	7,514
Later than 1 year and not later than 5 years	**-**	-	**1,663**	4,846
Later than 5 years	**-**	-	**-**	-
Total finance lease commitments	**-**	**-**	**4,847**	**12,360**
Total lease commitments	**2,547,987**	**2,616,797**	**2,603,293**	**2,629,157**

Note

With the implementation of SLFRS 16 effect from 1 January 2019, the operating lease commitments recognised as lease liability and reported under Other Liabilities (Note 46).

55.5 Litigation

Litigations are anticipated in the context of business operations due to the nature of the transactions involved. The Bank and the Group's companies are involved in various such legal actions and the controls have been established to deal with such legal claims. There are pending litigations existing as at the end of the Reporting period against the Bank, resulting through normal business operations.

Litigations against the Bank have been assessed in terms of the probability of any claims or damages arising against the Bank, which require provisions to be made in the Financial Statements as per LKAS 37- "Provisions, Contingent Liabilities and Contingent Assets".

As of 31 December 2019, claims for the legal actions against the Bank approximately amount to LKR 7,032.8 million (2018: LKR 12,414.4 million), nevertheless the Bank has no impact over such claims whatsoever affecting to the business, operations or image of the Bank.

56 Assets Pledged as Security

The securities sold under repurchase agreement, debentures and debt securities issued by the Bank and the Group and details of assets pledged by the Bank and the Group, to secure those liabilities are given below:

	Bank		Group	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Borrowings ;				
Securities sold under repurchase agreements	**34,183,210**	97,399,359	**34,880,507**	97,423,302
	34,183,210	**97,399,359**	**34,880,507**	**97,423,302**
Secured by ;				
Treasury bills	**23,609,218**	9,619,113	**23,609,218**	9,619,113
Treasury bonds	**14,235,180**	92,774,829	**14,932,477**	92,800,854
Total assets pledged as securities	**37,844,398**	**102,393,942**	**38,541,695**	**102,419,967**

57 Events After the Reporting Date

Events after the Reporting period are those events, favourable and unfavourable, that occur between the Reporting date and the date the Financial Statements are authorised for issue.

The outbreak and spread of the coronavirus globally since January 2020 has caused disruptions to business and economic activities, and uncertainty to the global economy. Consequent to the diagnosis of COVID -19 virus within Sri Lanka. The Central Bank of Sri Lanka has introduced many extraordinary measures to curb the preassure to the financial industry,stemming from the pandemic situation and the preventive measures taken by the Government of Sri Lanka and the Health Authorities to curtail the spread of the virus. The impact to the Bank due to changes that took place in its normal business practices due to COVID-19 pandemic is also significant. However, the Bank proactively adjusted to the situation very quickly and took all necessary steps to provide the customer services in best possible manner in this pandemic situation.

The Bank is in the process of assessing the impact of COVID -19 and the Moratorium introduced by the Government to protect the economy. However opening of the country for normal activities, outcome created from uncertainties in the global economic conditions, the real impact due to COVID -19 is yet to be estimated.

The Bank will continue to support the measures taken to revive the economy and the safety of its stakeholders by implementing necessary actions and safety measures.

Notes to the Financial Statements

58 Maturity Analysis of Assets and Liabilities

The analysis of total assets and liabilities of the Bank and the Group into relevant maturity groupings based on the remaining period as at 31 December 2019 in to the contractual maturity date, is given in the table below:

	Bank			Group		
As at 31 December 2019	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets						
Cash and cash equivalents	64,868,895	-	64,868,895	64,829,735	-	64,829,735
Balances with Central Banks	54,594,436	-	54,594,436	54,594,436	-	54,594,436
Placements with banks	40,296,911	4,179,432	44,476,343	43,624,709	4,286,912	47,911,621
Securities purchased under resale agreements	2,179,449	-	2,179,449	3,981,886	-	3,981,886
Derivative financial instruments	132,090	-	132,090	132,090	-	132,090
Financial assets measured at fair value through profit or loss	4,639,337	5,416,078	10,055,415	5,594,376	5,458,393	11,052,769
Financial assets measured at amortised cost - loans and advances	578,500,777	971,304,094	1,549,804,871	591,646,684	989,302,341	1,580,949,025
Financial assets measured at amortised cost - debt instruments	291,064,805	281,683,004	572,747,809	290,752,515	283,224,815	573,977,330
Financial assets measured at fair value through OCI	6,924,354	7,311,736	14,236,090	8,473,967	8,542,586	17,016,553
Investment in subsidiary companies	-	6,513,048	6,513,048	-	-	-
Investment in associate companies	-	92,988	92,988	-	447,035	447,035
Investment properties	-	2,648,784	2,648,784	-	117,276	117,276
Property, Plant and Equipment	-	25,579,065	25,579,065	-	39,486,380	39,486,380
Right of Use Assets/ Leasehold properties	-	3,479,937	3,479,937	-	2,187,622	2,187,622
Intangible assets	-	1,127,007	1,127,007	-	1,361,858	1,361,858
Deferred tax assets	-	-	-	-	511,936	511,936
Other assets	35,644,359	26,936,043	62,580,402	36,980,941	26,945,119	63,926,060
Total assets	1,078,845,413	1,336,271,216	2,415,116,629	1,100,611,339	1,361,872,273	2,462,483,612
Percentage (%)	44.7%	55.3%	100.0%	44.7%	55.3%	100.0%

	Bank			Group		
As at 31 December 2019	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Liabilities						
Due to banks	2,669,407	-	2,669,407	2,932,950	-	2,932,950
Securities sold under repurchase agreements	34,183,210	-	34,183,210	34,880,507	-	34,880,507
Derivative financial instruments	106,677	-	106,677	106,677	-	106,677
Financial liabilities at amortised cost - due to depositors	1,932,642,258	72,569,536	2,005,211,794	1,945,623,686	79,580,347	2,025,204,033
Financial liabilities at amortised cost - other borrowings	137,833,543	-	137,833,543	111,688,196	33,407,066	145,095,262
Debt securities issued	-	-	-	-	2,107,810	2,107,810
Current tax liabilities	-	-	-	138,677	-	138,677
Deferred tax liabilities	-	4,592,021	4,592,021	-	7,182,866	7,182,866
Insurance provision - Life	-	-	-	511,091	-	511,091
Insurance provision - Non life	-	-	-	358,504	-	358,504
Other liabilities	18,170,176	15,845,512	34,015,688	17,715,049	17,042,995	34,758,044
Subordinated liabilities	4,877,797	49,343,755	54,221,552	4,877,797	49,333,745	54,211,542
Equity	1,976,602	140,306,135	142,282,737	2,538,143	152,457,506	154,995,649
Total liabilities and Equity	2,132,459,670	282,656,959	2,415,116,629	2,121,371,277	341,112,335	2,462,483,612
Percentage (%)	88.3%	11.7%	100.0%	86.1%	13.9%	100.0%
Net gap	(1,053,614,257)	1,053,614,257	-	(1,020,759,938)	1,020,759,938	-

Notes to the Financial Statements

The analysis of total assets and liabilities of the Bank and the Group into relevant maturity groupings based on the remaining period as at 31 December 2018 in to the contractual maturity date, is given in the table below:

	Bank			Group		
As at 31 December 2018	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets						
Cash and cash equivalents	78,447,577	-	78,447,577	78,558,031	-	78,558,031
Balances with Central Banks	65,680,371	-	65,680,371	65,680,371	-	65,680,371
Placements with banks	36,298,153	4,151,936	40,450,089	37,529,974	4,151,936	41,681,910
Securities purchased under resale agreements	-	-	-	1,436,068	-	1,436,068
Derivative financial instruments	1,205,657	-	1,205,657	1,205,657	-	1,205,657
Financial assets measured at fair value through profit or loss	9,277,298	-	9,277,298	9,583,327	-	9,583,327
Financial assets measured at amortised cost - loans and advances	621,542,807	807,564,374	1,429,107,181	627,922,972	832,695,616	1,460,618,588
Financial assets measured at amortised cost - debt instruments	208,601,166	343,238,283	551,839,449	210,852,209	342,180,941	553,033,150
Financial assets measured at fair value through OCI	16,699,582	-	16,699,582	19,338,783	-	19,338,783
Investment in subsidiary companies	-	6,513,048	6,513,048	-	-	-
Investment in associate companies	-	92,988	92,988	-	441,226	441,226
Investment properties	-	2,765,856	2,765,856	-	120,182	120,182
Property, Plant and Equipment	-	24,178,155	24,178,155	-	37,762,509	37,762,509
Leasehold properties	-	98,899	98,899	-	130,500	130,500
Intangible assets	-	1,238,186	1,238,186	-	1,456,630	1,456,630
Deferred tax assets	-	-	-	-	3,052	3,052
Other assets	42,343,470	14,893,267	57,236,737	43,616,694	14,932,875	58,549,569
Total assets	**1,080,096,081**	**1,204,734,992**	**2,284,831,073**	**1,095,724,086**	**1,233,875,467**	**2,329,599,553**
Percentage (%)	47.3%	52.7%	100.0%	47.0%	53.0%	100.0%

	Bank			Group		
As at 31 December 2018	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Liabilities						
Due to banks	2,402,468	-	2,402,468	2,515,998	-	2,515,998
Securities sold under repurchase agreements	97,399,359	-	97,399,359	97,423,302	-	97,423,302
Derivative financial instruments	509,018	-	509,018	509,018	-	509,018
Financial liabilities at amortised cost - due to depositors	1,736,922,255	34,052,591	1,770,974,846	1,747,661,855	42,262,514	1,789,924,369
Financial liabilities at amortised cost - other borrowings	201,792,174	-	201,792,174	200,794,306	6,259,368	207,053,674
Debt securities issued	-	-	-	2,789,727	1,315,954	4,105,681
Current tax liabilities	3,922,189	-	3,922,189	4,039,380	-	4,039,380
Deferred tax liabilities	-	5,073,526	5,073,526	-	7,762,214	7,762,214
Insurance provision - Life	-	-	-	575,625	-	575,625
Insurance provision - Non life	-	-	-	366,618	-	366,618
Other liabilities	15,235,113	4,525,317	19,760,430	16,768,125	5,202,614	21,970,739
Subordinated liabilities	6,993,714	43,833,525	50,827,239	6,660,972	43,823,515	50,484,487
Equity	1,838,194	130,331,630	132,169,824	13,202,256	129,666,192	142,868,448
Total liabilities and Equity	**2,067,014,484**	**217,816,589**	**2,284,831,073**	**2,093,307,182**	**236,292,371**	**2,329,599,553**
Percentage (%)	90.5%	9.5%	100.0%	89.9%	10.1%	100.0%
Net gap	(986,918,403)	986,918,403	-	(997,583,096)	997,583,096	-

Notes to the Financial Statements

59 Related Party Disclosures

The Bank has entered into transactions with the parties who are defined as related parties in Sri Lanka Accounting Standard - LKAS 24 - "Related Party Disclosures". i.e. significant investors, Subsidiary and Associate companies, post employment benefit plans for the Bank's employees, Key Management Personnel (KMPs), Close Family Members (CFMs) of KMPs and other related entities. Those transactions include lending activities, acceptance and placements, off-balance sheet transactions and provision of other banking and financial services that are carried out in the ordinary course of business on an arm's length basis at commercial rates, except for the transactions that KMPs have availed under schemes uniformly applicable to all the staff at concessionary rates.

59.1 Parent and the Ultimate Controlling Party

Bank of Ceylon is a Government owned bank.

59.2 Key Management Personnel (KMPs) and their Close Family Members (CFMs)

59.2.1 Compensation to Key Management Personnel (KMPs) and their Close Family Members (CFMs)

As per the Sri Lanka Accounting Standard -LKAS 24 - "Related Party Disclosures", the KMPs include those who are having authority and responsibility for planning, directing and controlling the activities of the Bank. Accordingly, the Board of Directors and selected key members of the Corporate Management are identified as KMPs who meet the above criteria.

CFMs are defined as family members who may be expected to influence or be influenced by, that KMP in their dealings with the entity, i.e. spouse, children under 18 years of age and dependants of KMPs. Dependant is defined as anyone who depends on the respective KMP for more than 50% of his or her financial needs.

Compensation to KMPs of the Bank

	Bank		Group	
For the year ended 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Short term employment benefits	**23,461**	20,749	**23,913**	21,646
Post employment benefits	**6,054**	4,867	**6,054**	4,867
Total	**29,515**	**25,616**	**29,967**	**26,513**

In addition to the above, the Bank/ Group has also provided non cash benefits to the KMPs in line with the approved benefit plans of the Bank/ Group.

59.2.2 Transactions, Arrangements and Agreements Involving Key Management Personnel (KMPs) and their Close Family Members (CFMs).

a) **Items in Statement of Profit or Loss**

	KMPs & CFMs	
For the year ended 31 December	**2019**	2018
	LKR '000	LKR '000
Interest income	**368**	732
Interest expenses	**4,735**	3,555

(b) Items in Statement of Financial Position

	KMPs & CFMs	
As at 31 December	**2019**	2018
	LKR '000	LKR '000
Assets		
Loans	**3,897**	4,462
Credit cards	**14**	88
	3,911	**4,550**
Liabilities		
Due to depositors	**26,214**	14,347
	26,214	**14,347**

(c) Off Balance Sheet Items

	KMPs & CFMs	
As at 31 December	**2019**	2018
	LKR '000	LKR '000
Undrawn facilities	**736**	662
	736	**662**

(d) Average Accommodations/ Due to Depositors Balances

	KMPs & CFMs	
As at 31 December	**2019**	2018
	LKR '000	LKR '000
Loans	**3,636**	9,693
Due to depositors	**49,578**	48,281

59.3 Transactions with Group Related Parties

The Group related parties include the Subsidiaries and Associates of the Bank.

59.3.1 Transactions with Subsidiaries and Associate Companies of the Bank

The aggregate amount of income and expenses arising from the transactions during the year and amount due to and due from the relevant related parties and total contract sum of off balance sheet transactions at the year end are summarised below:

(a) Items in Statement of Profit or Loss

	Subsidiary Companies		Associate Companies	
For the year ended 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Interest income	**257,106**	192,455	**24,652**	26,902
Interest expenses	**232,227**	331,339	**18,861**	24,334
Other income	**392,567**	344,756	**35,300**	18,300
Other expenses	**1,064,817**	907,613	**56,485**	37,732

Notes to the Financial Statements

(b) Items in Statement of Financial Position

	Subsidiary Companies		Associate Companies	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Assets				
Loans	**2,384,660**	1,521,365	**125,488**	175,012
Overdrafts	**90,132**	423,292	**3,958**	-
Investments in debts and government securities	**17,386**	123,789	**-**	-
Placements	**32,366,929**	31,326,385	**-**	-
Other receivables	**803,668**	747,290	**-**	-
	35,662,775	**34,142,121**	**129,446**	**175,012**
Liabilities				
Due to depositors	**4,244,340**	3,130,848	**194,331**	272,036
Securities sold under repurchase agreements	**236,623**	142,952	**39,506**	26,005
Debentures	**10,222**	343,036	**-**	-
Other liabilities	**16,490**	2,933	**-**	-
	4,507,675	**3,619,769**	**233,838**	**298,041**

(c) Off Balance Sheet Items

	Subsidiary Companies		Associate Companies	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Guarantees	**6,971**	5,850	**-**	114
Undrawn facilities	**289,968**	202,695	**6,042**	10,000
	296,939	**208,545**	**6,042**	**10,114**

(d) Average Accommodations/ Due to Depositor Balances

	Subsidiary Companies		Associate Companies	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Loans	**1,761,071**	1,080,754	**143,125**	196,208
Overdrafts	**152,749**	106,442	**18,980**	136
Due to depositors	**3,640,755**	2,833,259	**217,637**	255,057

59.3.2 Transactions with Subsidiaries and Associate Companies of the Group

In addition to the transactions between the Bank and its Subsidiaries and Associate companies, transactions which were taken place between the Subsidiaries and Associate companies are also included in the section below:

(a) Items in Statement of Profit or Loss

	Subsidiary Companies		Associate Companies	
For the year ended 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Interest income	**310,623**	238,339	**24,652**	29,126
Interest expense	**285,744**	379,447	**18,861**	24,334
Other income	**665,866**	537,948	**317,268**	484,715
Other expenses	**1,338,116**	1,566,798	**56,485**	38,155

(b) Items in Statement of Financial Position

	Subsidiary Companies		Associate Companies	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Assets				
Loans	**2,643,206**	1,810,807	**125,488**	175,012
Overdrafts	**90,132**	423,292	**3,958**	-
Investments in debts and government securities	**17,786**	123,789	**-**	-
Placements	**32,366,929**	31,326,385	**-**	-
Other receivables	**804,321**	749,398	**-**	15,143
	35,922,374	**34,443,671**	**129,446**	**190,155**
Liabilities				
Due to depositors	**4,502,886**	3,193,405	**194,331**	272,036
Securities sold under repurchase agreements	**236,623**	142,952	**39,506**	26,005
Debentures	**10,222**	343,036	**-**	-
Other liabilities	**17,143**	247,069	**-**	-
	4,766,874	**3,926,462**	**233,838**	**298,041**

(c) Off Balance Sheet Items

	Subsidiary Companies		Associate Companies	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Guarantees	**6,971**	5,850	**-**	114
Undrawn facilities	**289,968**	202,695	**6,042**	10,000
	296,939	**208,545**	**6,042**	**10,114**

(d) Average Accommodations/ Due to Depositors Balances

	Subsidiary Companies		Associate Companies	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Loans	**1,761,071**	1,080,754	**143,125**	196,208
Overdrafts	**152,749**	106,442	**18,980**	136
Due to depositors	**3,640,755**	2,833,259	**217,637**	255,057

59.4 Transactions with the Significant Investors having Significant Influence Over the Bank and the Post Employment Benefit Plans For Bank's Employees.

Significant investor of the Bank is the Government as it is a state owned entity. The Government refers to the Government of Sri Lanka, Government Corporations, Provincial Councils, Local Government bodies, other Government entities and their subsidiaries.

Notes to the Financial Statements

Post employment benefit plans are arrangements made by the Bank to provide post employment benefits for its employees.

Transactions and arrangements entered in to by the Bank with the Government and Government controlled entities (significant investor) and post employment benefit plans which are individually significant and for other transactions that are collectively, but not individually significant are as follows:

59.4.1 Transactions which are Collectively Significant

(a) Items in Statement of Profit or Loss

	Significant Investor		Post Employment Benefit Plans	
For the year ended 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Interest income	**96,203,394**	85,557,414	**1**	191
Other income	**1,037,170**	779,941	**2,262**	2,684
Interest expenses	**24,313,434**	19,781,347	**7,524,264**	7,920,439
Dividends paid	**346,410**	4,846,410	**-**	-
Contribution made	**-**	-	**691,228**	808,095

(b) Items in Statement of Financial Position

	Significant Investor		Post Employment Benefit Plans	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Assets				
Loans and advances	**710,906,986**	562,326,026	**-**	-
Investment in securities and bonds	**571,299,788**	551,493,826	**-**	-
Investment in equity instruments	**4,134,884**	2,314,096	**-**	-
	1,286,341,658	**1,116,133,948**	**-**	**-**
Liabilities				
Due to depositors	**325,541,751**	205,973,794	**58,032,070**	52,068,600
Securities sold under repurchase agreements	**27,377,500**	89,458,909	**5,001**	709,373
Debentures	**21,679,286**	17,855,880	**27,538,561**	26,978,890
	374,598,537	**313,288,583**	**85,575,632**	**79,756,863**

(c) Off Balance Sheet Items

	Significant Investor	
As at 31 December	**2019**	2018
	LKR '000	LKR '000
Letters of credit	**85,619,571**	75,222,871
Bills and acceptances	**84,731,854**	100,117,751
Guarantees	**3,280,252**	5,033,214
Forward exchange contracts	**2,179,608**	9,137,495
	175,811,285	**189,511,331**

(d) Other transactions

	Significant Investor	
For the year ended 31 December	**2019**	2018
	LKR '000	LKR '000
Gross foreign exchange transactions		
- Sales	**770,007,243**	218,146,217
- Purchases	**241,913,592**	175,716,180

(e) Average Accommodations/ Due to Depositors Balances

	Significant Investor		Post Employment Benefit Plans	
As at 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Loans and advances	**438,916,016**	358,655,760	**-**	-
Due to depositors	**281,458,414**	194,035,460	**50,505,121**	48,476,463
Off balance sheet facilities	**179,335,686**	182,860,088	**-**	-

59.4.2 Transactions which are Individually Significant

The Bank uses internal assessment methodology in order to identify significance of the transactions with the Government and Government related entities. Accordingly, the transactions which have been considered in normal day to day business operations which are carried on normal market conditions are considered as individually significant transactions.

The Government has issued Treasury Guarantees of LKR 292,318 million and Comfort Letters of LKR 38,689 million as of 31 December 2019 against the loan facilities granted to State Owned Enterprises (SOEs).

59.4.3 Transactions with the Significant Investor - Group

Other than the transactions carried out by the Bank and balances held by the Bank with the Government, Subsidiaries of the Group have carried out following transactions with the Government and balances held with the Government as follows:

	Significant investor	
For the year ended 31 December	**2019**	2018
	LKR '000	LKR '000
Investment in securities and bonds	**2,577,680**	1,863,397
Nostro balance with Central Bank of Sri Lanka	**213,982**	208,065
Income from investments in securities and bonds	**266,748**	122,142

Apart from the transactions listed above, the Group carried out transactions with the Government of Sri Lanka and other Government related entities in the form of providing services, investments in shares for trading purpose and other financial service transactions including inter bank placements during the year ended 31 December 2019 on comparable terms, which are applicable to transactions between the Group and its unrelated customers.

Notes to the Financial Statements

60 Financial Reporting by Segment

Segmental information is presented in respect of Group business distinguishing the component of the Group that is engaged in different business segments or operations within a particular economic environment, which is subject to risk and returns that are different from those of other segments.

60.1 Primary Segment Information - Operating Segments - Group

An operating segment is a component of the Group that engages in business activities, from which it may earn revenues and incur expenses, including revenues and expenses that relating to transactions with any of the Group's other components, whose operating results are reviewed by the management to make decision about resource allocation to each segment and assess its performance.

The Group comprises the following major business segments:

Retail banking, Corporate banking, International, Treasury and Investments, other non-banking and Group functions.

The management monitors the operating results of its business segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance are evaluated based on their operating profits or losses. VAT, NBT and Income tax are managed on a Group basis and are not allocated to operating segments.

	Retail banking		Corporate banking	
For the year ended 31 December	**2019**	2018	**2019**	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Revenue from external customers:				
Net interest income	**41,940,946**	37,156,716	**23,664,113**	17,324,675
Net fee and commission income	**6,912,248**	5,169,814	**3,126,414**	3,457,238
Other income	**1,707,141**	2,461,470	**284,152**	4,547,223
Total operating income	**50,560,335**	**44,788,000**	**27,074,679**	**25,329,136**
Impairment (charge)/ reversal for loans and other losses	**(7,714,890)**	(6,134,067)	**(10,053,090)**	(8,231,451)
Other operating expenses	**(23,089,559)**	(21,345,036)	**(4,818,779)**	(4,606,978)
Total expenses	**(30,804,449)**	**(27,479,103)**	**(14,871,869)**	**(12,838,429)**
Operating profit before taxes on financil services	**19,755,886**	**17,308,897**	**12,202,810**	**12,490,707**
Taxes on financial services				
Operating profit after taxes on financil services				
Share of profit/ (loss) of associate companies, net of tax				
Profit/ (loss) before income tax	**19,755,886**	**17,308,897**	**12,202,810**	**12,490,707**
Income tax expense				
Profit for the year				
Total assets	**730,854,671**	**690,006,673**	**881,919,695**	**833,652,003**
Total liabilities	**687,797,536**	**650,092,099**	**829,962,806**	**785,428,028**
Cash flows from/ (used in) operating activities	**21,037,202**	(12,418,508)	**11,869,707**	(5,790,249)
Cash flows from/ (used in) investing activities	**13,503,126**	5,086,779	**7,618,795**	2,371,760
Cash flows from/ (used in) financing activities	**(23,502,086)**	4,233,348	**(28,359,882)**	5,114,645
Capital expenditure to non current assets				
Depreciation and amortisation expenses	**1,120,894**	664,477	**1,352,578**	802,807

Being the major customer of the Bank, "Government & State Owned Enterprises (SOEs)" represents 20% of revenue of the bank, (2018 : 17%) and included under Retail and Corporate segments. More details are given in the Note 59 - "Related Party Disclosures"

International, Treasury and Investment		Group Function		Unallocated		Total	
2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
9,339,702	10,912,700	**3,001,872**	3,131,505	**348,253**	163,883	**78,294,886**	68,689,479
1,337,597	1,353,000	**360,570**	374,367	**720,548**	690,459	**12,457,377**	11,044,878
2,070,020	5,511,354	**3,430,089**	2,949,301	**(1,146,759)**	(1,233,112)	**6,344,643**	14,236,236
12,747,319	**17,777,054**	**6,792,531**	**6,455,173**	**(77,958)**	**(378,770)**	**97,096,906**	**93,970,593**
(444,765)	(387,173)	**193,355**	(156,644)	**(699,853)**	(267,137)	**(18,719,243)**	(15,176,472)
(4,074,497)	(4,480,900)	**(5,245,701)**	(4,831,923)	**328,804**	240,569	**(36,899,732)**	(35,024,268)
(4,519,262)	**(4,868,073)**	**(5,052,346)**	**(4,988,567)**	**(371,049)**	**(26,568)**	**(55,618,975)**	**(50,200,740)**
8,228,057	**12,908,981**	**1,740,185**	**1,466,606**	**(449,007)**	**(405,338)**	**41,477,931**	**43,769,853**
						(10,850,549)	(9,818,020)
						30,627,382	33,951,833
		48,187	9,269			**48,187**	9,269
8,228,057	**12,908,981**	**1,788,372**	**1,475,875**	**(449,007)**	**(405,338)**	**30,675,569**	**33,961,102**
						(6,928,234)	(12,922,017)
						23,747,335	21,039,085
668,242,204	**643,023,679**	**88,371,147**	**80,509,176**	**93,095,895**	**82,408,022**	**2,462,483,612**	**2,329,599,553**
628,873,782	**605,826,913**	**74,710,198**	**69,357,319**	**86,143,641**	**76,026,746**	**2,307,487,963**	**2,186,731,105**
4,684,711	(3,647,240)	**1,505,712**	(1,046,611)	**174,681**	(54,772)	**39,272,013**	(22,957,380)
3,006,970	1,493,956	**966,470**	428,705	**112,122**	22,436	**25,207,483**	9,403,636
(21,488,657)	3,945,097	**(2,552,852)**	451,649	**(2,943,534)**	495,080	**(78,847,011)**	14,239,819
						4,106,171	4,360,302
1,024,866	619,232	**71,140**	269,497	**205,666**	457,456	**3,775,144**	2,813,469

Notes to the Financial Statements

60.2 Secondary Segment Information - Geographical Segments

Geographical segments provide products or services within a particular economic environment where risk and returns are different from those of other economic environments.

These segment comprise Domestic Operations, Offshore Banking Division and Overseas Banking Units.

	Bank				Group			
	2019		2018		2019		2018	
	LKR '000	%	LKR '000	%	LKR '000	%	LKR '000	%
Assets								
Domestic Banking Unit	2,147,379,069	88.9	1,975,612,402	86.5	2,154,523,555	87.5	1,983,673,155	85.3
Offshore Banking Division	218,618,929	9.1	259,302,812	11.3	218,618,929	8.9	259,302,812	11.2
Overseas Banking Units	49,118,631	2.0	49,915,859	2.2	89,341,128	3.6	86,623,586	3.5
Total Assets	2,415,116,629	100.0	2,284,831,073	100.0	2,462,483,612	100.0	2,329,599,553	100.0
Total Income								
Domestic Banking Unit	203,743,426	85.2	194,098,293	87.8	212,578,093	85.5	201,829,531	88.1
Offshore Banking Division	27,685,601	11.6	21,218,379	9.6	27,685,601	11.1	21,218,379	9.3
Overseas Banking Units	7,687,442	3.2	5,704,021	2.6	8,428,309	3.4	6,303,228	2.6
Total Income	239,116,469	100.0	221,020,693	100.0	248,692,003	100.0	229,351,138	100.0
Profit Before Tax								
Domestic Banking Unit	16,977,329	57.2	23,758,143	71.1	17,942,479	58.5	24,284,728	71.5
Offshore Banking Division	6,766,962	22.8	7,110,700	21.3	6,766,962	22.1	7,110,700	20.9
Overseas Banking Units	5,940,936	20.0	2,547,242	7.6	5,966,128	19.4	2,565,674	7.6
Total Profit Before Tax	29,685,227	100.0	33,416,085	100.0	30,675,569	100.0	33,961,102	100.0
Profit After Tax								
Domestic Banking Unit	13,720,830	59.4	13,657,359	65.0	14,344,937	60.4	13,675,352	65.0
Offshore Banking Division	4,872,213	21.1	5,119,704	24.4	4,872,213	20.5	5,119,704	24.3
Overseas Banking Units	4,504,992	19.5	2,225,597	10.6	4,530,185	19.1	2,244,029	10.7
Total Profit After Tax	23,098,035	100.0	21,002,660	100.0	23,747,335	100.0	21,039,085	100.0

61 Fair Values of Assets and Liabilities

Accounting Policy

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Valuation technique using quoted market price:

Financial instruments with quoted prices for identical instruments in active markets.

Level 2 - Valuation technique using observable inputs:

Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3 - Valuation technique with significant unobservable inputs:

Financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

For all financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a traded price may not be possible. In these circumstances, the Bank uses alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

61.1 Assets and Liabilities Measured at Fair Value

Derivative Financial Instruments

All Derivative financial instruments are classified as Held for trading are valued using a valuation technique with market observable and market unobservable inputs. The most frequently applied valuation technique include forward foreign exchange spot and forward premiums.

Notes to the Financial Statements

Financial Assets Measured at Fair Value Through Profit or Loss

Financial instruments are classified as fair value through profit or loss consists Government securities, Quoted debt securities, Units in units trusts and Quoted equities. Government securities are valued using yield curve published by the Central Bank of Sri Lanka and the Bank uses quoted market prices in the active market for the valuation of quoted equities and quoted debt securities as at the Reporting date.Units in units trusts are valued using management buying price of such asset management company since it is the most relevant exit price of such assets.

Financial Assets Measured at Fair Value Through OCI

Financial investments are classified as fair value through OCI consists Government securities, Quoted equities and Unquoted equities.

- Government securities are valued using yield curve published by the Central Bank of Sri Lanka as at the Reporting date.
- The Bank uses quoted market prices in the active market for the valuation of quoted equities and quoted debt securities as at the Reporting date.
- Unquoted equites are carried at cost except Regional Development Bank investment in shares since it is the most reasonable value available to represents the price of such securities. Fair value of Regional Development Bank derived using an internal management valuation technique which details are given in Note 61.1.3.

Property, Plant and Equipment

Free hold lands and buildings and buildings on leasehold lands are carried at revalued amount less any subsequent accumulated depreciation and impairment losses.

61.1.1 Assets Measured at Fair Value - Fair Value Hierarchy

	Bank				Group			
As at 31 December 2019	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets								
Derivative Financial Instruments								
Forward exchange contracts	-	7,977	-	7,977	-	7,977	-	7,977
Currency SWAPs	-	-	124,113	124,113	-	-	124,113	124,113
	-	7,977	124,113	132,090	-	7,977	124,113	132,090
Financial Assets Recognised Through Profit or Loss Measured At Fair Value								
Treasury bills	4,636,846	-	-	4,636,846	4,636,846	-	-	4,636,846
Treasury bonds	29,806	-	-	29,806	721,341	-	-	721,341
Quoted equities	2,596,152	-	-	2,596,152	2,858,056	-	-	2,858,056
Units in unit trusts	-	2,792,611	-	2,792,611	-	2,834,926	-	2,834,926
Other debt securities	-	-	-	-	1,600	-	-	1,600
	7,262,804	2,792,611	-	10,055,415	8,217,843	2,834,926	-	11,052,769
Financial Assets Measured at Fair Value Through OCI								
Quoted Investments								
Government securities								
Treasury bills	6,343,043	-	-	6,343,043	7,891,144	-	-	7,891,144
Treasury bonds	1,881,395	-	-	1,881,395	2,203,866	-	-	2,203,866
Other countries	1,445,693	-	-	1,445,693	1,445,693	-	-	1,445,693
Equities	2,808,684	-	-	2,808,684	3,676,774	-	-	3,676,774
Unquoted Investments								
Equities	-	1,527,968	229,307	1,757,275	-	1,527,968	271,108	1,799,076
	12,478,815	1,527,968	229,307	14,236,090	15,217,477	1,527,968	271,108	17,016,553
Total Financial Assets	19,741,619	4,328,556	353,420	24,423,595	23,435,320	4,370,871	395,221	28,201,412
Non Financial Assets								
Property, Plant and Equipment	-	-	19,261,983	19,261,983	-	-	32,429,290	32,429,290
Total non Financial Assets	-	-	19,261,983	19,261,983	-	-	32,429,290	32,429,290
Total	19,741,619	4,328,556	19,615,403	43,685,578	23,435,320	4,370,871	32,824,511	60,630,702
Financial Liabilities								
Derivative Financial Instruments								
Forward exchange contracts	-	1,070	-	1,070	-	1,070	-	1,070
Currency SWAPs	-	-	105,607	105,607	-	-	105,607	105,607
Total Financial Liabilities	-	1,070	105,607	106,677	-	1,070	105,607	106,677

Notes to the Financial Statements

61.1.1 Assets Measured at Fair Value - Fair Value Hierarchy

	Bank				Group			
As at 31 December 2018	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets								
Derivative Financial Instruments								
Forward exchange contracts	-	28,897	-	28,897	-	28,897	-	28,897
Currency SWAPs	-	-	1,176,760	1,176,760	-	-	1,176,760	1,176,760
	-	**28,897**	**1,176,760**	**1,205,657**	**-**	**28,897**	**1,176,760**	**1,205,657**
Financial Assets Recognised through Profit or Loss Measured at Fair Value								
Treasury bills	3,533,195	-	-	3,533,195	3,533,195	-	-	3,533,195
Treasury bonds	632,810	-	-	632,810	632,810	-	-	632,810
Quoted equities	2,507,508	-	-	2,507,508	2,780,491	-	-	2,780,491
Other debt securities	-	-	-	-	1,715	-	-	1,715
Units in unit trusts	-	2,603,785	-	2,603,785	-	2,635,116	-	2,635,116
	6,673,513	**2,603,785**	**-**	**9,277,298**	**6,948,211**	**2,635,116**	**-**	**9,583,327**
Financial Assets Measured at Fair Value through OCI								
Quoted investments								
Government securities								
Treasury bills	4,550,469	-	-	4,550,469	5,718,800	-	-	5,718,800
Treasury bonds	6,178,278	-	-	6,178,278	6,695,169	-	-	6,695,169
Other countries	1,587,030	-	-	1,587,030	1,587,030	-	-	1,587,030
Equities	3,142,087	-	-	3,142,087	4,050,702	-	-	4,050,702
Unquoted investments								
Equities	-	1,012,411	229,307	1,241,718	-	1,012,411	274,671	1,287,082
	15,457,864	**1,012,411**	**229,307**	**16,699,582**	**18,051,701**	**1,012,411**	**274,671**	**19,338,783**
Total Financial Assets	**22,131,377**	**3,645,093**	**1,406,067**	**27,182,537**	**24,999,912**	**3,676,424**	**1,451,431**	**30,127,767**
Non financial assets								
Property, Plant and Equipment	-	-	18,458,592	18,458,592	-	-	31,291,571	31,291,571
Total Non Financial Assets	**-**	**-**	**18,458,592**	**18,458,592**	**-**	**-**	**31,291,571**	**31,291,571**
Total	**22,131,377**	**3,645,093**	**19,864,659**	**45,641,129**	**24,999,912**	**3,676,424**	**32,743,002**	**61,419,338**
Financial Liabilities Derivative Financial Instruments								
Forward exchange contracts	-	31,736	-	31,736	-	31,736	-	31,736
Currency SWAPs	-	-	477,282	477,282	-	-	477,282	477,282
Total Financial Liabilities	**-**	**31,736**	**477,282**	**509,018**	**-**	**31,736**	**477,282**	**509,018**

61.1.2 Movements in Level 3 Assets Measured at Fair Value

The following table shows a reconciliation of the opening and closing amounts of level 3 assets and liabilities which are recorded at fair value.

	Bank						Group			
	As at 1 January 2019	Total Gains/ (Losses) Recorded in Profit or Loss	Total Gains/ (Losses) Recorded in OCI	Purchases / (Sales) and Other Adjustments	As at 31 December 2019	As at 1 January 2019	Total Gains/ (Losses) Recorded in Profit or loss	Total Gains/ (Losses) Recorded in OCI	Purchases / (Sales) and Other Adjustments	As at 31 December 2019
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets										
Derivative Financial Instruments										
Currency SWAPs	1,176,760	-	-	(1,052,647)	124,113	1,176,760	-	-	(1,052,647)	124,113
Financial Assets Measured at Fair Value Through OCI										
Unquoted Investments										
Equities	229,307	-	-	-	229,307	274,671	(3,563)	-	-	271,108
Total Level 3 Financial Assets	1,406,067	-	-	(1,052,647)	353,420	1,451,431	(3,563)	-	(1,052,647)	395,221
Non Financial Assets										
Property, Plant and Equipment	18,458,592	(188,835)		992,226	19,261,983	31,291,572	(745,778)	790,887	1,092,609	32,429,290
Total Level 3 Assets	19,864,659	(188,835)	-	(60,421)	19,615,403	32,743,003	(749,341)	790,887	39,962	32,824,511
Financial Liabilities										
Currency SWAPs	477,282	-	-	(371,675)	105,607	477,282	-	-	(409,151)	68,131
Total Level 3 Financial Liabilities	477,282	-	-	(371,675)	105,607	477,282	-	-	(409,151)	68,131
Net Level 3 Financial Assets	928,785	-	-	(680,972)	247,813	974,149	(3,563)	-	(643,496)	327,090

Notes to the Financial Statements

61.1.2 Movements in Level 3 Assets Measured at Fair Value

The following table shows a reconciliation of the opening and closing amounts of level 3 assets and liabilities which are recorded at fair value.

	Bank					Group				
	As at 1 January 2018	Total Gains/ (Losses) Recorded in Profit or Loss	Total Gains/ (Losses) Recorded in OCI	Purchases / (Sales) and Other Adjustments	As at 31 December 2018	As at 1 January 2018	Total Gains/ (Losses) Recorded in Profit or Loss	Total Gains/ (Losses) Recorded in OCI	Purchases / (Sales) and Other Adjustments	As at 31 December 2018
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets										
Derivative Financial Instruments										
Currency SWAPs	1,614,535	-	-	(437,775)	1,176,760	1,614,535	-	-	(437,775)	1,176,760
Financial Assets Measured at Fair Value through OCI										
Unquoted Investments										
Equities	227,717	-	-	1,590	229,307	279,272	-	(6,190)	1,589	274,671
Total Level 3 Financial Assets	**1,842,252**	**-**	**-**	**(436,185)**	**1,406,067**	**1,893,807**	**-**	**(6,190)**	**(436,186)**	**1,451,431**
Non Financial Assets										
Property, Plant and Equipment	18,030,186	(175,795)	(337,522)	941,723	18,458,592	30,852,915	(721,771)	147,397	1,013,030	31,291,571
Total Level 3 Assets	**19,872,438**	**(175,795)**	**(337,522)**	**505,538**	**19,864,659**	**32,746,722**	**(721,771)**	**141,207**	**576,844**	**32,743,002**
Financial Liabilities										
Currency SWAPs	68,131	-	-	409,151	477,282	68,131	-	-	409,151	477,282
Total Level 3 Financial Liabilities	**68,131**	**-**	**-**	**409,151**	**477,282**	**68,131**	**-**	**-**	**409,151**	**477,282**
Net Level 3 Financial Assets	**1,774,121**	**-**	**-**	**(845,336)**	**928,785**	**1,825,676**	**-**	**(6,190)**	**(845,337)**	**974,149**

61.1.3 Unobservable Inputs Used in Measuring Fair Value of Level 3

The table below sets out information about significant unobservable inputs used as at 31 December 2019 in measuring financial instruments categorised as level 3 in the fair value hierarchy.

Type of Financial Instrument	Fair value As at 31 December 2019 LKR'000	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Derivative Financial Instruments					
Currency SWAPs	124,113	Forward pricing model	Foreign exchange forward rate. Discount for counterparty credit risk.	Negative 0.01 to positive 0.01 basis point.	Unfavourable or favourable impact on derivative assets value of LKR 1.2 million respectively.
Financial Assets Measured at Fair Value Through OCI					
Unquoted Equity Shares					
Regional Development Bank	162,300	Discounted Cash Flow method	Constant Dividend model	Decreased by 5% and increased by 5% for existing cost of capital.	Impact to the fair value will be within negative and positive LKR 8.1 million no significant impact to the investment.
Credit Information Bureau of Sri Lanka	43,132	Value at cost*			* Fair value cannot be reliably measured, These are investments in mutual entities that provide transaction processing and transaction services to members on a pricing basis intended to recover the entities operating cost.
Fitch Ratings Lanka Limited	625	Value at cost*			
Lanka Clear (Private) Limited	21,000	Value at cost*			
Lanka Financial Services Bureau Limited	2,250	Value at cost*			

Notes to the Financial Statements

61.2 Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following table summarised the fair value for assets and liabilities which are not already recorded at fair vale in the Financial Statement.

As at 31 December 2019	Bank					Group				
	Fair Value				Carrying value	Fair Value				Carrying value
	Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets										
Financial assets at amortised cost - Debt and Other Instruments	379,480,429	6,099,885	191,904,149	577,484,463	572,747,809	380,220,023	6,099,885	192,878,291	579,198,199	573,977,330
Investment Properties	-	-	3,000,000	3,000,000	2,648,784	-	-	533,191	533,191	117,276
Total	**379,480,429**	**6,099,885**	**194,904,149**	**580,484,463**	**575,396,593**	**380,220,023**	**6,099,885**	**193,411,482**	**579,731,390**	**574,094,606**
Liabilities										
Other borrowings	-	-	137,833,543	137,833,543	137,833,543	-	-	145,095,262	145,095,262	145,095,262
Debt securities issued	-	-	-	-	-	-	-	2,107,810	2,107,810	2,107,810
Subordinate liabilities	-	21,973,558	32,082,614	54,056,172	54,221,552	-	21,919,188	32,082,614	54,001,802	54,211,542
Total	**-**	**21,973,558**	**169,916,157**	**191,889,715**	**192,055,095**	**-**	**21,919,188**	**179,285,686**	**201,204,874**	**201,414,614**

As at 31 December 2018	Bank					Group				
	Fair Value				Carrying value	Fair Value				Carrying value
	Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets										
Financial assets at amortised cost - Debt and Other instruments	335,143,660	7,444,961	213,772,945	556,361,566	551,839,449	335,321,834	7,324,233	214,904,554	557,550,621	553,033,150
Investment Properties	-	-	3,000,000	3,000,000	2,765,856	-	-	574,309	574,309	120,182
Total	**335,143,660**	**7,444,961**	**216,772,945**	**559,361,566**	**554,605,305**	**335,321,834**	**7,324,233**	**215,478,863**	**558,124,930**	**553,153,332**
Liabilities										
Other borrowings	-	-	201,792,174	201,792,174	201,792,174	-	-	207,053,674	207,053,674	207,053,674
Debt securities issued	-	-	-	-	-	-	-	4,105,681	4,105,681	4,105,681
Subordinate liabilities	-	28,302,237	22,378,755	50,680,992	50,827,239	-	28,041,341	22,378,755	50,420,096	50,484,487
Total	**-**	**28,302,237**	**224,170,929**	**252,473,166**	**252,619,413**	**-**	**28,041,341**	**233,538,110**	**261,579,451**	**261,643,842**

The following describes the methodologies and assumptions used to determine fair values for those assets and liabilities which are not already recorded at fair value in the Financial Statements.

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost comprise Sri Lanka Development Bonds, Government and Corporate debt securities.

Sri Lanka Development Bonds are variable rate instruments which are re-pricing semi-annually. Hence it is assumed that the carrying amounts approximate their fair value. Listed corporate debt securities are valued using quoted market price as of the Reporting date, quoted government debt securities are valued using yield curve published by the Central Bank of Sri Lanka and fair value of unquoted corporate debt securities and Government securities are estimated as the present value of future cash flows expected to be received from such investments calculated based on interest rates at the Reporting date for similar instruments.

Investment Properties

Investment properties are valued by the independent professional valuers and more details are given in Note 32.

Financial Liabilities at Amortised Cost - Other Borrowings

Financial liabilities at amortised cost - other borrowings represent, Term borrowings from banks and other financial institutions in Sri lanka and abroad and Refinance borrowings.

Fair value of term borrowings and refinance borrowings are estimated by the discounting the future cash flows using effective interest rates of similar instruments.

Debt Securities Issued

Fair value of debt securities issued are estimated as the present value of future cash flows expected to be paid from such investments calculated based on interest rates at the Reporting date for similar instruments.

Subordinated Liabilities

Subordinated liabilities are listed in the Colombo Stock Exchange and valued using quoted market price as of the Reporting date.

61.3 Assets and Liabilities for which Fair Value Approximates Carrying Value

For financial assets and liabilities that have a short term maturity, it is assumed that the carrying amounts approximate their fair value. For certain instruments which have contractual maturity of more than one year, the fair value is determined using reasonable basis. Given below is the bases adopted by the Bank in order to establish the fair values of such financial instruments.

Financial Assets at Amortised Cost - Loans and Advances

More than 40% of the total portfolio of loans and advances to customers have a remaining contractual maturity of less than one year and 95% of balance loans are granted at floating rate. Therefore, fair value of loans and advances to customers approximates to their carrying value as at the Reporting date.

Financial Liabilities at Amortised Cost - Due to Depositors

More than 90% of the customer deposits are either repayable on demand or have a remaining contractual maturity of less than one year. Customer deposits with a contractual maturity of more than one year are subject to pre mature upliftment. Amounts paid to customers in the event of pre mature upliftment would not be materially different to its carrying value as at date. Therefore, fair value of customer deposits approximates to their carrying value as at the Reporting date.

Notes to the Financial Statements

As at 31 December	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	LKR '000	LKR '000	LKR '000	LKR '000
Bank				
Financial Assets				
Cash and cash equivalents	**64,868,895**	64,868,895	78,447,577	78,447,577
Balances with Central Banks	**54,594,436**	54,594,436	65,680,371	65,680,371
Placements with banks	**44,476,343**	44,476,343	40,450,089	40,450,089
Securities purchased under resale agreements	**2,179,449**	2,179,449	-	-
Financial assets at amortised cost loans and advances	**1,549,804,871**	1,549,804,871	1,429,107,181	1,429,107,181
Total Financial Assets	**1,715,923,994**	**1,715,923,994**	**1,613,685,218**	**1,613,685,218**
Financial Liabilities				
Due to banks	**2,669,407**	2,669,407	2,402,468	2,402,468
Securities sold under repurchase agreements	**34,183,210**	34,183,210	97,399,359	97,399,359
Due to depositors	**2,005,211,794**	2,005,211,794	1,770,974,846	1,770,974,846
Total Financial Liabilities	**2,042,064,411**	**2,042,064,411**	**1,870,776,673**	**1,870,776,673**
Group				
Financial Assets				
Cash and cash equivalents	**64,829,735**	64,829,735	78,558,031	78,558,031
Balances with Central Banks	**54,594,436**	54,594,436	65,680,371	65,680,371
Placements with banks	**47,911,621**	47,911,621	41,681,910	41,681,910
Securities purchased under resale agreements	**3,981,886**	3,981,886	1,436,068	1,436,068
Financial assets at amortised cost loans and advances	**1,580,949,025**	1,580,949,025	1,460,618,588	1,460,618,588
Total Financial Assets	**1,752,266,703**	**1,752,266,703**	**1,647,974,968**	**1,647,974,968**
Financial Liabilities				
Due to banks	**2,932,950**	2,932,950	2,515,998	2,515,998
Securities sold under repurchase agreements	**34,880,507**	34,880,507	97,423,302	97,423,302
Due to depositors	**2,025,204,033**	2,025,204,033	1,789,924,369	1,789,924,369
Total Financial Liabilities	**2,063,017,490**	**2,063,017,490**	**1,889,863,669**	**1,889,863,669**

61.4 Reclassification of Financial Assets and Financial Liabilities

There have been no reclassifications during 2019.

62 Restatement Disclosure

For the year ended 31 December 2018		Bank		Group	
	Note	Restated	As per the Audited Financial Statements in 2018	Restated	As per the Audited Financials Statements in 2018
		LKR '000	LKR '000	LKR '000	LKR '000
Statement of Comprehensive Income					
Fee and commission income	a	12,917,022	10,699,565	13,305,501	11,088,043
Fee and commission expenses	a	2,246,512	2,280,728	2,260,623	2,294,839
Other operating income	a	9,807,215	12,135,157	11,331,999	13,659,941
Personnel expenses	b	17,351,465	18,875,397	19,076,846	20,600,778
Other expenses	a	11,341,068	11,417,336	13,133,953	13,210,221
Profit before income tax		33,416,085	31,892,154	33,961,102	32,437,170
Profit for the year		21,002,660	19,478,729	21,039,085	19,515,153
Re-measurement of post-employment benefit obligations	c	(1,818,864)	(2,119,340)	(1,790,314)	(2,090,789)
Other comprehensive income for the year, net of tax		(1,651,423)	(1,951,899)	(1,368,325)	(1,668,800)
Total comprehensive income for the year		19,351,237	17,526,830	19,670,760	17,846,353
Statement of Financial Position					
Other assets	b/d	57,236,737	40,560,058	58,549,569	41,872,891
Total assets		2,284,831,073	2,268,154,394	2,329,599,553	2,312,922,875
Financial liabilities at amortised cost - due to depositors	d	1,770,974,846	1,765,025,970	1,789,924,369	1,783,975,493
Total liabilities		2,152,661,249	2,146,712,372	2,186,731,105	2,180,782,229
Retained earnings	b/e	78,061,681	67,333,879	79,179,548	68,451,746
Total equity		132,169,824	121,442,022	142,868,448	132,140,646
Total liabilities and equity		2,284,831,073	2,268,154,394	2,329,599,553	2,312,922,875

(a) Fee and commission income, fee and commission expense, other operating income and other expenses were reclassified to conform to the current year's presentation.

(b) During the year 2019, the Bank recognised the net surplus in its retirement benefit plan, Widows/Widowers' and Orphans' Pension (W/W&OP) Fund in the Bank's books since the existing arrangements are now in place to support the Bank to recognise any surplus in the fund in the Bank's books.

Accordingly, personnel expenses reduced by LKR 1.5 billion due to adjustment in contribution made to the W/W&OP fund and Profit Before Tax (PBT) is also increased by the same amount. The respective surplus is recorded under other assets in the Financial Position of the Bank and the net increase in other assets is LKR 10.7 billion.

Notes to the Financial Statements

(c) Gain of LKR 0.3 billion was recognised under re-measurement of post-employment benefit obligations in the Statement of Other Comprehensive Income due to recognition of surplus in the W/W&OP fund.

(d) Classification change of LKR 5.8 billion carried out between Other Assets and Due to depositors relating to the interest reimbursement due for the Senior Citizen Fixed Deposit interest expenses.

(e) Retained earnings was increased by LKR 10.7 billion due to the recognition of surplus in the W/W&OP fund in the Bank's books.

During the year 2019, the Bank recognised the net surplus in its retirement benefit plan, W/W&OP fund in the Bank's books since the existing arrangements are now in place to support the Bank to recognise any surplus in the fund in the Bank's books in terms of provisions in the LKAS 19: Employee Benefits.

Accordingly, the previous year figures have been restated and the personal cost reduced by LKR1.5 billion due to adjustment in contribution made to the W/W&OP fund and Profit Before Tax (PBT) is also increased by the same amount. The respective surplus is recorded under other assets in the Financial Position of the Bank and the net increase in the other assets is LKR 10.7 billion.

The equity balance as of 1 January 2018 was adjusted for the entire impact as of the beginning of the year 2018. Equity was increased by LKR 8.9 billion accordingly.

The breakdown of the impact of 1 January 2018 is given in more detailed manner in below for further understanding.

As of 01.01.2018	Bank		Group	
	Restated	As per the Audited Financial Statements in 2018	Restated	As per the Audited Financial Statements in 2018
	LKR '000	LKR '000	LKR '000	LKR '000
Equity	112,664,997	103,761,602	123,055,924	114,152,529
Other Assets	46,721,583	37,818,188	47,868,374	38,964,979

63 Risk Management

63.1 Introduction

63.1.1 Overview

Risk is an inherent component in the Business of Banking. Bank is mainly exposed to following risks from engage in financial transactions:

- Credit Risk
- Market Risk
- Operational Risk
- Liquidity Risk
- IT Risk

Risk Management process is comprised of risk identification, measurement and monitoring subject to risk limits approved by the Board of Directors. Financial risk together with other material risks faced by the bank including strategic, reputational,compliance and legal risks are managed and overseen as a part of the Bank's Corporate Governance and Risk Management Framework. Information presented in this note is about the exposures to risks given above and the processes of measuring and managing such risks.

63.1.2 Group Risk Management

Bank of Ceylon group consist of 10 financial and non financial subsidiaries and 04 associate companies.The principal activities of the group is spread over diverse range. The affairs of subsidiaries & associates do not have significant impact to the risk management due to size of the balance sheet of them .

Albeit the Bank is managing the strategic risk through comprehensive review of group activities on a quarterly basis which are overseen by the IRMC. Bank closely involves in risk and audit affairs of subsidiaries by appointing members of Senior Management of the Bank as members of the Boards of such companies. On special circumstances Internal Auditor of the Bank carries out audits in subsidiaries.

63.1.3 Risk Management Framework

Risk management governance structure of the Bank begins with oversight by the Board of Directors, which assures the performance of overall risk management framework. The Risk Management Policies and Risk Appetite of the Bank establish the strategic direction and a holistic approach to overall risk management of the Bank.

The Bank's Independent Integrated Risk Management Division (IIRMD) is headed by the Chief Risk Officer (CRO), who directly reports to the Integrated Risk Management Committee (IRMC), which is a sub-committee of the Board. CRO is also a member of management level committees such as Credit Committee, Asset and Liability Management Committee (ALCO), Operational Risk Management Executive Committee (ORMEC), IT Steering Committee, Fraud Risk Management Committee and Non Performing Advances Monitoring Committee, which assist in managing various risks that the Bank is exposed to.

The Internal Audit function of the Bank independently monitors and evaluates the Risk Management function of the Bank and provides their views on Risk Management to the Audit Committee.

Notes to the Financial Statements

63.1.4 Risk Measurement, Reporting and Mitigation

Risks are measured using various rigorous methods and tools with respect to Credit ,Market ,Operational, IT and Liquidity. Risk Evaluation Models and Measurement Techniques make use of probabilities derived from historical experience, adjusted to reflect the real environment. The Bank also carry out stress testing based on worst-case scenarios which are plausible.

In addition, the Internal Capital Adequacy Assessment Process (ICAAP) sets out the framework for the Bank's internal capital planning and the process provides an assurance that the Bank has adequate capital to cover all risk types as per the business profile.

As a part of its overall risk management, the Bank uses several mitigation techniques and strategies to reduce the risk. In managing credit risk bank uses comprehensive pre sanctioning and post sanctioning techniques to reduce its credit risks. Collaterals are used to further mitigate losses. Market risk is mitigated using derivative instruments in limited context. Strong internal control mechanism is in place to manage operational risks and insurance is used as an operational risk transfer strategy where necessary.

63.2 Credit Risk

Credit Risk is defined as potential losses arising due to a counterparty to a credit transaction failing to meet his/her obligations in accordance with agreed terms. Credit Risk can take the form of default and concentration.

63.2.1 Management of Credit Risk

Credit Risk Management policy lays down the conditions and guidelines for granting, maintenance, monitoring and management of credit at both the transaction and portfolio levels.Credit risk management function is independent from business divisions and credit decision standards, processes and principles are consistently applied in corporate segment and retail segment. In order to get rid of concentration risk a diversified credit portfolio is maintained by assessing and managing borrower and industry specific concentration against risk appetite.The Bank has a range of strategies and processes to actively mitigate credit risk.

The Bank has well established process for approving new credit and for the renewal of existing credit. All the potential credit exposures of the bank are first evaluated by transaction originators using credit risk models who are the risk owners of the credit mechanism. Credit proposals exceeding a certain threshold are independently reviewed by the Chief Risk Officer.

Procedures are also in place to identify the credit exposures for which there may be an increased risk of loss at an early stage. In order to reduce potential credit losses and to increase the recovery of obligations credit risk mitigants are applied. Post sanctioning review of large credit exposures is carried out periodically to ensure proper documentation, adherence to the covenants imposed and quality of the loan book.

Collateral is used for credit risk mitigation purposes and minimises losses that would otherwise be incurred. Collateral may take various forms depending on the type of borrower, the assets available, the structure and the term of credit obligations. Collateral is subject to regular valuation as prescribed in the relevant governing policies and standards. Pricing mechanism ensures facilities are priced factoring individual rating and availability of collateral.

63.2.1.1 Calculation of Expected Credit Losses (ECL)

Expected credit loss represents the default events over an expected life time of the financial assets. Expected credit losses are calculated using four main components, i.e. Probability of Default (PD), Loss Given Default (LGD), Economic Factor Adjustment and Exposure at Default (EAD). These parameters are generally derived from internally developed statistical models combined with historical, current and forward-looking customer and macro-economic data.

SLFRS 9 introduces a three stage model for impairment of financial assets that are performing at the stage of origination or purchase. Three stage model for impairment is based on the changes in the credit quality since initial recognition. At initial recognition, financial assets which are not credit impaired are reflected in stage 1. If there is a significant increase in the credit risk, such financial assets are transferred to stage 2. Significant increase in the credit risk is defined using pre-determined credit risk indicators which are stated in the bank's impairment policy.In case of a default, financial assets are classified as stage 3.

63.2.1.2 Incorporation of Forward-Looking Information

The Bank has established an expert panel who considers a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments, that support the calculation of ECLs.

63.2.2 Maximum Exposure to Credit Risk

63.2.2.1 Collateral and Other Credit Enhancements

The Bank obtains different types of collaterals from the counterparties as a credit risk mitigant. The amount and the types of the collateral required depend on credit risk assessment of the counterparty. The acceptability of the collateral and valuation is determined based on the guidelines issued by the regulator and the bank's policy. The main types of collateral obtained are

- For commercial lending-charges over movable and immovable properties
- For personal lending- mortgages over movable and immovable properties, cash & cash equivalents and gold articles
- For Government & State Owned Enterprises- Government guarantees and letter of comforts
- For reverse repurchase transactions – Government securities

The Bank monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

The following table shows the maximum exposure to credit risk, total fair value of collaterals, any surplus collaterals and the net exposure to credit risk.

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63.2.2.2 Type of Collateral or Other Credit Enhancements

31 December 2019	Maximum exposure to credit risk	Fair value of collateral and other credit enhancements held							Net Collateral	Net exposure
		Cash	Gold	GoSL Securities/ Guarantees	Movables	Immovable Properties	Others	Surplus Collateral		
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and Cash equivalents	64,882,431	46,532,632	-	-	-	-	-	-	46,532,632	18,349,799
Less : Impairment	(13,536)	-	-	-	-	-	-	-	-	(13,536)
Balances with Central Banks	54,594,436	54,594,436	-	-	-	-	-	-	54,594,436	-
Placements with banks	44,517,199	-	-	-	-	-	-	-	-	44,517,199
Less : Impairment	(40,856)	-	-	-	-	-	-	-	-	(40,856)
Securities purchased under resale agreements	2,179,449	-	-	-	-	-	-	-	-	2,179,449
Derivative financial instruments	132,090	-	-	-	-	-	-	-	-	132,090
Financial assets recognised through profit or loss -measured at fair value	10,055,415	-	-	4,666,658	-	-	-	-	4,666,658	5,388,757
Financial assets at amortised cost - loans and advances	1,648,760,589	93,487,564	83,941,733	407,344,324	141,014,879	347,547,813	91,845,448	(126,749,137)	1,038,432,624	610,327,965
Less : Impairment	(98,955,718)	-	-	-	-	-	-	-	-	(98,955,718)
Financial assets at amortised cost - debt and other instruments	574,921,740	-	-	568,425,789	-	-	-	-	568,425,789	6,495,951
Less : Impairment	(2,173,931)	-	-	-	-	-	-	-	-	(2,173,931)
Financial assets measured at fair value through OCI	14,236,090	-	-	9,669,618	-	-	-	-	9,669,618	4,566,472
Total Financial Assets	2,313,095,398	194,614,632	83,941,733	990,106,389	141,014,879	347,547,813	91,845,448	(126,749,137)	1,722,321,757	590,773,641

31 December 2018	Maximum exposure to credit risk	Fair value of collateral and other credit enhancements held							Net Collateral	Net exposure
		Cash	Gold	GoSL Securities/ Guarantees	Movables	Immovable Properties	Others	Surplus Collateral		
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	78,454,689	38,383,013	-	-	-	-	-	-	38,383,013	40,071,676
Less : Impairment	(7,112)	-	-	-	-	-	-	-	-	(7,112)
Balances with Central Banks	65,680,371	65,680,371	-	-	-	-	-	-	65,680,371	-
Placements with banks	40,473,397	-	-	-	-	-	-	-	-	40,473,397
Less : Impairment	(23,308)	-	-	-	-	-	-	-	-	(23,308)
Derivative financial instruments	1,205,657	-	-	-	-	-	-	-	-	1,205,657
Financial assets recognised through profit or loss -measured at fair value	9,277,298	-	-	4,166,005	-	-	-	-	4,166,005	5,111,293
Financial assets at amortised cost - loans and advances	1,510,534,078	82,885,527	61,523,186	348,318,695	149,613,014	287,858,492	80,344,939	(111,864,107)	898,679,746	611,854,332
Less : Impairment	(81,426,897)	-	-	-	-	-	-	-	-	(81,426,897)
Financial assets at amortised cost - debt and other instruments	553,624,323	-	-	545,456,087	-	-	-	-	545,456,087	8,168,236
Less : Impairment	(1,784,874)	-	-	-	-	-	-	-	-	(1,784,874)
Financial assets measured at fair value through OCI	16,699,582	-	-	9,677,543	-	-	-	-	9,677,543	7,022,039
Total Financial Assets	**2,192,707,204**	**186,948,911**	**61,523,186**	**907,618,330**	**149,613,014**	**287,858,492**	**80,344,939**	**(111,864,107)**	**1,562,042,765**	**630,664,439**

Notes to the Financial Statements

63.2.3 Credit Quality by Class of Financial Assets

Based on the credit quality, the financial assets can be classified mainly into three categories i.e. neither past due/ nor impaired, past due but not individually impaired and individually impaired.The Bank has established appropiate limits to maintain concentration risk at an acceptable level.

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk. High grade consist of Assets and advances granted to GOSL and loans and advances granted to corporate borrowers whose internal credit ratings are AAA, AA or A. Standard grade consists of Loans and advances to corporate borrowers whose internal credit ratings are BBB, BB or B. Substandard grade includes corporate borrowers whose credit rating are C or D.

Credit Quality by Class of Financial Assets	Neither past due/Nor impaired						
	High grade (LKR ' 000)			Standard grade (LKR ' 000)			
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1
Cash and cash equivalents	61,114,313	-	-	-	-	-	-
Less : Impairment	-	-	-	-	-	-	-
Balances with Central Banks	48,334,353	-	-	-	-	-	-
Placements with banks	182,660	-	-	-	-	-	-
Less : Impairment	-	-	-	-	-	-	-
Securities purchased under resale agreements	2,179,449	-	-	-	-	-	-
Derivative financial instruments	132,090	-	-	-	-	-	-
Financial assets recognised through profit or loss - measured at fair value	4,666,658	-	-	-	-	-	-
Financial assets at amortised cost - loans and advances	408,546,716	-	-	118,479,448	-	-	55,704,691
Less : Impairment	-	-	-	-	-	-	-
Financial assets at amortised cost - debt and other instruments	568,425,789	-	-	-	-	-	-
Less : Impairment	-	-	-	-			-
Financial assets measured at fair value through OCI	9,669,618	-	-	-	-	-	-
Total Financial Assets	**1,103,251,646**	**-**	**-**	**118,479,448**	**-**	**-**	**55,704,691**

Representation of stage one assets amount to 89% of Bank's total assets and high grade assets to 46% of total assets.

Age analysis of past due (i.e. facilities in arrears of 1 day and above) but not individually impaired loans by class of Financial Assets

Age analysis of past due but not individually impaired loans	Less than 30 days	31 to 60 days	61 to 89 days	90 to 181 days	181 days and over	Total
	(LKR ' 000)	(LKR ' 000)	(LKR ' 000)	(LKR ' 000)	(LKR ' 000)	(LKR ' 000)
Loans and advances to customers	310,846,406	35,144,463	66,001,879	3,221,318	27,911,531	443,125,597

As at 31 December 2019									
								Individually impaired (LKR ' 000)	Total (LKR ' 000)
Sub-standard grade (LKR ' 000)		Grades not allocated/ Un rated (LKR ' 000)			Past due but not individually impaired (LKR ' 000)				
Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 3	
-	-	3,768,118	-	-	-	-	-	-	64,882,431
-	-	-	-	-	-	-	-	-	(13,536)
-	-	6,260,083	-	-	-	-	-	-	54,594,436
-	-	44,334,539	-	-	-	-	-	-	44,517,199
-	-	-	-	-	-	-	-	-	(40,856)
-	-	-	-	-	-	-	-	-	2,179,449
-	-	-	-	-	-	-	-	-	132,090
-	-	5,388,757	-	-	-	-	-	-	10,055,415
-	-	487,349,752	-	-	310,846,406	101,146,342	31,132,849	135,554,385	1,648,760,589
-	-	-	-	-	-	-	-	-	(98,955,718)
-	-	6,495,951	-	-	-	-	-	-	574,921,740
	-		-	-	-	-	-	-	(2,173,931)
-	-	4,566,472	-	-	-	-	-	-	14,236,090
-	**-**	**558,163,672**	**-**	**-**	**310,846,406**	**101,146,342**	**31,132,849**	**135,554,385**	**2,313,095,398**

Notes to the Financial Statements

Credit Quality by Class of Financial Assets	Neither past due/Nor impaired						
	High grade (LKR ' 000)			Standard grade (LKR ' 000)			
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1
Cash and cash equivalents	50,520,582	-	-	-	-	-	-
Less : Impairment	-	-	-	-	-	-	-
Balances with Central Banks	59,405,543	-	-	-	-	-	-
Placements with banks	1,108,583	-	-	-	-	-	-
Less : Impairment	-	-	-	-	-	-	-
Securities purchased under resale agreements	-	-	-	-	-	-	-
Derivative financial instruments	1,205,657	-	-	-	-	-	-
Financial assets recognised through profit or loss - measured at fair value	4,166,005	-	-	-	-	-	-
Financial assets at amortised cost - loans and advances	354,752,816	17,566,991	10,473,463	121,895,086	16,809,553	5,562,062	40,292,350
Less : Impairment	-	-	-	-	-	-	-
Financial assets at amortised cost - debt and other instruments	545,456,087	-	-	-	-	-	-
Less : Impairment	-	-	-	-			-
Financial assets measured at fair value through OCI	12,315,778	-	-	-	-	-	-
Total Financial Assets	**1,028,931,051**	**17,566,991**	**10,473,463**	**121,895,086**	**16,809,553**	**5,562,062**	**40,292,350**

Representation of stage one assets amount to 90% of Bank's total assets and high grade assets to 44% of total assets.

Age analysis of past due (i.e. facilities in arrears of 1 day and above) but not individually impaired loans by class of Financial Assets

Age analysis of past due but not individually impaired loans	Less than 30 days (LKR ' 000)	31 to 60 days (LKR ' 000)	61 to 89 days (LKR ' 000)	90 to 180 days (LKR ' 000)	181 days and over (LKR ' 000)	Total (LKR ' 000)
Loans and advances to customers	131,628,901	127,257,253	12,542,122	6,555,227	33,328,884	311,312,387

As at 31 December 2018									
Sub-standard grade (LKR ' 000)		Grades not allocated/ Un rated (LKR ' 000)			Past due but not individually impaired (LKR ' 000)			Individually impaired (LKR ' 000)	Total (LKR ' 000)
Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 3	
-	-	27,934,107	-	-	-	-	-	-	78,454,689
-	-	-	-	-	-	-	-	-	(7,112)
-	-	6,274,828	-	-	-	-	-	-	65,680,371
-	-	39,364,814	-	-	-	-	-	-	40,473,397
-	-	-	-	-	-	-	-	-	(23,308)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	1,205,657
-	-	5,111,293	-	-	-	-	-	-	9,277,298
14,288,377	3,627,545	503,223,258	12,578,941	2,947,153	274,627,225	17,284,145	19,401,017	95,204,096	1,510,534,078
-	-	-	-	-	-	-	-	-	(81,426,897)
-	-	8,168,236	-	-	-	-	-	-	553,624,323
	-		-	-	-	-	-	-	(1,784,874)
-	-	4,383,804	-	-	-	-	-	-	16,699,582
14,288,377	**3,627,545**	**594,460,340**	**12,578,941**	**2,947,153**	**274,627,225**	**17,284,145**	**19,401,017**	**95,204,096**	**2,192,707,204**

Notes to the Financial Statements

63.2.4 Analysis of Risk Concentration

Concentration risk in credit portfolios arises due to an uneven distribution of bank loans to individual borrowers, industry ,sector or geographical regions. In managing the concentraion risk the bank uses the Herfindahl-Harischman Index (HHI) as a measurement tool.The Bank has established appropriate limits to maintain concentration risk at an acceptable level.

Country Wise Exposure

The Bank has established branches in three countries i.e. India, Maldives, and Seychelles through which the bank mainly maintains exposures outside Sri Lanka. Bank also has a fully owned subsidiary operating in United Kingdom (UK). All overseas branches are operating with pre-set limits (credit limits as well as country limits) which are approved by the Board of Directors.

Exposures in other countries include placements with banks and nostro account balances with correspondent banks whose risks are managed through Board approved limits.

Country Wise Exposure

31 December 2019	Sri Lanka	UK	Maldives	India	USA	Seychelles	Other Countries	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets								
Cash and cash equivalents	47,626,492	326,525	5,301,008	44,575	7,662,052	42,038	3,866,205	64,868,895
Balances with Central Banks	48,334,353	-	5,058,839	906,827	-	294,417	-	54,594,436
Placements with banks	182,660	44,293,683	-	-	-	-	-	44,476,343
Securities purchased under resale agreements	2,179,449	-	-	-	-	-	-	2,179,449
Derivative financial instruments	132,090	-	-	-	-	-	-	132,090
Financial assets recognised through profit or loss - measured at fair value	10,055,415	-	-	-	-	-	-	10,055,415
Financial assets at amortised cost - loans and advances	1,513,991,459	-	26,368,023	7,858,634	-	1,586,755	-	1,549,804,871
Financial assets at amortised cost - debt and other instruments	562,731,222	-	10,016,587	-	-	-	-	572,747,809
Financial assets measured at fair value through OCI	12,790,398	-	-	1,445,692	-	-	-	14,236,090
Total financial assets	**2,198,023,538**	**44,620,208**	**46,744,457**	**10,255,728**	**7,662,052**	**1,923,210**	**3,866,205**	**2,313,095,398**
Financial Liabilities								
Due to banks	1,324,470	19,140	-	-	1,198,296	-	127,501	2,669,407
Securities sold under repurchase agreements	34,183,210	-	-	-	-	-	-	34,183,210
Derivative financial instruments	106,677	-	-	-	-	-	-	106,677
Financial liabilities at amortised cost - due to depositors	1,962,131,792	-	35,068,761	5,762,931	-	2,248,310	-	2,005,211,794
Financial liabilities at amortised cost - other borrowings	41,400,295	-	-	2,747,982	9,146,152	-	84,539,114	137,833,543
Subordinated term debts	54,221,552	-	-	-	-	-	-	54,221,552
Total financial liabilities	**2,093,367,996**	**19,140**	**35,068,761**	**8,510,913**	**10,344,448**	**2,248,310**	**84,666,615**	**2,234,226,183**

31 December 2018	Sri Lanka	UK	Maldives	India	USA	Seychelles	Other Countries	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets								
Cash and cash equivalents	41,535,889	309,411	8,984,693	91,690	8,393,595	34,515	19,097,784	78,447,577
Balances with Central Banks	58,989,444	-	5,626,366	752,166	-	312,39 5	-	65,680,371
Placements with banks	1,108,583	39,341,506	-	-	-	-	-	40,450,089
Securities purchased under resale agreements	-	-	-	-	-	-	-	-
Derivative financial instruments	1,205,657	-	-	-	-	-	-	1,205,657
Financial assets recognised through profit or loss - measured at fair value	9,277,298	-	-	-	-	-	-	9,277,298
Financial assets at amortised cost - loans and advances	1,394,444,291	-	25,186,543	7,932,346	-	1,544,001	-	1,429,107,181
Financial assets at amortised cost - debt and other instruments	542,982,435	-	8,857,014	-	-	-	-	551,839,449
Financial assets measured at fair value through OCI	15,112,551			1,587,031				16,699,582
Total financial assets	**2,064,656,148**	**39,650,917**	**48,654,616**	**10,363,233**	**8,393,595**	**1,890,911**	**19,097,784**	**2,192,707,204**
Financial Liabilities								
Due to banks	1,395,256	-	-	1,007,212	-	-	-	2,402,468
Securities sold under repurchase agreements	97,399,359	-	-	-	-	-	-	97,399,359
Derivative financial instruments	509,018	-	-	-	-	-	-	509,018
Financial liabilities at amortised cost - due to depositors	1,717,499,151	-	39,167,235	6,028,423	-	2,331,161	-	1,765,025,970
Financial liabilities at amortised cost - other borrowings	201,792,174	-	-	-	-	-	-	201,792,174
Debt securities issued		-	-	-	-	-	-	-
Subordinated term debts	50,827,239	-	-	-	-	-	-	50,827,239
Total financial liabilities	**2,069,422,197**	**-**	**39,167,235**	**7,035,635**	**-**	**2,331,161**	**-**	**2,117,956,228**

Notes to the Financial Statements

The Bank's portfolio is well diversified with in the Sector and all exposure were maintained within the set HHI during the year.

Sector Wise Exposure

31 December 2019	Agriculture and fisheries	Banking, finance and insurance	Hotels, travels and services	Housing, construction and infrastructure	Manu-facturing
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	-	14,581,681	-	-	-
Less : Impairment	-	-	-	-	-
Balances with Central Banks	-	-	-	-	-
Placements with banks	-	44,517,199	-	-	-
Less : Impairment	-	-	-	-	-
Securities purchased under resale agreements	-	2,179,449	-	-	-
Derivative financial instruments	-	132,090	-	-	-
Financial assets recognised through profit or loss - measured at fair value	**82,348**	2,869,220	**295,607**	70,978	936,574
Financial assets at amortised cost - loans and advances	**107,883,019**	43,571,094	**109,579,004**	366,709,406	86,179,315
Less : Impairment	-	-	-	-	-
Financial assets at amortised cost - debt and other instruments	-	338,826	-	-	-
Less : Impairment	-	-	-	-	-
Financial assets measured at fair value through OCI	-	2,970,984	-	-	-
	107,965,367	**111,160,543**	**109,874,611**	**366,780,384**	**87,115,889**

31 December 2018	Agriculture, and Fisheries	Banking, Finance and Insurance	Hotels, Travels and Services	Housing, Construction and Infrastructure	Manu-facturing
	LKR '000	LKR '000	LKR '000	LKR '000	
Cash and cash equivalents	-	12,137,568	-	-	-
Less : Impairment	-	-	-	-	-
Balances with Central Banks	-	-	-	-	-
Placements with banks	-	40,473,397	-	-	-
Less : Impairment	-	-	-	-	-
Securities purchased under resale agreements	-	-	-	-	-
Derivative financial instruments	-	1,205,657	-	-	-
Financial assets recognised through profit or loss - measured at fair value	**76,174**	2,665,858	**280,829**	67,996	301,685
Financial assets at amortised cost - loans and advances	**97,665,643**	49,554,107	**80,010,561**	338,744,805	74,048,479
Less : Impairment	-	-	-	-	-
Financial assets at amortised cost - debt and other instruments	-	676,557	-	-	-
Less : Impairment	-	-	-	-	-
Financial assets measured at fair value through OCI	-	3,142,087	-	-	-
	97,741,817	**109,855,231**	**80,291,390**	**338,812,801**	**74,350,164**

*This excludes exposure to state owned enterprices

Commercial trade	Sovereign and direct Government	Transportation and logistics	Other commercial services	Consumption and others	Total
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
-	-	-	50,300,750	-	64,882,431
-	-	-	-	-	(13,536)
-	48,334,353	-	6,260,083	-	54,594,436
-	-	-	-	-	44,517,199
-	-	-	-	-	(40,856)
-	-	-	-	-	2,179,449
-	-	-	-	-	132,090
166,657	4,666,658	69,284	891,989	6,100	10,055,415
253,904,763	176,755,515*	155,400,432	59,731,824	289,046,217	1,648,760,589
-	-	-	-	-	(98,955,718)
6,157,124	568,425,790	-	-	-	574,921,740
-	-	-	-	-	(2,173,931)
1,595,488	9,669,618	-	-	-	14,236,090
261,824,032	**807,851,934**	**155,469,716**	**117,184,646**	**289,052,317**	**2,313,095,398**

Commercial Trade	Sovereign and Direct Government	Transportation and Logistics	Other Commercial Services	Consumption and Others	Total
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
-	-	-	-	66,317,121	78,454,689
	-	-	-	-	(7,112)
-	65,680,371	-	-	-	65,680,371
-	-	-	-	-	40,473,397
	-	-	-	-	(23,308)
-	-	-	-	-	-
-	-	-	-	-	1,205,657
142,914	4,088,980	67,662	204,381	1,380,819	9,277,298
193,122,916	219,760,013*	140,006,311	48,335,126	269,286,117	1,510,534,078
-	-	-	-	-	(81,426,897)
7,491,679	545,456,087	-	-	-	553,624,323
-	-	-	-	-	(1,784,874)
1,241,718	12,315,777	-	-	-	16,699,582
201,999,227	**847,301,228**	**140,073,973**	**48,539,507**	**336,984,057**	**2,192,707,204**

Notes to the Financial Statements

63.2.5 Commitments and Guarantees

The Bank enters into various irrevocable commitments and contingent liabilities to meet the financial needs of customers. They do contain credit/default risk even though these obligations are not recognised in the statement of financial position as on balance sheet assets.

The table below shows the Bank's maximum credit risk exposure for commitments and guarantees.

	Bank	
For the year ended 31 December	**2019**	2018
	LKR '000	LKR '000
Acceptances and documentary credit	**246,241,559**	225,582,120
Forward exchange contracts	**28,441,683**	15,801,742
Guarantees	**108,019,959**	100,715,102
	382,703,201	**342,098,964**

63.3 Liquidity Risk and Funding Management

The Bank's Liquidity risk management framework is in place to ensure that the payment obligations of the bank are made in a timely manner.

ALCO being the main management committee for managing liquidity and market risk, Bank's funding plan is reviewed regularly and remedial measures are proposed to rectify any material mis-matches between assets and liabilities.

The table below presents the contractual undiscounted maturity of the bank's financial liabilities.

31 December 2019	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Due to banks	-	2,669,407	-	-	-	2,669,407
Securities sold under resale agreements	-	31,299,229	2,706,175	-	-	34,005,404
Derivative financial instruments	-	106,677	-	-	-	106,677
Due to customers	637,696,208	361,602,367	522,362,493	32,312,580	392,719,516	1,946,693,164
Other borrowings	-	71,042,646	71,114,040	41,000,160	14,093,829	197,250,675
Total	637,696,208	**466,720,326**	**596,182,708**	**73,312,740**	**406,813,345**	**2,180,725,327**

31 December 2018	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Due to banks	-	2,402,468	-	-	-	2,402,468
Securities sold under repurchase agreements	-	99,743,183	7,916,047	-	-	107,659,230
Derivative financial instruments	-	509,018	-	-	-	509,018
Due to depositors	602,471,424	351,046,714	406,728,184	19,978,975	333,342,257	1,717,567,554
Other borrowings	-	114,522,099	91,859,927	29,451,146	19,095,666	254,928,838
Total	**602,471,424**	**568,223,482**	**506,504,158**	**49,430,121**	**352,437,923**	**2,079,067,108**

63.4 Market Risk

Market risk is the risk that the fair value of the future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, equity prices and commodity prices. The Bank classifies exposures into either trading or non-trading portfolios and manages each of these portfolios separately. The market risk for the foreign exchange and equity trading portfolios are managed and monitored based on a Value at Risk (VaR) methodology that reflects the interdependency between risk variables. Interest rate risk of the trading portfolio is managed through Price Value per Basis Point (PVBP) and duration gap analysis.Trading and non trading portfolios are managed and monitored using sensitivity analysis and stress testing.

63.4.1 Currency Risk

Currency Risk is the risk of fluctuation of value of foreign currency denominated financial instruments due to changes in foreign exchange rates. The Bank carries a moderate level of open positions during the year which is within the prescribed limit of Central Bank of Sri Lanka. Profit over foreign currency trading transactions moved downward during the year compared to last year due to year on year rupee appreciation. A detailed limit structure along with VaR limits, counter party limits, country limits,day light limits,over night limits and loss limits prescribed by the IIRMD govern the foreign exchange risk of the bank. Stress testing analysis on foreign exchange is carriedout to measure the impact to profit and CAR during stress situations. Foreign Exchange VaR as at 31 December 2019 is LKR 25.6 million.

Notes to the Financial Statements

Foreign Exchange Position as at 31 December	2019		2018	
	Net Overall Long	Net Overall Short	Net Overall Long	Net Overall Short
	LKR '000	LKR '000	LKR '000	LKR '000
Currency				
United States Dollar	278,312	-	524,547	-
Great Britain Pound		(2,012)	1,909	-
Euro	2,848		21,815	-
Japanese Yen	4,201		3,568	-
Australian Dollar		(2,758)	-	(10,620)
Canadian Dollar		(108)	1,166	-
Swiss Franc	2,807		1,937	-
Singapore Dollar		(951)	967	-
Hong Kong Dollar	6,910	-		(1,056)
Sub Total	**295,078**	**(5,829)**	**555,909**	**(11,676)**
Other Currencies	15,389	(804)	5,538	(1,786)
Grand Total	**310,467**	**(6,633)**	**561,447**	**(13,462)**
Higher of Long or Short		**310,467**		561,448

Impact on Income Statement due to Exchange Rate Shocks

Exchange Rate Shocks %	2019		2018	
	Net Open Position (After Rate Shocks)	Impact on Income Statement as at 31 December 2019	Net Open Position (After Rate Shocks)	Impact on Income Statement as at 31 December 2018
	LKR '000	LKR '000	LKR '000	LKR '000
5%	**294,944**	**(15,523)**	533,375	(28,072)
10%	**279,420**	**(31,047)**	505,303	(56,145)
-5%	**325,990**	**15,523**	589,520	28,072
-10%	**341,514**	**31,047**	617,592	56,145

63.4.2 Interest Rate Risk

Interest rate risk is the possibility that the future cash flows or the fair value of financial instruments fluctuate as a result of an unexpected changes in interest rates.

PVBP and Duration analysis are monitored daily basis to assess the impact of interest rate changes on Bank's trading portfolios of treasury bonds and bills which are rate sensitive instruments.

	Bank	
For the year ended 31 December	**2019**	2018
	LKR '000	LKR '000
PVBP		
Investment in TBills	**76,823**	12,779
Investment in TBonds	**133,266**	290,243
Duration		
Investment in TBills	**0.5 Years**	**0.2 Years**
Investment in TBonds	**3.8 Years**	**2.4 Years**

Sensitivity analysis of interest sensitive assets and liabilities is carried out to monitor interest rate risk in the banking book by placing those assets and liabilities in pre-determined maturity buckets considering its residual time to maturity and setting and monitoring gap limits and the repricing profile.

2019	Upto 1 Month	1-3 Months	3-6 Months	6-12 Months	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Over 5 Years
Rate sensitive assets	9.1 %	16.3 %	15.2%	11.9%	12.1%	12.1%	4.9%	4.9%	13.5%
Rate sensitive liabilities	9.1 %	16.0 %	12.1%	20.7%	4.1%	4.1%	3.9%	3.9%	26.1%
GAP	0.0 %	0.3%	3.1%	(8.9%)	8.0%	8.0%	1.1%	1.1%	(12.6%)

2018	Upto 1 Month	1-3 Months	3-6 Months	6-12 Months	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Over 5 Years
Rate sensitive assets	11.9%	15.1%	12.0%	16.3%	9.9%	9.9%	4.9%	4.9%	15.1%
Rate sensitive liabilities	13.6%	18.0%	11.7%	18.0%	3.6%	3.6%	3.6%	3.6%	24.2%
GAP	(1.7%)	(2.9%)	0.3%	(1.7%)	6.3%	6.3%	1.3%	1.3%	(9.1%)

Notes to the Financial Statements

63.4.3 Equity risk

Equity risk is the risk of deteriorating fair value of equity portfolio due to a change in the level of equity indices and individual stocks. Equity risk is monitored by stipulating overall portfolio limits and use of VaR methodology. The equity VaR is LKR 119,435,071 and risk appetite for equity VaR is LKR 250,000,000 for year 2019.

Equity VaR	**2019** LKR '000	2018 LKR '000
31 December	119,435	115,030
Highest	120,727	117,494
Lowest	2	81,305
Average	109,844	97,540

63.5 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.Even though the capital allocated for operational risk as per the Basic Indicator Approach (BIA) was significant, the actual operational loss was far below the allocated capital.

63.6 Capital Management

The primary objective of Capital Management is to ensure maintenance of minimum regulatory capital requirement. The Bank ensures that adequate capital has been allocated to achieve strategic objectives and within the Risk Appetite of the Bank.

63.6.1 Capital Adequacy

The capital Adequacy Ratio (CAR) is a measurement of a bank's available capital expressed as a percentage of risk-weighted assets of credit, market and operational aspects of the banking business. It is a measure of financial strength of the Bank which indicates its ability to maintain adequate capital to face with unforeseen scenarios. It is used to protect depositors and promote the stability and efficiency of financial system.

Central Bank of Sri Lanka (CBSL) plays a vital role in defining minimum requirements and monitoring CAR to ensure that banks are not participating in business activities that increase the risk of default and banks have enough capital to sustain operating losses and thereby maintaining confidence in the banking system.

The Bank calculates CAR based on CBSL guide lines stemming from International Convergence of capital Measurement and Capital Standards, Revised framework. IIRMD actively and continuously monitor the CAR, while stressing rigorously for worst possible scenarios. ICAAP factors out all possible risks such as reputation risk, strategic risk, compliance risk, concentration risk, & interest rate risk on banking book.

Compliance Annexes

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Compliance with Code of Best Practice on Corporate Governance 2017 Issued By CA Sri Lanka

Sections referred to in the code	Compliance status
A.	Directors
A.1	**The Board** Appointments to the Board are made by the shareholder, the Government of Sri Lanka through the Minister under whose purview the Bank comes in terms of the provisions of Bank of Ceylon Ordinance No. 53 of 1938 and its amendments. As per the said Ordinance, the number of Directors permitted on the Board is only six members. During the year 2019 Board consisted of five members. The Composition of the Board in 2019 is given on pages 24 and 25 in this Annual Report. The political changes that occurred in the latter part of 2019 led to changes being made to the Board composition. The current Board consists of six Directors (five of whom are independent Directors) and details of the composition is given on pages 24 and 25 in this Annual Report. The Board members who have skills and experience as indicated in the details about them direct and lead the Bank with effective controls.
A.1.1	**Board Meetings** The Board meetings are held on fortnightly basis and special meetings are scheduled as and when the need arises. The schedule of meetings is in place by the beginning of a year and the structure of submitting information to the Board has been agreed upon. Necessary information is submitted as agreed to enable decision making. During the year under review the Board met 22 times and attendance at meetings is summarised on page 99.
A.1.2	**Role and responsibilities of the Board** The role and responsibilities of the Board are incorporated in the Board Charter which was last reviewed in the year 2019.
A.1.3	**To act in accordance with the laws of the country** The Bank is regulated as per the Bank of Ceylon Ordinance no. 53 of 1938 and its amendments and the Banking Act no. 30 of 1988 and its amendments. Additionally, directions issued by the regulators viz., the Central Bank of Sri Lanka, any other regulator where the Bank has its overseas Branches, Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange apply to Bank of Ceylon. The Board acts in accordance with the applicable laws. **Access to Independent Professional Advice** A Policy on Directors' Access to Independent Professional Advice is in place whereby Directors are able to seek independent professional advice on a needs basis at the Bank's expense.
A.1.4	**Advice and services of the Company Secretary** The members of the Board have access to the advice and services of the Secretary to the Board/ Secretary, Bank of Ceylon who is an Attorney-at-Law. The Secretary to the Board is responsible for ensuring that Board procedures are followed and compliance with applicable rules and regulations, directions and statutes and keeping and maintaining minutes and relevant records. Any question of the removal of the Secretary to the Board/ Secretary, Bank of Ceylon is a matter for the full Board.
A.1.5	**Independent judgement** The Board of Bank of Ceylon bring independent judgement to bear in discharging their duties and responsibilities on matters relating to the Board including strategy, performance, resource allocation, risk management, compliance and standards of business conduct.

Sections referred to in the code	Compliance status
A.1.6	**Dedicating adequate time and effort to matters of the Board and the Bank** The agenda and Board memoranda are circulated among the Board members seven days prior to the meeting through a secure e-Solution enabling them to dedicate sufficient time before a meeting to review Board memoranda and call for additional information and clarification.
A.1.7	**Calling of Resolution** The Board members can individually submit proposals to the Board when they feel that they are in the best interests of the Bank and a resolution can be presented to the Board.
A.1.8	**Training for Directors** When first appointed to the Board, the Directors undergo an induction programme covering the applicable regulatory requirements, Bank's history, organisational structure, details of subsidiaries and associates, products and services and Directors' responsibilities and are provided with a Board Manual incorporating all the above given in e-form through the Bank's electronic support system. Directors are encouraged to attend relevant training programmes and are apprised of the latest developments in the Bank and external environment by members of the Corporate Management or through external resource personnel.
A.2	**Division of responsibilities between the Chairman and Chief Executive Officer (CEO)** The positions of the Chairman and the Chief Executive Officer (referred to as the "General Manager" in the Bank) are held by two separate individuals. The Chairman is a Non –Executive Director. There is a clear division of responsibilities between the Chairman and the General Manager and the Board Charter adopted by the Bank clearly defines these responsibilities.
A.3	**Chairman's Role** The Chairman of Bank of Ceylon provides leadership to the Board, preserves order and facilitates the effective discharge of the Board's functions. The agenda for Board meetings is prepared by the Secretary, Bank of Ceylon/ Secretary to the Board under the authority delegated by the Chairman based on the memoranda submitted through the General Manager and any other relevant matters proposed by a Director/s. The agenda covers matters relating to strategy, performance, resource allocation, risk management and compliance. Sufficiently detailed information on matters included in the agenda is circulated to Directors seven days prior to the meetings through a secure e-Solution. All Directors are informed of their duties and responsibilities (which are enshrined in the Board Charter) and the Board Subcommittee structure of the Bank which assists the Board in discharging its responsibilities. The Board of Bank of Ceylon consists entirely of Non-Executive Directors and they effectively contribute within their respective capabilities, for the benefit of the Bank. Directors are encouraged to seek information considered necessary to discuss matters on the agenda of meetings and to request inclusion of matters of corporate concern on the agenda. The views of Directors on issues under consideration are ascertained and a record of such deliberations are reflected in the minutes in detail.
A.4	**Financial acumen** The Directors have sufficient financial acumen and knowledge to guide the Bank which they have acquired through the businesses/ professions in which they are involved and from qualifications held.

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Sections referred to in the code	Compliance status
A.5	**Board Balance** The Board of Bank of Ceylon is always comprised of Non-Executive Directors. When Alternate Directors are appointed, it is also ensured that they are Non-Executive.
A.6	**Provision of timely information** The agenda and Board memoranda required for a Board/ Subcommittee Meeting are provided to Directors through the available e-Solution seven days in advance of the meeting for them to review the memoranda in advance and come up with questions and discussion points and to request for additional information if necessary. The members of the Corporate Management are available if the Directors wish to obtain further information or for any clarification. Board meeting minutes are made available to the Directors within 10 days from the meeting.
A.7	**Appointments to the Board** Appointments to the Board are made by the Government of Sri Lanka, through the Minister under whose purview the Bank falls. The requisite regulatory requirements relating to appointment of new Directors are complied with.
A.8	**Re-appointment** Every Director appointed shall hold office for a period of three years, unless he is removed from office earlier or he vacates his office in terms of the Bank of Ceylon Ordinance no. 53 of 1938 and its amendments. In either case, he is eligible to be reappointed. **Resignation** An appointed Director may resign from his directorship by a letter addressed to the Minister under whose purview the Bank falls and any director who vacates office by ending the term is eligible for re-appointment. If it is due to a special reason, it is indicated in their resignation letter.
A.9	**Appraisal of Board and its subcommittees** An annual self-evaluation of its own performance is undertaken by the Board and Board Subcommittees to ensure that Board's and that of its subcommittees responsibilities are satisfactorily discharged. The collective outcome is reviewed and addressed by the Board. Due to Board changes that took place in latter part of 2019, these evaluations were not carried out in respect of 2019.
A.10	**Disclosure of information in respect of Directors in the Annual Report** The following information pertaining to Directors are included in the Annual Report- Profile of the Directors covering name, qualifications, nature of expertise and whether Executive/ Non Executive indicated on pages 24 to 25* Related party information indicated on page 300 and 301 Directorships in other companies indicated on pages 25* Membership of Subcommittees * and the number of Board and Subcommittee meetings attended during the year are indicated on page no 99. * Summary information of Directors in 2019 are given on page136

Sections referred to in the code	Compliance status
A.11	**Appraisal of the Chief Executive Officer/ General Manager** The performance evaluation of the General Manager is carried out annually based on the targets set at the commencement of the fiscal year in line with Corporate Plan by the Human Resource and Remuneration Committee and the final report is submitted to the Board. At the end of year 2019, due to the changes done to the Board subsequent to political changes, this evaluation was not carried out in the agreed manner, but the performance was informed to the Board in the Corporate Plan launching session in 2020.
B B .1	**Directors' Remuneration** There is a formal Remuneration Policy in place for the Chairman and Board of Directors (all Non-Executive). The above policy is formulated based on the circulars issued by the Government, the shareholder, from time to time and other applicable legislation.
B.2	The Bank's Human Resource and Remuneration Committee accordingly has no role in deciding the remuneration of Directors. (It however recommends remuneration of senior executives)
B.3	**Disclosure of Remuneration** Statement of Remuneration Policy for the Chairman and the Directors is contained in page 113 of this Annual Report. Details of remuneration paid to the Board as a whole is indicated on page no 188. The composition of the Human Resource and Remuneration Committee appears on page 113.
C C.1	Relations with Shareholders The Government of Sri Lanka being the sole shareholder of the Bank, the Bank's communication to the shareholder happens in various forms. A Government representative (an officer from the Ministry of Finance) is on the Board, directly representing the shareholder, and the Annual Report is placed before the Parliament of Sri Lanka and is open to question by the Parliament.
C.2	**A Board approved Communication Policy is in place.** Major issues and concerns of the shareholder viz. Government of Sri Lanka are discussed during the Board meetings with the participation of the direct Government representative on the Board and elevated to the Ministry or higher levels as may be necessary.
C.3	Further to complying with requirements of the Bank of Ceylon Ordinance No. 53 of 1938, the Banking Act no. 30 of 1988, Securities and Exchange Commission of Sri Lanka Act and their amendments and the Listing Rules of the Colombo Stock Exchange; as applicable, Directors disclose to the relevant Ministry all proposed major and material transactions the Bank wishes to enter into. There were no transactions which would materially affect the Bank's performance or net asset base nor related party transactions during the year other than what is disclosed under notes to the financial statements on page 300 and 301.

Compliance with Code of Best Practice on Corporate Governance 2017 Issued By CA Sri Lanka

Sections referred to in the code	Compliance status
D	Accountability and Audit
D.1	**Financial and Business Reporting (The Annual Report)** All measures are taken to ensure that the Annual Report presents a balanced assessment of the Bank's financial position, performance, business model, governance structure, risk management, internal controls and challenges, opportunities and prospects in an easily comprehensible manner. The Bank's financial statements presented in the Annual Report are balanced and understandable and prepared in accordance with the relevant laws and regulations and any deviation being clearly explained and portray a true and fair view. It also ensures that a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators, as well as to information required to be presented to meet statutory requirements. The Chief Financial Officer and the General Manager of the Bank give a statement indicating that the financial statements provide a true and fair view of the state of affairs of the Bank of Ceylon and its Group. The financial statements are reviewed and deliberated by the Board Audit Committee before recommending to the Board for its approval for publication. When no Audit Committee was functioning due to changes to the Board, the financial statements were directly approved by the Board after deliberations. For the purpose of fulfilling the disclosure requirements, the following statements are included in the Annual Report - Annual Report of the Directors on the State of Affairs of the Bank on pages 133 to 138. Directors' Statement on Internal Control over Financial Reporting on page 142 and 143. Management Discussion and Analysis on pages 117 to 131. Report on Related Party Transactions that have been carried out by the Key Management Personnel and their Close Family Members appearing on page 300 and 301. Statement of Directors' Responsibility for Financial Reporting on page 145. Report of the Auditor General on pages 146 to 149.
D.2	**Bank's existing process on Risk Management and Internal Controls** The Board is responsible for determining the nature and extent of the principal risks that it is willing to take in achieving its strategic objectives and the Board Integrated Risk Management Committee is there to facilitate the Board in fulfilling their oversight responsibilities in regard to the existence, operation and effectiveness of the Risk Management Programs, Policies and practices employed by the Bank to manage various types of risks, including compliance programs. The Board Audit Committee assists the Board in achieving the objective of the Bank's system of internal controls including operational, financial and compliance among other responsibilities of the Committee. The Board monitors the Bank's risk management and internal control systems through the Integrated Risk Management Committee and Audit Committee respectively and carries out a review of the said Committees' effectiveness annually. The Bank of Ceylon has a well-equipped Internal Audit Department to carry out the internal audit function of the Bank. The Auditor General is the External Auditor of the Bank.

Sections referred to in the code	Compliance status
D.3	**Audit Committee** The Board Audit Committee comprised exclusively of Non-Executive Directors during the year under review. The Chairmen of the Committee during the year under review were Independent Non- Executive Directors. The Chairmen and the members of the Audit Committee had relevant experience in financial reporting and control. The Board Audit Committee assists the Bank's Board in fulfilling its oversight responsibilities. The Board Audit Committee ensures the carrying out of the reviews of the processes and effectiveness of risk management and internal controls and audit reports are submitted to the Committee. The role and responsibilities of the Audit Committee is disclosed in the Audit Committee Report appearing on pages 109 to 118 of this Annual Report. The Audit Committee has a written Terms of Reference which clearly defines its role and responsibilities. The activities performed by the Committee during the year under review appears on pages 109 to 110 of this Annual Report.
D.4	**Related Party Transactions** The Bank has a Board approved Policy on Related Party Transactions in place covering related parties, their transactions and restrictions on offering non favorable treatment to related parties in order for the Board members to avoid any conflict of interest in this regard. Report on Related Party Transactions that have been carried out by the Key Management Personnel and their Close Family Members appear on page 300 and 301 of this Annual Report.
D.5	**Code of Business Conduct and Ethics** The Bank maintains a Code of Ethics for the employees of the Bank and a separate Code of Business Conduct and Ethics for the Directors and an acknowledgement is obtained for affirmation of compliance with the Codes.
D.6	Corporate Governance Disclosures The Corporate Governance Report which is appearing on pages 99 and 108 discloses the extent of compliance with the provisions of the Code of Best Practice on Corporate Governance.
F.1 and F.2	Shareholder The Government of Sri Lanka is the sole shareholder of the Bank.

Compliance with Code of Best Practice on Corporate Governance 2017 Issued By CA Sri Lanka

Sections referred to in the code	Compliance status
G	**Internet of things and Cybersecurity** The Bank has a process in place to identify as to how the Bank's business model, IT devices within and outside the Bank can connect to the Bank's network to send and receive information and the consequent cyber security risks that may affect the business. A Board approved Information Security Policy is in place which provides the management direction and support to ensure protection of the Bank's information assets. In addition, the Integrated Risk Management Committee assists the Board in ensuring that the Bank is protected from Cyber Security threats by recommending and following up on vulnerability assessments and reporting to the Board. Processes to identify and manage cyber security risks are included in the Risk Management Report of this Annual Report on page 59. The Bank has appointed a Chief Information Security Officer, in order to implement the Cyber Security Risk Management Policy. The Board Information and Communication Technology Committee that was established in 2018 will function fully in 2020 (this Committee did not meet during the year 2019) to assist the Board of Directors in fulfilling its oversight responsibilities related to information and communication technology and provide appropriate advice and recommendations to facilitate decision making by the Board.
H	**Environment, Society and Governance (ESG)** ESG related disclosures appears in pages 78 to 86 of this Annual Report.

Compliance Requirements as Per Banking Act Direction No. 11 of 2007

Section	Principle	Level of Compliance during the Year 2019
3 (1) The Responsibilities of the Board		
3 (1) (i)	The Board shall strengthen the safety and soundness of the bank by ensuring the implementation of the following: a. Approve and oversee the bank's strategic objectives and corporate values and ensure that these are communicated throughout the bank;	Complied with. Strategic objectives are formulated and values are reviewed at sessions held at an off- site location with the participation of the Board and the Key Management Personnel. The Board approved Corporate Plan together with the corporate values were communicated to staff up to Branch Manager level at an off-site location where the Corporate Plan was launched and reinforced by the Corporate Management Team. All other levels of staff were informed through regular briefing sessions and at meetings. The Board approved Corporate Plan for 2020-2022 is in place which was launched at an off-site location. In addition, Corporate values are included in the intranet.
	b. Approve the overall business strategy of the bank, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years;	Complied with. The Bank's overall Business Strategy is included in the rolling Corporate Plan for a period of three years and the related Action Plan for the same period which was approved by the Board. The risk appetite, risk management framework and mechanisms have also been approved by the Board in line with the strategic plan. Measurable goals for the Bank as a whole have been set and performance is measured in line with these goals.
	c. Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently;	Complied with. The Board has appointed a Board Integrated Risk Management Committee tasked with approving the Bank's Integrated Risk Management Policy, defining the risk appetite, identifying principal risks, setting governance structures and implementing systems to measure, monitor and manage the principal risks. The Bank has implemented a process where the Board members discuss at length the risks arising out of new strategies and the ways and means to mitigate such risks. A Board approved Integrated Risk Management Policy covering all areas of major risks is in place. • The following reports also provide further details in this regard: Risk Management Report on pages 44 to 61. • Integrated Risk Management Committee Report on page 111 and 112.
	d. Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	Complied with. Board has approved and implemented a Communication Policy covering all stakeholders which is reviewed periodically.

Compliance Requirements as Per Banking Act Direction No. 11 of 2007

Section	Principle	Level of Compliance during the Year 2019
	e. Review the adequacy and the integrity of the bank's internal control systems and management information systems;	Complied with. The Board Audit Committee which reports to the Board is tasked with reviewing the adequacy and the integrity of the Bank's internal control system and financial reporting. This Committee reviewed reports from the Internal Audit Department which reports directly to the Audit Committee and from the External Auditors in carrying out this task. Internal Audit Department is tasked with the responsibility of conducting information systems audits to assess the effectiveness of the Management Information System (MIS). The Board has reviewed the adequacy of the MIS and the Internal Control System.
	f. Identify and designate Key Management Personnel;	Complied with. The Bank has identified the General Manager, Senior Deputy General Managers, Deputy General Managers, Assistant General Managers and officers in allied grades as Key Management Personnel (KMP) of the Bank for Corporate Governance purposes.
	g. Define the areas of authority and key responsibilities for the Board of Directors themselves and for the Key Management Personnel;	Complied with. Areas of authority and key responsibilities have been defined for the Directors and Key Management Personnel through the Board Charter and position descriptions respectively. Board Charter was reviewed in the year 2019.
	h. Ensure that there is appropriate oversight of the affairs of the bank by Key Management Personnel, that is consistent with Board policy;	Complied with. Performance against the Bank's Corporate Plan is reviewed by the Board based on the Action Plan. Key Management Personnel make presentations to the Board on matters under their purview and are also called in by the Board as and when needed to explain matters relating to their areas.
	i. Periodically assess the effectiveness of the Board Directors' own governance practices, including: (i) the selection, nomination and election of Directors and Key Management Personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;	Generally, a self-evaluation of the performance of the Board is carried out annually assessing its own governance practices. However, consequent to Government changes and the resignations of the Board members in November 2019 and appointment of a new Board in beginning of the year 2020, the self-assessment of Board of Directors was not carried out. This evaluation will be continued in 2020. A Board approved Conflict of Interest is in place and its compliance is monitored.
	j. Ensure that the bank has an appropriate succession plan for Key Management Personnel;	Complied with. A Board approved Succession Plan for Key Management Personnel (viz. for the Corporate and Executive Management) is in place which was reviewed and revised by the Nomination and Corporate Governance Committee in year 2019 and recommended to the Board.

Section	Principle	Level of Compliance during the Year 2019
	k. Meet regularly, on a needs basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives;	Complied with. Key management Personnel are regularly present or are called in for discussions at the meetings of the Board and its Subcommittees on policy and other matters relating to their areas. Progress towards the corporate objectives are monitored based on the Corporate Plan. Mid-year review of achievements against Corporate Plan 2019/2021 by the Deputy General Managers was conducted at the Bank of Ceylon and an off-site location with the participation of the Board of Directors and Executive Management.
	l. Understand the regulatory environment and ensure that the bank maintains an effective relationship with regulators;	Complied with. On appointment as Directors, they are furnished with all applicable regulatory requirements pertaining to the Bank with the "Board Manual" given in e-form. They are also briefed about developments in the regulatory environment at Board meetings to ensure that their knowledge is updated regularly to facilitate effective discharge of their responsibilities. Any relevant communication from a regulator is brought to the notice of the Board immediately. Information pertaining to Compliance reports submitted to the Central Bank of Sri Lanka which includes all returns to regulators are presented to the Board monthly and monitored by the Board. The Board is informed of regulatory requirements pertaining to Chennai, Maldives and Seychelles operations of the Bank.
	m. Exercise due diligence in the hiring and oversight of External Auditors.	Complied with. As provided for in the Constitution of the country, the Auditor General is the External Auditor of the Bank as it is a State-Owned Enterprise.
3 (1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3 (5) of these Directions.	Complied with when read in conjunction with Direction No. 3 (9) (ii). The Board appoints the Chief Executive Officer referred to as the General Manager in the Bank of Ceylon with the approval of the Minister under whose purview the Bank falls and the Chairman is appointed by the said Minister in terms of the Bank of Ceylon Ordinance No. 53 of 1938 and its amendments. The Board has also approved their functions and responsibilities maintaining the balance of power between the two roles through the Board Charter which was reviewed in year 2019.
3 (1) (iii)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of Directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/ papers shall be avoided as far as possible.	Complied with. Regular fortnightly Board meetings are held and special meetings are scheduled as and when the need arises. During the year under review the Board met 22 times. The Bank endeavours to minimise obtaining approval via circular resolutions and it is done only on an exceptional basis and such resolutions are ratified by the Board at the next meeting. During the year 2019, 11 such resolutions have been adopted by circulation.

Compliance Requirements as Per Banking Act Direction No. 11 of 2007

Section	Principle	Level of Compliance during the Year 2019
3 (1) (iv)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank.	Complied with. Meetings are scheduled and the Board is informed at the beginning of each calendar year to enable submission of proposals to the agenda for regular Board meetings.
3 (1) (v)	The Board procedures shall ensure that notice of at least seven days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice may be given.	Complied with. Notice of meetings are given through an Annual Calendar at the beginning of the year. Agenda and Board papers for the Board and Subcommittee meetings are circulated to the Directors seven days prior to the meetings through a secure e-Solution. Reasonable notice is given before any special meetings and consent of all Directors are obtained prior to scheduling a special meeting.
3 (1) (vi)	The Board procedures shall ensure that a Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the Directors' meetings through an alternate Director shall, however, be acceptable as attendance.	Complied with. The Directors are apprised of their attendance in accordance with the Corporate Governance Code. Details of the Directors' attendance are set out on page 99. Directors' attendance has been in compliance with this Direction.
3 (1) (vii)	The Board shall appoint a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied with. The Secretary, Bank of Ceylon/ Secretary to the Board is an Attorney-at-Law, whose credentials/ qualifications are in compliance with the provisions of Section 43 of the Banking Act No. 30 of 1988 and its amendments. She is primarily responsible for handling the secretariat services to the Board and carrying out other functions specified in the statutes and other regulations.
3 (1) (viii)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	Complied with. All members of the Board have the opportunity to obtain the advice and services of the Secretary to the Board who is an Attorney-at-Law and who is responsible to the Board for follow-up of Board procedures, compliance with rules and regulations, directions and statutes.
3 (1) (ix)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Complied with. The Secretary, Bank of Ceylon/ Secretary to the Board maintains the minutes of the Board meetings and circulates same to all Board members through a secure e-Solution. The minutes are approved at the subsequent Board meeting. Additionally, the Directors have access to the past Board papers and minutes through the same e-Solution.

Section	Principle	Level of Compliance during the Year 2019
3 (1) (x)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board meetings. Therefore, the minutes of a Board meeting shall clearly contain or refer to the following: a. a summary of data and information used by the Board in its deliberations; b. the matters considered by the Board; c. the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; d. the testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; e. the Board's knowledge and understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and f. the decisions and Board resolutions.	Complied with. Minutes of the meetings are kept covering the given criteria.
3 (1) (xi)	There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/their duties to the bank.	Complied with. A Policy for Directors' Access to Independent Professional Advice is in place and the Directors are able to obtain independent professional advice when deemed necessary.
3 (1) (xii)	Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or related parties. If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter should be dealt with at a Board meeting, where Independent Non-Executive Directors [refer to Direction 3 (2) (iv) of these Directions] who have no material interest in the transaction, are present. Further, a Director shall abstain from voting on any Board resolution in relation to which he / she or any of his / her close relation or a concern, in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Complied with. The Directors are conscious of their obligation to deal with a situation when there is a conflict of interest in accordance with applicable regulations. A Board approved Policy on Conflict of Interest is in place. As a practice at every Board Meeting, Directors are required to declare any interest in contracts /new appointments to any other Board or Institution. Directors abstain from participating in the discussions, voicing their opinion or approving in situations where there is a conflict of interest.

Compliance Requirements as Per Banking Act Direction No. 11 of 2007

Section	Principle	Level of Compliance during the Year 2019
3 (1) (xiii)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the Direction and control of the bank is firmly under its authority.	Complied with. Powers reserved for the Board are included in the Board Charter.
3 (1) (xiv)	The Board shall, if it considers that the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the bank prior to taking any decision or action.	Complied with. Such a situation has not arisen during the year 2019. Monthly Financial Statements submitted to the Board assures the Board of the Bank's solvency.
3 (1) (xv)	The Board shall ensure that the bank is capitalised at levels as required by the Monetary Board in terms of the Capital Adequacy Ratio and other prudential grounds.	Complied with. The Board ensures that the Bank is capitalised at levels as required by the Monetary Board in terms of the Capital Adequacy Ratio (CAR) and other prudential grounds. Capital Augmentation Plan is submitted to the Board on quarterly basis. Calculation of CAR is submitted to the Board with the monthly Financial Statements of the Bank.
3 (1) (xvi)	The Board shall publish in the bank's Annual Report, an Annual Corporate Governance Report setting out the compliance with Direction 3 of these Directions.	Complied with. These disclosures are part of the Corporate Governance Report in the Bank's Annual Report.
3 (1) (xvii)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	A scheme of self-assessment is adopted. The self-assessment reports of the Board members are maintained by the Secretary, Bank of Ceylon/ Secretary to the Board. However, in respect of year 2019, this assessment was not carried out as the Board resigned in November 2019 due to the reconstitution of the Board following the government change (presidential election) in the country.
3 (2) The Board's Composition		
3 (2) (i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	According to the Bank of Ceylon Ordinance No. 53 of 1938 and its amendments the number of Directors permitted on the Board of Bank of Ceylon is six. In 2019 there were only five Directors on the Board. Composition of the Board in 2019 and 2020 is given under Direction no. 3(2)(viii) of this compliance report. Details of the present Board and the previous Board are given on page 25 and 136 in this Annual Report. Amendments proposed to the Bank of Ceylon Ordinance which include the increase of number of Directors to accommodate the requirement of this Direction was submitted to the Government authorities for the approval process.

Section	Principle	Level of Compliance during the Year 2019
3 (2) (ii)	The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years, and such period in office shall be inclusive of the total period of service served by such Director up to 1 January 2008.	Complied with. Directors of Bank of Ceylon have been in office for a period less than nine years. Details of their appointments are given on page 25 of this Annual Report.
3 (2) (iii)	An employee of a bank may be appointed, elected or nominated as a Director of the bank (hereinafter referred to as an "Executive Director") provided that the number of Executive Directors shall not exceed one-third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the bank.	Complied with. Bank of Ceylon Ordinance does not provide for Executive Directors in Bank of Ceylon.
3 (2) (iv)	The Board shall have at least three Independent Non-Executive Directors or one-third of the total number of Directors, whichever is higher. This sub-direction shall be applicable from 1 January 2010 onwards. A Non-Executive Director shall not be considered independent if he/she: a. has direct and indirect shareholdings of more than 1% of the bank; b. currently has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the bank as described in Direction No. 3 (7) hereof, exceeding 10% of the regulatory capital of the bank; c. has been employed by the bank during the two-year period immediately preceding the appointment as Director; d. has a close relation who is a Director or Chief Executive Officer or a member of Key Management Personnel or a material shareholder of the bank or another bank. For this purpose, a "close relation" shall mean the spouse or a financially dependant child;	Complied with. Only the Director representing the Ministry of Finance is considered Non-Independent since he represents the shareholder, the Government of Sri Lanka. They are identified on page 25 with the Profiles of the Directors and also under Direction No. 3 (2) (viii) below.

Compliance Requirements as Per Banking Act Direction No. 11 of 2007

Section	Principle	Level of Compliance during the Year 2019
	e. represents a specific stakeholder of the bank; f. is an employee or a Director or a material shareholder in a Company or business organisation: i. which currently has a transaction with the bank as defined in Direction No. 3 (7) of these Directions, exceeding 10% of the regulatory capital of the bank; or ii. in which any of the other Directors of the bank are employed or are Directors or are material shareholders; or iii. in which any of the other Directors of the bank have a transaction as defined in Direction No. 3 (7) of these Directions, exceeding 10% of regulatory capital in the bank.	
3 (2) (v)	In the event an Alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that applies to the Independent Director.	Complied with. No Alternate Director has been appointed to represent any Independent Director.
3 (2) (vi)	Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgement to bear on issues of strategy, performance and resources.	Complied with. Present Directors' Profiles appearing on page 25 spell out the necessary information.
3 (2) (vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are Non-Executive Directors. This sub-direction shall be applicable from 1 January 2010 onwards.	Complied with. All the Board members of Bank of Ceylon are Non-Executive Directors.
3 (2) (viii)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the bank. The bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the Annual Corporate Governance Report.	Complied with. During the year 2019 the Board consisted of the following members: • **Mr Ronald C Perera, PC** Independent Non-Executive Director/Chairman (Ceased to be the Chairman/ Director w.e.f. 26 November 2019) • **Mr K A Vimalenthirarajah** Non-Independent Non-Executive Ex officio Director (Ceased to be a Director w.e.f. 10 January 2020) • **Mr Kumar Mayadunne** Independent Non-Executive Director (Ceased to be a Director w.e.f. 27 November 2019)

Section	Principle	Level of Compliance during the Year 2019
		• Mr P A Shaffter Independent Non-Executive Director (Ceased to be a Director w.e.f. 27 November 2019) • Mr S Nilam Jayasinghe Independent Non-Executive Director (Ceased to be a Director w.e.f. 27 November 2019) With the change of the Government in November 2019 the above Directors resigned and a new Board was appointed in 2020 and they are indicated below- • Mr Kanchana Ratwatte Independent Non-Executive Director/ Chairman (Appointed w.e.f 2 January 2020) • Ms Visakha Amarasekere Non-Independent Non-Executive Ex officio Director (Appointed w.e.f. 11 January 2020) • Mr Lalith P Withana Independent Non-Executive Director (Appointed w.e.f 14 January 2020) • Mr G Harsha Wijayawardhana Independent Non-Executive Director (Appointed w.e.f 14 January 2020) • Mr Hasitha Premaratne Independent Non-Executive Director (Appointed w.e.f 14 January 2020)
3 (2) (ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Appointments to the Board are made by the shareholder, the Government of Sri Lanka through the Minister under whose purview the Bank falls in terms of the provisions of Bank of Ceylon Ordinance No. 53 of 1938 and its amendments. A Board approved Policy for the Appointment of Directors to the Board of Bank of Ceylon is in place describing the skills, experience, knowledge etc. required to be considered to be appointed to the Board and the appointment process.
3 (2) (x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first General Meeting after their appointment.	This does not arise since the relevant Minister appoints Directors.
3 (2) (xi)	If a Director resigns or is removed from office, the Board shall: a. announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the bank, if any; and	Complied with. The Government of Sri Lanka, the sole shareholder does the appointments as well as the removals through the Minister under whose purview the Bank falls. Any resignation is also referred to the same Minister. The Central Bank of Sri Lanka and the Colombo Stock Exchange are kept informed of the resignations.
	b. issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	The Shareholder of the Bank is the Government and the changes to the Directorate is carried out by the Government through the subject Minister.

Compliance Requirements as Per Banking Act Direction No. 11 of 2007

Section	Principle	Level of Compliance during the Year 2019
3 (2) (xii)	A Director or an employee of a bank shall not be appointed, elected or nominated as a Director of another bank except where such bank is a subsidiary company or an associate company of the first mentioned bank.	Neither Directors nor employees of Bank of Ceylon are Directors of another Bank, other than for the appointment of a Deputy General Manager to the Pradeshiya Sanwardana Bank as per the requirements of the enabling enactments of this Bank (Pradeshiya Sanwardana Bank Act No. 41 of 2008). Prior to appointment as a Director to the Board of Bank of Ceylon, an affidavit is obtained in accordance with Section 42(1) and 76H of the Banking Act Direction no. 8 of 2019 issued on 19.12.2019 ensuring this position.
3 (3) Criteria to Assess the Fitness and Propriety of Directors		
3 (3) (i)	The age of a person who serves as Director shall not exceed 70 years. In this context, the following general exemption shall apply: A Director who has reached the age of 70 years as at 1 January 2008 or who would reach the age of 70 years prior to 31 December 2008 may continue in office for a further maximum period of three years commencing 1 January 2009.	Complied with. None of the Directors of the Bank are over 70 years of age.
3 (3) (ii)	A person shall not hold office as a Director of more than 20 companies / entities / institutions inclusive of subsidiaries or associate companies of the bank.	Complied with. No Director holds directorships of more than 20 companies/ entities, etc.
3 (3) (iii)	A Director or a Chief Executive Officer of a licensed bank operating in Sri Lanka shall not be appointed as a Director or a Chief Executive Officer of another licensed bank operating in Sri Lanka before the expiry of a period of 6 months from the date of cessation of his/her office at the licensed bank in Sri Lanka. Any variation thereto in exceptional situations such as where expertise of retiring bankers may be required when reconstituting Boards of licensed banks which need restructuring, shall be subject to the prior approval of the Monetary Board. In this regard, licensed banks shall ensure to adhere to the requirement of the cooling-off period when appointing Directors or Chief Executive Officer. If a Director is appointed to the licensed bank by an appointing authority violating these Directions, the licensed bank shall take steps to prevent such appointee from exercising any powers or enjoying any privileges or against this direction Complied with.	Complied with. This situation has not arisen during the year under review.
3 (4) Management Functions Delegated by the Board		
3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	Complied with.
3 (4) (ii)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	The Board periodically reviews and approves the delegation arrangements in place and ensures that the extent of delegation addresses the needs of the Bank whilst enabling the Board to discharge their functions effectively. The provisions in the governing Ordinance are considered in this process.
3 (4) (iii)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank.	

Section	Principle	Level of Compliance during the Year 2019
3 (5) The Chairman and Chief Executive Officer		
3 (5) (i)	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	Complied with. The positions of the Chairman and the Chief Executive Officer referred to as the General Manager in Bank of Ceylon are held by two different individuals. A Board Charter is in place defining the responsibilities of the Chairman and the General Manager.
3 (5) (ii)	The Chairman shall be a Non-Executive Director and preferably an Independent Director as well. In the case where the Chairman is not an Independent Director, the Board shall designate an Independent Director as the Senior Director with suitably documented Terms of Reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the bank's Annual Report.	Complied with. The Chairman of Bank of Ceylon is an Independent Non-Executive Director and as such the need to appoint a Senior Independent Director does not arise.
3 (5) (iii)	The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/ relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied with. The identity of the Chairman and the General Manager are disclosed in the Annual Report on page 25 and 28. There are many references to these roles throughout. There were no material, financial, business or family relationships between the Chairman, General Manager and other members of the Board who were functioning in 2019 and also in the current Board.
3 (5) (iv)	The Chairman shall: (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner.	Complied with.
3 (5) (v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	Complied with. The Secretary, Bank of Ceylon/ Secretary to the Board draws up the agenda under the authority delegated by the Chairman based on the memoranda submitted through the General Manager and any other relevant items proposed by any Board member.
3 (5) (vi)	The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner.	Complied with. The Chairman ensures that the Board is adequately briefed. The following procedures are in place to ensure this: • Board papers are circulated seven days prior to the Board meetings through a secured electronic link. • Relevant members of the management team are on standby for any explanations and clarifications. • Management information is provided in agreed formats on a regular basis to enable Directors to assess the performance and stability of the Bank. • Directors are able to seek independent professional advice on needs basis at the Bank's expense.

Compliance Requirements as Per Banking Act Direction No. 11 of 2007

Section	Principle	Level of Compliance during the Year 2019
3 (5) (vii)	The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the bank.	Complied with.
3 (5) (viii)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors.	Complied with. The entire Board consists of Non-Executive Directors.
3 (5) (ix)	The Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied with. Chairman is an Independent Non-Executive Director and does not get involved in the direct supervision of Key Management Personnel or any other executive duties.
3 (5) (x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with. Effective communication is maintained with the Government of Sri Lanka who is the sole shareholder. The Ex Officio Director acts as the channel between the Board and the shareholder.
3 (5) (xi)	Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the bank's operations and business.	Complied with. The day-to-day operations of the Bank is the responsibility of the General Manager. The Board Charter specifically refers to such authority of the General Manager.
3 (6) Board Appointed Committees		
3 (6) (i)	Each bank shall have at least four Board committees as set out in Directions 3 (6) (ii), 3 (6) (iii), 3 (6) (iv) and 3 (6) (v) of these Directions. Each committee shall report directly to the Board. All committees shall appoint a Secretary to arrange the meetings and maintain minutes, records, etc., under the supervision of the Chairman of the committee. The Board shall present a report of the performance on each committee, on their duties and roles at the Annual General Meeting.	Complied with. Four Subcommittees of the Board (viz. Audit, Human Resources and Remuneration, Nomination and Corporate Governance and Integrated Risk Management have been established as required under this Direction which are reporting directly to the Board. In addition another Subcommittee, viz.Information and Communication Technology (ICT) Committee is in place . The Terms of Reference for each Subcommittee is in place and are reviewed annually/. The Secretary, Bank of Ceylon/ Secretary to the Board serves as Secretary to all Subcommittees and maintains minutes etc. with oversight by the respective Chairpersons. The reports of the Subcommittees are included in this Annual Report. Audit Committee on pages 109 to 110. Integrated Risk Management Committee on pages 111 to 112. Human Resources and Remuneration Committee on page 113 Nomination and Corporate Governance Committee on page 114 Information and Communication Technology Committee on page 115. The Government being the sole shareholder, the Annual Report of the Bank is submitted to the Parliament of Sri Lanka and to the Ministry in charge of the Bank.

Section	Principle	Level of Compliance during the Year 2019
3 (6) (ii)	The following rules shall apply in relation to the Audit Committee: a. The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and / or audit.	During the year 2019, Mr Kumar Mayadunne, an Independent Non Executive Director, who was a senior banker was appointed as the Chairman of the Audit Committee for an interim period. Subsequently, Mr S Nilam Jayasinghe, an Independent Non-Executive Director who had required qualifications and experience was appointed as the Chairman of the Audit Committee w.e.f 2 July 2019. The present Audit Committee is also chaired by an Independent Non-Executive Director who has the required qualifications and experience.
	b. All members of the Committee shall be Non-Executive Directors.	Complied with. All Directors of the Bank are Non-Executive.
	c. The Committee shall make recommendations on matters in connection with: (i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank Guidelines issued to Auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Complied with. In accordance with the Terms of Reference, the Audit Committee makes the following recommendations among many others: • The implementation of the Central Bank Guidelines issued to Auditors from time to time. • The application of the relevant accounting standards Since the Auditor General is the External Auditor of the Bank, the Committee has no role to play in the engagement of the External Auditor.
	d. The Committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices	The Bank's Auditor being the Auditor General, his independence and effectiveness is guaranteed under the Constitution of Sri Lanka.

Compliance Requirements as Per Banking Act Direction No. 11 of 2007

Section	Principle	Level of Compliance during the Year 2019
	e. The Committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an External Auditor of non- audit services does not impair the External Auditor's independence or objectivity. When assessing the External Auditor's independence or objectivity in relation to the provision of non-audit services, the Committee shall consider: (i) whether the skills and experience of the audit firm make it a suitable provider of the non-audit services; (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/ or independence in the conduct of the audit resulting from the provision of such services by the External Auditor; and (iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the External Auditor.	This does not arise since the Auditor General is the Auditor of the Bank. However, the Committee ensures that provision by an audit firm (if appointed by the Auditor General to assist him in the audit of the Bank) of non-audit services does not impair that firm's independence or objectivity. For the audit of the year 2019 no such firm has been appointed.
	f. The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including: (i) an assessment of the bank's compliance with the relevant Directions in relation to corporate governance and the management's internal controls over financial reporting; (ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations; and (iii) the coordination between firms where more than one audit firm is involved.	The scope and the extent of audit is determined by the Auditor General.

Section	Principle	Level of Compliance during the Year 2019
	g. The Committee shall review the financial information of the bank, in order to monitor the integrity of the Financial Statements of the bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgements contained therein. In reviewing the bank's Annual Report and accounts and quarterly reports before submission to the Board, the Committee shall focus particularly on: (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.	Complied with. There is a continuing process carried out in reviewing monthly, quarterly and annual financials of the Bank by the Committee and recommendations are made to the Board.
	h. The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.	Complied with. The Committee discusses issues, problems and reservations arising from the interim and final audits. The representative of the Auditor General was present at the Committee meetings throughout. With regard to 2019 audit, the committee offered a closed door meeting to the representative of the Auditor General.
	i. The Committee shall review the External Auditor's Management Letter and the management's response thereto.	Complied with.
	j. The Committee shall take the following steps with regard to the internal audit function of the bank: (i) Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the Department has the necessary authority to carry out its work; (ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department;	Complied with. The Audit Committee reviews and makes necessary recommendations with regard to the adequacy of the scope, functions and resources of the Internal Audit Department. In this regard a Time bound Audit Plan for 2019 which includes scope, function and the existing/required cadre position of the Internal Audit department was considered by the Committee. Complied with. The Committee reviews the internal audit programme and results of the internal audit procedures and ensures that appropriate actions are taken for improvements.

Compliance Requirements as Per Banking Act Direction No. 11 of 2007

Section	Principle	Level of Compliance during the Year 2019
	(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;	Not Complied with. Performance appraisal of Chief Internal Auditor and the work process and results of the internal audit function are generally evaluated by the Audit Committee. Performance evaluation of senior staff is carried out according to the Board approved evaluation process by the Chief Internal Auditor and is tabled before the Audit Committee. This year in view of Board changes at the latter part of 2019, the evaluations that is generally carried out were not carried out in respect of year 2019.
	iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	Complied with.
	(v) Ensure that the Committee is appraised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	Complied with. Such a situation has not arisen during the year
	(vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.	Complied with. According to the organisation structure of the Bank, the Chief Internal Auditor reports directly to the Board through the Audit Committee and he is independent of any operations of the Bank.
	k. The Committee shall consider the major findings of internal investigations and management's responses thereto.	Complied with. The Audit Committee has reviewed the major findings of internal investigations and management responses thereto.
	l. The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at least twice a year, the Committee shall meet with the External Auditors without the Executive Directors being present.	Complied with. The Chief Financial Officer, Chief Internal Auditor, Chief Risk Officer and Compliance Officer and the representative of the Auditor General participate at the Committee meetings. The General Manager also attended the meetings on the invitation of the Committee. The members of the management are invited for any explanations, if necessary. A closed door meeting was offered to the Auditor General's representative in respect of the audit for the year 2019.
	m. The Committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied with.

Section	Principle	Level of Compliance during the Year 2019
	n. The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied with. The Audit Committee scheduled regular meetings. Additional meetings were convened when required. The Committee met six times during the year. The members of the Committee are served with due notice of issues to be discussed and the conclusions in discharging its duties and responsibilities are recorded in the minutes of the meetings maintained by the Secretary to the Board/ Secretary, Bank of Ceylon.
	o. The Board shall disclose in an informative way, (i) details of the activities of the Audit Committee; (ii) the number of Audit Committee meetings held in the year; and (iii) details of attendance of each individual Director at such meetings.	Complied with. Activities of the Committee are reported in Audit Committee Report on pages 109 to 110. The Committee met six times during the year 2019 and details of attendance are given on page 99.
	p. The Secretary of the Committee (who may be the Company Secretary or the Head of the Internal Audit function) shall record and keep detailed minutes of the Committee meetings.	Complied with. Minutes are maintained by the Secretary to the Board/Secretary, Bank of Ceylon who is also the Secretary to the Committee.
	q. The Committee shall review arrangements by which employees of the bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the bank's relations with the External Auditor.	Complied with. A Board approved Whistle-Blowing Policy is in place which covers these aspects and significant findings are reported to the Audit Committee for appropriate follow-up action. The Audit Committee is the key representative body for overseeing the Bank's relations with the External Auditor viz the Auditor General in the case of Bank of Ceylon.
3 (6) (iii)	The following rules shall apply in relation to the Human Resources and Remuneration Committee: a. The Committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the bank.	Complied with. The Remuneration for Directors is according to the circulars/ letters issued by the Government of Sri Lanka through the relevant Ministry and the Bank of Ceylon Ordinance No. 53 of 1938 and its amendments. The Bank has adopted a Remuneration Policy based on the said circulars/ Letters and the Ordinance which was revised during the year 2019. The Board approved Remuneration Policy for the Key Management Personnel is in place. The Committee makes recommendations of the remuneration of the GM and KMPs once in three years and submit to the Board and finally obtains approval of the Minister under whose purview the Bank falls.
	b. The Committee shall set goals and targets for the Directors, CEO and the Key Management Personnel.	Complied with. In respect of KPMs with the participation of the full Board. Goals and targets for KMPs are documented and detailed in the Action Plan prepared based on the Corporate Plan of the Bank. The General Manager is responsible for the implementation of the Corporate Plan through Key Management Personnel (KMPs). Directors are Non-Executive Directors and as such specific goals are not set for them

Compliance Requirements as Per Banking Act Direction No. 11 of 2007

Section	Principle	Level of Compliance during the Year 2019
	c. The Committee shall evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Performance as at year end 2018 was evaluated in 2019. Mid year review against the targets set for each Deputy General Manager for 2019 was carried out at the Bank of Ceylon and an offsite location with the participation of the Board of Directors. However, in view of changes to the Board that took place during the latter part of year 2019, evaluations for General Manager and Deputy General Managers were not carried out as is usually done. Performance of the Assistant General Managers were evaluated through the evaluation carried out on them by the respective Deputy General Managers. However, an evaluation on the targets and goals set, were carried out to the current Board in launching the rolling Corporate Plan for 2019 to 2021 by the Board.
	d. The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	Complied with
3 (6) (iv)	The following rules shall apply in relation to the Nomination Committee:	The Bank has established a Nomination and Corporate Governance Committee. In addition to the duties of the Nomination Committee given under this Direction, certain other duties pertaining to upholding the applicable Corporate Governance Principles are included under the Terms of Reference of this Committee. The Charter for the Committee was reviewed during the year 2019.
	a. The Committee shall implement a procedure to select/ appoint new Directors, CEO and Key Management Personnel.	Complied with. The Directors are appointed by the Minister under whose purview the Bank falls. A Policy on appointment of Directors has been shared with the line Ministry. The General Manager is appointed by the Board with the approval of the said Minister. There is a Board approved general procedure/scheme for the appointment of the KMP.
	b. The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.	Does not arise since the Directors are appointed by the relevant Minister.
	c. The Committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions.	Complied with. The General Manager is appointed based on the Bank's accepted procedure with the approval of the Board of Directors and the relevant Minister as specified in the Bank of Ceylon Ordinance No. 53 of 1938 and its amendments. The Board approved promotion schemes stipulate the attributes required to be eligible to be selected or promoted to the other key management positions.

Section	Principle	Level of Compliance during the Year 2019
	d. The Committee shall ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the statutes.	Complied with. Annual declarations from Directors ensuring that they are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in statutes are sent to CBSL. Also the Committee ensures that KMPs are fit and proper persons to hold their offices when they are promoted or appointed as KMPs.
	e. The Committee shall consider and recommend from time to time, the requirements of additional/ new expertise and the succession arrangements for retiring Directors and Key Management Personnel.	Complied with. A Board approved Succession Plan for the KMPs is in place. Additional or new expertise that is needed are either recommended by the Board Subcommittees or decided by the Board.
	f. The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	Complied with. The Committee was and is chaired by an Independent Non-Executive Director and majority were and are independent Directors. Page 114 of this Annual Report provides details in this regard.
3 (6) (v)	The following rules shall apply in relation to the Integrated Risk Management Committee: a. The Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied with. The Committee comprises three Non-Executive Directors, General Manager and the Chief Risk Officer who supervise credit, market, operational, reputational and strategic risks. The Chief Internal Auditor, Chief Financial Officer and Compliance Officer participate at all Committee meetings at the request of the Committee. Any other KMP and other staff are invited as and when the Committee needs their presence. The Committee works closely with KMPs within the framework of authority and responsibility assigned to the Committee.
	b. The Committee shall assess all risks, i.e. credit, market, liquidity, operational and strategic risks to the bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.	Complied with. Independent Integrated Risk Management Division of the Bank assesses the credit, market, liquidity, operational, strategic and reputational risks of the Bank based on the policy documents recommended by this Committee and approved by the Board, on a monthly basis and the summary reports are submitted to the Committee at its regular meetings and then to the next immediate Board meeting. In the case of subsidiaries and associates, a risk management dashboard and has been developed to address the risks and is reported to the Committee. A Board approved Group Risk Policy is in place.
	c The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Not Complied with. Integrated Risk Management Division shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee, and will submit to the Committee.

Compliance Requirements as Per Banking Act Direction No. 11 of 2007

Section	Principle	Level of Compliance during the Year 2019
	d. The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the bank's policies and regulatory and supervisory requirements.	Complied with. Specific quantitative and qualitative risks which go beyond the limits are monitored by the Chief Risk Officer and reported directly to the Committee based on the severity of the issues involved.
	e. The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied with. During the year, the Committee has had five meetings. Details of meetings and attendance are given on page 99.
	f. The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision.	Complied with. Formal documented disciplinary action procedure is in place in the Bank.
	g. The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied with. The minutes of the meetings are submitted to the Board meeting immediately following the Committee meeting together with the recommendations and Risk Management Reports.
	h. The Committee shall establish a compliance function to assess the bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated Compliance Officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	Complied with. The Bank has established a separate compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. This function is headed by a dedicated Compliance Officer/Deputy General Manager and he submits quarterly Compliance Reports to the Committee and monthly Compliance Reports to the Board. The Compliance function also assesses the Bank's compliance with Internal Controls and approved policies on all areas of business operations.
3 (7) Related Party Transactions		
3 (7) (i)	The Board shall take necessary steps to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons shall be considered as "related parties" for the purposes of this Direction: a. Any of the bank's subsidiary companies; b. Any of the bank's associate companies; c. Any of the Directors of the bank; d. Any of the bank's Key Management Personnel; e. A close relation of any of the bank's Directors or Key Management Personnel; f. A shareholder owning a material interest in the bank;	Complied with. A Policy on Related Party Disclosures is in place which was reviewed in beginning of year 2020 covering related parties, their transactions, and restrictions on offering more favourable treatment to related parties in order for the Board members to avoid any Conflict of Interest in this regard. Directors who have related party transactions are individually requested to declare their transactions. Transactions are monitored through an automated system.

Section	Principle	Level of Compliance during the Year 2019
	g. A concern in which any of the bank's Directors or a close relation of any of the bank's Directors or any of its material shareholders has a substantial interest.	
3 (7) (ii)	The type of transactions with related parties that shall be covered by this Direction shall include the following: a. The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation; b. The creation of any liabilities of the bank in the form of deposits, borrowings and investments; c. The provision of any services of a financial or non-financial nature provided to the bank or received from the bank; d. The creation or maintenance of reporting lines and information flows between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.	Complied with. Information in this regard, is disclosed in Note 59 on page 300 "Related Party Disclosures" disclosures.
3 (7) (iii)	The Board shall ensure that the bank does not engage in transactions with related parties as defined in Direction No. 3 (7) (i) above, in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the bank carrying on the same business. In this context, "more favourable treatment" shall mean and include treatment, including the: a. Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the bank's regulatory capital, as determined by the Board. For purposes of this sub-direction: (i) "Accommodation" shall mean accommodation as defined in the banking Act Direction No. 7 of 2007 on Maximum Amount of Accommodation. (ii) The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the bank's share capital and debt instruments with a maturity of five years or more. b. Charging of a lower rate of interest than the bank's best lending rate or paying more than the bank's deposit rate for a comparable transaction with an unrelated comparable counterparty;	Complied with. The Bank has implemented a Board approved process to monitor related party transactions which is monitored by the Compliance Division and compliance status is indicated in the monthly Compliance Report submitted to the Board. Any non-compliance brought to the notice of the Board would be addressed by the Board.

Compliance Requirements as Per Banking Act Direction No. 11 of 2007

Section	Principle	Level of Compliance during the Year 2019
	c. Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees / commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties; d. Providing services to or receiving services from a related-party without an evaluation procedure; e. Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.	
3 (7) (iv)	A bank shall not grant any accommodation to any of its Directors or to a close relation of such Director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.	Complied with.
3 (7) (v)	a. Where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the bank, steps shall be taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director. b. Where such security is not provided by the period as provided in Direction 3 (7) (v) (a) above, the bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier. c. Any Director who fails to comply with the above sub-directions shall be deemed to have vacated the office of Director and the bank shall disclose such fact to the public. d. This sub-direction, however, shall not apply to a Director who at the time of the grant of the accommodation was an employee of the bank and the accommodation was granted under a scheme applicable to all employees of such bank.	Complied with.

Section	Principle	Level of Compliance during the Year 2019
3 (7) (vi)	A bank shall not grant any accommodation or "more favourable treatment" relating to the waiver of fees and/ or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3 (7) (v) above.	Complied with. No favourable treatment/ accommodation is provided to any employee of the Bank on more favourable terms unless under general staff loan schemes applicable to all employees of the Bank. Circular instructions have been issued in this regard. Close relations of Bank employees are also not given any favourable treatment/recommendation.
3 (7) (vii)	No accommodation granted by a bank under direction 3(7)(v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monitory Board and any remission without such approval shall be void and of no effect.	Complied with. Such a situation has not arisen during the year 2019.
3 (8) Disclosure		
3 (8) (i)	The Board shall ensure that: a. annual Audited Financial Statements and quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards; and that b. such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with.
3 (8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report: a. A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with. Disclosed in the "Annual Report of the Directors on the State of Affairs of the Bank" on pages 133 to 138 and Directors' Responsibility for Financial Reporting on page 145.
	b. A report by the Board on the bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied with. Disclosed in the "Directors' Statement on Internal Control" on page 142 and 143 of this Annual Report and Directors' Responsibility for Financial Reporting on page 145.
	c. The Assurance Report issued by the Auditors under "Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Reports for banks on Directors' Statements on Internal Control".	Complied with. The Bank has obtained a Certificate on the Effectiveness of Internal Control over Financial Reporting from the Auditor General which is published on page 144 of this Annual Report.
	d. Details of Directors including names, fitness and propriety, transactions with the bank and the total of fees / remuneration paid by the bank.	Complied with. Details of Directors are given on page 25. Transactions with the Bank during the year under review amounts to; Interest Income (LKR 2,000.00), Interest Expense (LKR 3.3 million), Deposits as at 31 December 2019 (LKR 1.9 million). Remuneration paid by the Bank are given in Note 16 to the Financial Statements on page 188.
	e. Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the bank's regulatory capital.	Complied with. "Total net accommodation" granted to each category of related parties during the year 2019 as a percentage of the Bank's regulatory capital is given below:

Compliance Requirements as Per Banking Act Direction No. 11 of 2007

Section	Principle	Level of Compliance during the Year 2019
		Complied with. Key Management Personnels (KMPs): LKR '000 100,445, % 0.06 Subsidiaries: LKR '000 2,771,925, % 1.56 Associates: LKR '000 135,488, % 0.08 Government and Government-related entities (Refer definition in Note 59.4 of Financial Statements): LKR '000 1,411,338,772, % 791.80
	f. The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the bank with its Key Management Personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank.	Complied with. The aggregate amount of remuneration paid by the Bank and transactions with KMPs for the year 2019 are stated below: Short-term employment benefits: LKR '000 477,478 Post-employment benefits: LKR '000 121,593 In addition to above, the Bank has also paid non-cash benefits such as use of vehicles to KMPs in line with the approved benefit plan of the Bank. Loans: LKR '000 415,481 Overdrafts: LKR '000 5,703 Credit cards: LKR '000 8,936 Deposits: LKR '000 546,335 Debentures: LKR '000 2,658 Undrawn facilities: LKR '000 60,401
	g. A confirmation by the Board of Directors in its Annual Corporate Governance Report that all the findings of the "Factual Finding Reports" of Auditors issued under "Sri Lanka Related Services Practice Statement 4750" have been incorporated in the Annual Corporate Governance Report provided that Auditors confirm to the Director of Bank Supervision to this effect.	Complied with. The Bank has obtained a certificate from the Auditor General in compliance with the Corporate Governance Direction No. 11 of 2007. All findings of the Auditors have been incorporated in this Corporate Governance Report and any recommendations will be dealt with in 2019.
	h. A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.	Complied with. The Statement of Annual Report of the Directors on the State of Affairs of Bank of Ceylon on page 137 clearly sets out details regarding compliance with prudential requirements, regulations, laws and internal controls.
	i. A statement of the regulatory and supervisory concerns on lapses in the bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the bank to address such concerns.	Complied with. There were no lapses which caused supervisory concern on the Bank's Risk Management Systems or non-compliance with these directions which led to them being pointed out by the Director of Bank Supervision of the Central Bank of Sri Lanka and which have caused the Monetary Board to give directions that they be disclosed to the public.

Section	Principle	Level of Compliance during the Year 2019
3 (9) (i)	Transitional and Other General Provisions Compliance with this Direction shall commence from 1 January 2008 onwards and all licensed commercial banks shall fully comply with the provisions of this Direction by or before 1 January 2009 except where extended compliance dates have been specifically provided for in this Direction.	Complied with.
3 (9) (ii)	In respect of the banks that have been incorporated by specific statutes in Sri Lanka, the Boards as specified in such statutes shall continue to function in terms of the provisions of the respective statutes, provided they take steps to comply with all provisions of this Direction that are not inconsistent with the provisions of the respective statutes.	Complied with. Bank of Ceylon has taken all possible measures to comply with all applicable provisions of this Direction that are not inconsistent with the provisions of Bank of Ceylon Ordinance No. 53 of 1938 and its amendments, the enabling enactment. Any instances of non-compliance and where Bank of Ceylon has continued to function in terms of the provisions of the statutes applicable to it has been specifically mentioned above against the relevant sections.
3 (9) (iii)	This Direction shall apply to the branches of the foreign banks operating in Sri Lanka to the extent that it is not inconsistent with the regulations and laws applicable in such bank's country of incorporation. The branch of a foreign bank shall also publish its parent bank's Annual Corporate Governance Report together with its Annual Report and accounts of the branch operations in Sri Lanka.	Not applicable.
3 (9) (iv)	In the event of a conflict between any of the provisions of this Direction and the Articles of Association (or Internal Rules) pertaining to any bank, the provisions of this Direction shall prevail. However, if the Articles of Association of an individual bank set a more stringent standard than that specified in this Direction, such provisions in the Articles of Association may be followed.	Not applicable.
3 (9) (v)	If for any reason such as ill health or any incapacity as provided in the Banking Act, the Monetary Board considers that exemptions referred to in Directions 3 (2) (ii) B, 3 (3) (i) A and 3 (3) (ii) A should not be availed of, such ground may be notified to the person by the Monetary Board, and after a hearing, the Monetary Board may limit the period of exemption.	Not applicable.

Note: The following changes were made to the Board of Bank of Ceylon after the financial statement sign -off date-

- Appointment of Mr A C M Fernando
  Independent Non-Executive Director
  (w.e.f 21 April 2020)

- Appointment of Mr R M P Rathnayake
  Non Independent Non-Executive
  Ex officio Director
  (w.e.f. 28 April 2020 in place of Ms Visakha Amarasekere)

Compliance Requirements Enforced by Colombo Stock Exchange

Compliance to the Listing Rules on contents of Annual Report, which were applicable to the Bank for the year ended 31 December 2019 enforced by the Colombo Stock Exchange, are summarised below:

Rule No.	Requirement	Period	Date Submitted
7.4 a (i)	The Interim Financial Statements prepared on quarterly basis, approved by the Board of Directors to be submitted to CSE within 45 days from respective quarter ends for the first three quarters and within two months at the end of 4th quarter.	Quarter 1 ended 31 March 2019	15 May 2019
		Quarter 2 ended 30 June 2019	15 August 2019
		Quarter 3 ended 30 September 2019	14 November 2019
		Quarter 4 ended 31 December 2019	28 February 2020

Rule No.	Requirement	Compliance
7.4 b (i)	Comply with LKAS 34 and disclose Group and Bank separately.	Complied with.
7.4 b (ii)	Disclose the additional notes and ratios as per Listing Rules.	Complied with.
7.4 b (iii)	Be signed by two Directors.	Complied with.
7.4 b (iv)	State whether the Financial Statements are audited or not.	Complied with.
7.5 a	Annual Report to be submitted to CSE within five months from the closure of financial year.	The Audited Financial Statements for the year ended 31 December 2019 was submitted on 27 March 2020. Annual Report for the year 2019 will be submitted before the deadline.

Rule No.	Disclosure Requirement	Reference/ Comments	Page No
7.6 (i)	Names of persons who during the financial year were Directors of the entity.	Annual Report of the Board of Directors on the State of Affairs of Bank of Ceylon	136
7.6 (ii)	Principal activities of the entity and its subsidiaries during the year and any changes therein.	Annual Report of the Board of Directors on the State of Affairs of Bank of Ceylon Notes to the Financial Statements	133 160
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held.	Government of Sri Lanka is the sole shareholder of Bank of Ceylon.	403, 406
7.6 (iv)	The public holding percentage.	Not applicable.	
7.6 (v)	A statement of each Director's holding and Chief Executive Officer's holding in shares of the entity at the beginning and end of each financial year.	Not applicable.	
7.6 (vi)	Information pertaining to material foreseeable risk factors of the entity.	Risk Management Report	44 - 61
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the entity.	No material issues occurred during the year under review.	
7.6 (viii)	Extents,locations,valuations and the number of buildings of the entity's land holdings and investment properties.	Notes 32 and 33 to the Financial Statements	244 - 261
7.6 (ix)	Number of shares representing the entity's stated capital.	Note 49.1 to the Financial Statements	288
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities and percentage of their total holdings.	Spplymenatary Information	391

Rule No.	Disclosure Requirement	Reference/ Comments	Page No
7.6 (xi)	Ratios and market price information:		
	1. Dividend per share, net assets value per share, interest rate of comparable Government Securities, Debt/equity ratio, interest cover and liquid asset ratio.	Notes 19 and 49.2 to the Financial Statements. Supplementary Information	192, 288 391
	2. Market information on listed debentures.	Note 48 to the Financial Statements. Supplementary Information	285 - 289 391
	3. Any changes in credit rating.	Corporate Information	425
7.6 (xii)	Significant changes in the entity's or its subsidiaries' fixed assets and the market value of the land, if the value differs substantially from the book value.	Note 33 to the Financial Statements.	246 - 261
7.6 (xiii)	During the year the entity has raised funds either through a public issue, rights issue and private placement.	Notes 43, 48 and 49 to the Financial Statements.	270, 285 288
7.6 (xiv)	Information in respect of each employee share ownership or stock option scheme.	Not applicable.	
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 (c) and 7.10.6 (c) of Section 7 of the Rules.	Exempted under Section 7.10 of Listing Rules since the Bank complies with direction laid down in the Banking Act Direction No. 11 of 2007 on Corporate Governance.	
7.6 (xvi)	Related party transactions exceeding 10% of the equity or 5% of the total assets of the entity as per Audited Financial Statements, whichever is lower.	Supplementary Information	406

Compliance Requirements Enforced by the Central Bank of Sri Lanka

Circular No.	Requirement	Period	Date Published in Sinhala, Tamil and English Newspapers
02/04/003/0401/001 30 September 2005	The publication should be made within two months from the end of each quarter, at least once in an English, Sinhala and Tamil newspaper.	Quarter 1 ended 31 March 2019 Quarter 2 ended 30 June 2019 Quarter 3 ended 30 September 2019	31 May 2019 30 August 2019 29 November 2019
02/04/003/0401/001 21 February 2006	If the Bank publishes its Audited Financial Statements within three months from the end of the financial year, the requirement to publish the Financial Statements for the 4th quarter in terms of the circular dated 30 September 2005 would not be mandatory.	Quarter 4 ended 31 December 2019 (Audited)	30 March 2020

Compliance to other disclosure requirements on Annual Financial Statements, which were applicable to licensed commercial banks are summarised below:	
1. Information About the Significance of Financial Instruments for Financial Position and Performance	
1.1 Statement of Financial Position	
1.0.1 Disclosures on categories of financial assets and financial liabilities	Note 20 to the Financial Statements
1.1.2 Other disclosures	
(i) Special disclosures about financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair value attributable to these risks and the methods of measurement	Note 4.5, 26 and 63 to the Financial Statements
(ii) Reclassifications of financial instruments from one category to another	Note 61.4 to the Financial Statements
(iii) Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral	Note 56 the Financial Statements
(iv) Reconciliation of the allowance account for credit losses by class of financial assets	Note 27.1 and 27.2 to the Financial Statements
(v) Information about compound financial instruments with multiple embedded derivatives	None
(vi) Breaches of terms of loan agreements	None
1.2 Statement of Comprehensive Income	
1.2.1 Disclosures on items of income, expense, gains and losses	Note 7 to 17 to the Financial Statements
1.2.2 Other disclosures	
(i) Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit and loss	Note 8 to the Financial Statements
(ii) Fee income and expense	Note 9 to the Financial Statements
(iii) Amount of impairment losses by class of financial assets	Note 14 to the Financial Statements
(iv) Interest income on impaired financial assets	Note 8.1 to the Financial Statements
1.3 Other disclosures	
1.3.1 Accounting policies for financial instruments	Note 4.1.1, 21, to 29, 38 to 43 and 48 to the Financial Statements
1.3.2 Information on financial liabilities designated at FVTPL	None
1.3.3 Investments in equity instruments designated at FVOCI	
(i) Details of equity instruments that have been designated as at FVOCI and the reasons for the designation.	Note 29 to the Financial Statements

(i) Fair value of each investment at the reporting date	Note 29.2 and 29.3 to the Financial Statements
(i) Comparable carrying amounts	Note 29 to the Financial Statements
(ii) Description of how fair value was determined	Note 61 to the Financial Statements
(iii) Dividends recognised during the period, separately for investments derecognised during the reporting period and those held at the reporting date.	Note 13 to the Financial Statements
(iv) Transfer cumulative gain or loss within equity during the period and the reasons for those transfers	Note 12 to the Financial Statements
(v) If investments in equity instruments measured at FVOCL are derecognised during the reporting period,	None
- Reasons for disposing of the investments - Fair value of the investments at the date of derecognition - The cumulative gain or loss on disposal	
1.3.4 Reclassification of financial assets	
(i) For all reclassifications of financial assets in the current or previous reporting period - Date of reclassification - Detailed explanation of the change in the business model and a qualitative description of its effect on the financial statements - The amount reclassified into and out of each category	None
(ii) For reclassifications from FVTPL to amortised cost of FVOCI - The effective interest rate (EIR) determined on the date of reclassification - the interest revenue recognised	None
(iii) For reclassifications from FVOCI to amortised cost, or from FVTPL to amortised cost or FVOCI - The fair value of the financial assets at the reporting date - The fair value gain or loss that would have been recognised in profit or loss or OCI during the reporting period if the financial assets had not been reclassified.	None
1.3.5 Information on hedge accounting	None
1.3.6 Information about the fair values of each class of financial asset and financial liability, along with:	
(i) Comparable carrying amounts	Note 61 to the Financial Statements
(ii) Description of how fair value was determined	Note 61 to the Financial Statements
(iii) The level of inputs used in determining fair value	Note 61 to the Financial Statements
(iv) a. Reconciliations of movements between levels of fair value measurement hierarchy b. additional disclosures for financial instruments that fair value is determined using level 3 inputs	None Note 61.1.3 to the Financial Statements
(v) Information if fair value cannot be reliably measured	None
2. Information About The Nature And Extent Of Risks Arising From Financial Instruments	
2.1 Qualitative disclosures	
2.1.1 Risk exposures for each type of financial instrument	Risk Report and Note 63 to the Financial Statements
2.1.2 Management's objectives, policies, and processes for managing those risks.	Risk Report
2.1.3 Changes from the prior period	Risk Report
2.2 Quantitative disclosures	
2.2.1 Summary of quantitative data about exposure to each risk at the reporting date	Note 63 to the Financial Statements
2.2.2 Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed	Note 63 to the Financial Statements
(i) Credit Risk	Note 63.2 to the Financial Statements
(a)Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets	Note 63.2.1 to the Financial Statements

Compliance Requirements Enforced by the Central Bank of Sri Lanka

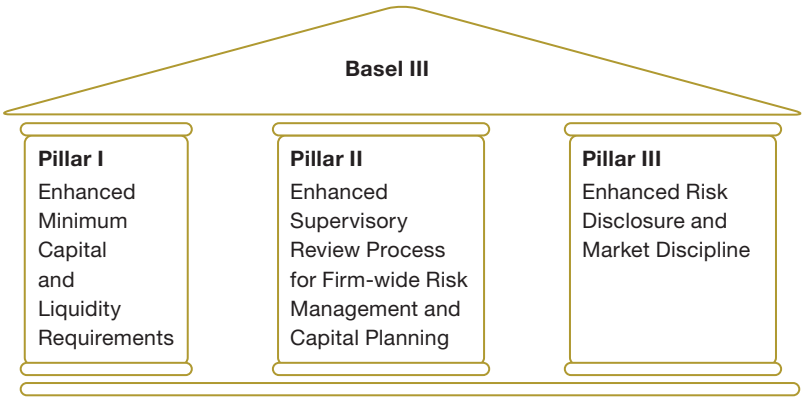
(b)For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset	Note 63.2.1 to the Financial Statements
(c)Information about collateral or other credit enhancements obtained or called	Note 63.2.1 to the Financial Statements
d) Credit risk management practices - CRM practices and how they relate to the recognition and measurement ECL, including the methods, assumptions, and information used to measure ECL - Quantitative and qualitative information to evaluate the amounts in the Financial Statements arising from ECL, including changes and the reasons for those changes - How the Bank determines whether the credit risk of financial instruments has increased significantly since initial recognition - The Bank's definitions of default for different financial instruments, including the reasons for selecting those definitions - How instruments are grouped if ECL are measured on a collective basis - How the bank determines that financial assets are credit – impaired - The Bank's write – off policy, including the indicators that there is no reasonable expectation of recovery - How the modification requirements have been applied	Note 27 and 63 to the Financial Statements
(e)ECL calculations - Basis of the inputs, assumptions and the estimation techniques used when estimating ECL - How forward – looking information has been incorporated into the determination of ECL including the use of macroeconomic information. - Changes in estimation techniques or significant assumptions made during the reporting period	Note 27 to the Financial Statements
(f) Amounts arising from ECL - Reconciliation for each class of financial instruments of the opening balance to the closing balance of the impairment loss allowance	Note 21,23,27,28 to the Financial Statements
(g) Collateral - Bank's maximum exposure to credit risk at the reporting date - Description of collateral held as security and other credit enhancements	Note 63.2.1 to the Financial Statements
(h) Written – off assets	
- Contractual amount outstanding of financial assets written off during the reporting period that are still subject to enforcement activity.	Note 27 to the Financial Statements
i) Pillar III disclosures of the Banking Act Directions No 1 of 2016 on Capital requirements under Basel III for licensed banks	Capital Adequacy in Compliance annexes
(ii) Liquidity Risk	
(a) A maturity analysis of financial liabilities	Note 58 to the Financial Statements
(b) Description of approach to risk management	Risk Report and Note 63.3 to the Financial Statements
(c) Pillar III disclosures of the Banking Act Direction No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	Capital Adequacy in Compliance annexes
(iii) Market Risk	
(a) A sensitivity analysis of each type of market risk to which the entity is exposed	Note 63.4 to the Financial Statements
b) Additional information, if the sensitivity analysis is not representative of the Bank's risk exposure	Note 63.4 to the Financial Statements
(c) Pillar III disclosures of the Banking Act Directions No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	Capital Adequacy in Compliance annexes

(iv) Operational Risk	
Pillar III disclosures of the Banking Act Direction No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	Capital Adequacy in Compliance annexes
(v) Equity risk in the banking book	
(a) Qualitative disclosures	
- Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons	Note 26 and 29 to the Financial Statements
- Discussion of important policies covering the valuation and accounting of equity holdings in the banking book	-Note 26 and 29 to the Financial Statements
(b) Quantitative disclosures	
· Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value	Note 26.2, 29.2 and 29.3 to the Financial Statements
· The types and nature of investments	Note 26 and 29 to the Financial Statements
· The cumulative realised gains / (losses) arising from sales and liquidations in the reporting period	Note 12 to the Financial Statements
(vi) Interest rate risk in the banking book	
a) Qualitative disclosures	
Nature of interest rate risk in the banking book (IRRBB) and key assumptions	Note 63.4.2 to the Financial Statements
(b) Quantitative disclosures	
The increase / (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant)	Note 63.4.1 to the Financial Statements
1.1.3 Information on concentrations of risk	Note 63.2.2 to the Financial Statements
3. Other Disclosures	
3.1 Capital	
1.1.1 Capital structure	Note 49 to the Financial Statements
3.2 Qualitative disclosures	
Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments	Debt - Note 48 to the Financial Statements Equity – 49
3.3 Quantitative disclosures	
3.3 Quantitative disclosures	
· Paid-up share capital / common stock	Capital Adequacy in Compliance Annexes
· Reserves	Capital Adequacy in Compliance Annexes
· Non-controlling interests in the equity of subsidiaries	Capital Adequacy in Compliance Annexes
· Innovative instruments	None
· Other capital instruments	None
· Deductions from Tier I capital	Capital Adequacy in Compliance Annexes
(b) The total amount of Tier 2 and Tier 3 capital	Capital Adequacy in Compliance Annexes
(c) Other deductions from capital	Capital Adequacy in Compliance Annexes
(d) Total eligible capital	Capital Adequacy in Compliance Annexes
3.4 Capital adequacy	
(i) Qualitative disclosures	
A summary discussion of the bank's approach to assessing the adequacy of its capital or support current and future activities	Risk Report and Note 63.6 to the Financial Statements
(ii) Quantitative disclosures	
(a) Capital requirements for credit risk, market risk and operational risk	Capital Adequacy in Compliance Annexes
(b) Total and Tier 1 capital ratio	Capital Adequacy in Compliance Annexes

Capital Adequacy

Basel III Regulatory Requirements

Basel III is a global regulatory framework on bank capital adequacy, stress testing, and market liquidity risk. This third installment of the Basel Accords was developed in response to the deficiencies in financial regulation revealed by the financial crisis of 2007–08. It is intended to strengthen bank capital requirements by increasing bank liquidity and decreasing bank leverage.



The Basel III standard have been strengthened the requirements from the Basel II standard on bank's minimum capital ratios. In addition, it introduces requirements on liquid asset holdings and funding stability, thereby seeking to mitigate the risk of a run on the bank.

The new guidelines require, banks and financial institutions to hold more capital and higher quality of capital than under Basel II rules. The new Leverage Ratio introduces a non-risk based measure to supplement the risk-based minimum capital requirements. The new liquidity ratios ensure that adequate funding is maintained in case there are other severe banking crises.

Main Features of the Basel III

- Capital Conservation Buffer - An additional layer of common equity that, when breached, restricts payouts of earnings to help protect the minimum common equity requirement.
- Countercyclical Capital Buffer, which places restrictions on participation by banks in system-wide credit booms with the aim of reducing their losses in credit bursts.
- Additional capital requirement for domestic systemically important banks (D-SIBs), this framework attempt to identify the banks whose failure has a larger impact on the financial system due to size, interconnectedness, lack of substitutability and complexity and requires maintaining higher loss absorbency. According to the Central bank of Sri Lanka, four banks in Sri Lanka have been identified as D-SIBs in the banking sector including BoC.
- Leverage ratio – a minimum amount of loss-absorbing capital, relative to all of a bank's assets and off-balance sheet exposures regardless of risk weighting. Leverage ratio have been implemented in Sri Lanka from 01.01.2019, with minimum Leverage Ratio of 3% need to be maintained by all the licensed banks.
- Liquidity requirements - a minimum liquidity ratio, the liquidity coverage ratio (LCR), intended to provide enough cash to cover funding needs over a 30-day period of stress; and a longer-term ratio, the net stable funding ratio (NSFR), intended to address maturity mismatches over the entire balance sheet.

The implementation of the Basel III minimum capital requirements across the banking sector in Sri Lanka, under the direction No 01 of 2016 is now fully effective from the 01.01.2019.

Basel III capital requirements for Bank of Ceylon from 01.01.2019 as follows.

Components of Capital	01.01.2019
Common Equity Tier 1	4.50%
Capital Conservation Buffer	2.50%
Surcharge on Domestic Systematically Important banks(D-SIBs)	1.50%
Additional Tier 1 Capital	1.50%
Total Tier 1 Capital	10.00%
Minimum Total Capital Ratio + Capital Conservation Buffer +Capital surcharge on D-SIBs	14.00%

CBSL issued their first consultation paper for Basel III implementation in April 2015. The supervisory objectives of the CBSL is to promote safety and soundness in the financial system and maintain an appropriate level of capital in the system, enhance competitive equality, constitute a more comprehensive approach to addressing risks, and focus more on internationally active banks such as BoC. Bank of Ceylon commenced its preparation towards Basel III by implementing well formulate strategic policies. By enhancing capital base & applying risk mitigating techniques, Bank able to maintain the ratio well above the regulatory requirements as of 31 December 2019. Internally generated funds and issuance of Basel III complied subordinated Debentures during the year has aggrandize Bank's capital base, enabled the bank to meet the enhanced capital adequacy requirements under the Basel III which is fully, effective from 1 of January 2019.

Basel III Disclosure Requirements

Key Regulatory Ratios- Capital and Liquidity

Item	31.12.2019	
	Bank	Group
Basel III		
Regulatory Capital (LKR'000)		
Common Equity Tier 1	127,675,095	135,727,486
Tier 1 Capital	127,675,095	135,727,486
Total Capital	178,243,760	187,530,766
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital Ratio (%) (Minimum Requirement- 8.50%)	11.16	11.38
Tier 1 Capital Ratio (%) (Minimum Requirement- 10.00%)	11.16	11.38
Total Capital Ratio (%) (Minimum Requirement- 14.00%)	15.58	15.72
Leverage Ratio (%) (Minimum Requirement- 3.00%)	4.97	5.18

Item	31.12.2019	
	Bank	Group
Regulatory Liquidity		
Statutory Liquid Assests - Domestic (LKR '000)	547,432,530	478,549,997
Statutory Liquid Assests - FCBU (USD '000)	717,216	835,941
Statutory Liquid Assests Ratio (Minimum Requirement- 20%)		
Domestic Banking Unit (%)	24.57	24.47
Off -Shore Banking Unit (%)	58.32	60.20
Liquidity Coverage Ratio (%) - Rupee (Minimum Requirement 2019 - 100%)	188.19	143.51
LIquidity Coverage Ratio (%) - All Currency (Minimum Requirement 2019 -100%)	125.62	114.99
Net Stable Funding Ratio (%) (Minimum Requirement - 100%)	135.71	N/A

Capital Adequacy

Basel III Computation of Capital Ratios -31.12.2019

Item	Bank	Group
	LKR'000	LKR'000
Common Equity Tier 1 (CET 1) Capital after Adjustments	127,675,095	135,727,486
Common Equity Tier 1 (CET 1) Capital	133,494,497	139,057,810
Equity Capital (Stated Capital) / Assigned Capital	25,000,000	25,000,000
Reserve Fund	13,383,000	13,383,000
Published Retained Earnings/(Accumulated Retained Losses)	91,386,218	95,304,367
Published Accumulated other Comprehensive Income(OCI)	1,185,961	1,543,094
General and other Disclosed Reserves	2,539,318	3,827,349
Unpublished current year's profit/(losses) and gains reflected in OCI	-	-
Ordinary shares issued by consoloidated banking and financial subsidaries held by third parties		-
Total Adjustments to CET 1 Capital	5,819,401	3,330,324
Goodwill(net)	-	-
Intangible Assests (net)	1,089,462	1,324,313
Revaluation losses of property, plant and equipment	180,879	180,879
Deferred tax assets (net)	158,820	670,756
Investments in the capital of banking and financial institutions where the bank does not own more than 10 per cent of the issued ordinary share capital of the entity	588,967	576,767
Significant investments in the capital of financial institutions where the bank owns more than 10 per cent of the issued ordinary share capital of the entity	3,223,664	-
Shortfall of capital in financial subsidiaries	577,609	577,609
Additional Tier 1 (AT I) capital after adjustment	-	-
Additional Tier 1 (AT I) capital	-	-
Qualifying Additional Tier 1 Capital Instruments	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to AT 1 Capital	-	-
Investment in Own Shares	-	-
others (specify)		
Tier 2 Capital after Adjustments	50,568,664	51,803,280
Tier 2 Capital	52,239,788	53,439,788
Qualifying Tier 2 Capital Instruments	35,202,921	36,402,921
Revaluation Gains	6,556,298	6,556,298
General Provisions	10,480,570	10,480,570
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustment to Tier 2	1,671,124	1,636,508
Investment in Own Shares		-
Investments in the capital of financial institutions and where the bank does not own more than 10 per cent of the issued capital carrying voting rights of the issuing entity	1,671,124	1,636,508
Significant investments in the capital of banking and financial institutions where the bank own more than 10 per cent of the issued ordinary share capital of the entity	-	-
CET I Capital	127,675,095	135,727,486
Total Tier 1 Capital	127,675,095	135,727,486
Total Capital	178,243,760	187,530,766

Basel III Computation of Capital Ratios - 31.12.2019

Item	Bank	Group
	LKR'000	LKR'000
Total Risk Weighted Assets (RWA)	**1,144,411,823**	**1,193,055,936**
RWAs for Credit Risk	1,051,215,112	1,089,492,911
RWAs for Market Risk	6,635,871	6,635,871
RWAs for Operational Risk	86,560,840	96,927,153
CET I Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	**11.16**	**11.38**
of which :Capital Conservation Buffer (%)	2.50	2.50
of which :Countercyclical Buffer (%)	N/A	N/A
of which:Capital Surcharge on D- SIBs (%)	1.50	1.50
Total Tier 1 Capital Ratio (%)	**11.16**	**11.38**
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surchanrge on D- SIBs) (%)	**15.58**	**15.72**
of which : Capital Conservation Buffer (%)	2.50	2.50
of which: Countercyclical Buffer (%)	N/A	N/A
of which:Capital Surcharge on D- SIBs (%)	1.50	1.50

Computation of Leverage Ratio as at 31.12.2019

Item	Bank	Group
	LKR'000	LKR'000
Tier 1 Capital	**127,675,095**	**135,727,486**
Total Exposures	2,569,823,296	2,619,193,506
On-Balance Sheet Items (Excluding Derivatives and Securities Financing Transactions, but including Collateral	2,384,064,643	2,431,300,993
Derivative Exposures	516,926	516,926
Securities Financing Transaction Exposures	37,622,915	39,756,775
Other Off- Balance Sheet Exposures	147,618,813	147,618,813
Basel III Leverage Ratio (%) (Tier 1 Capital/Total Excposure)	4.97	5.18

Main Features of Regulatory Capital Instruments

Description of the Capital Instrument					
Issuer	Bank of Ceylon	Bank of Ceylon	Bank of Ceylon	Bank of Ceylon	Bank of Ceylon
Unique Identifier	LK0357D20462	LK0357D20439	LK0357D20454	LK0357D20470	LK0357D22542
Governing Laws of the Instrument	Laws of Sri Lanka	Laws of Sri Lanka	Laws of Sri Lanka	Laws of Sri Lanka	Laws of Sri Lanka
Original Date of Issuance	25-Oct-13	25-Oct-13	25-Oct-13	25-Oct-13	22-Sep-14
Par Value of Instrument -LKR	100	100	100	100	100
Issued quantity (No of Debentures)	11,990,000	10,000	12,000,000	16,000,000	18,334,950
Issued Quantity (LKR'000)	1,199,000	1,000	1,200,000	1,600,000	1,833,495
Perpetual or Dated					
Original Maturity Date, if Applicable	24-Oct-21	24-Oct-21	24-Oct-22	24-Oct-23	21-Sep-22
Amount Recognised in Regulatory Capital (in LKR'000 as at the Reporting Date)	479,600	400	720,000	1,280,000	1,008,422
Accounting Classification (equity/Liability)	Liability	Liability	Liability	Liability	Liability
Coupons/Dividends					
Fixed or Floating Dividend/Coupon	FIXED	FLOATING	FIXED	FIXED	FIXED
Coupon Rate and any Related Index %	13.25	12.99	13.25	13.25	8.25
Non-Cumulative or Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative
Convertible or Non-Convertible	Non Convertible	Non Convertible	Non Convertible	Non Convertible	Non Convertible

Capital Adequacy

Main Features of Regulatory Capital Instruments

Issuer	Bank of Ceylon	Bank of Ceylon	Bank of Ceylon	Bank of Ceylon	Bank of Ceylon
Unique Identifier	LK0357D22559	LK0357D23201	LK0357D23185	LK0357D23193	LK0357D23177
Governing Laws of the Instrument	Laws of Sri Lanka	Laws of Sri Lanka	Laws of Sri Lanka	Laws of Sri Lanka	Laws of Sri Lanka
Original Date of Issuance	22-Sep-14	6-Oct-15	6-Oct-15	6-Oct-15	6-Oct-15
Par Value of Instrument -LKR	100	100	100	100	100
Issued quantity (No of Debentures)	300	2,885,900	122,200	44,783,860	11,802,560
Issued Quantity (LKR'000)	30	288,590	12,220	4,478,386	1,180,256
Perpetual or Dated					
Original Maturity Date, if Applicable	21-Sep-22	5-Oct-20	5-Oct-20	5-Oct-20	5-Oct-23
Amount Recognised in Regulatory Capital (in LKR'000 as at the Reporting Date)	17	57,718	2,444	895,677	885,192
Accounting Classification (equity/Liability)	Liability	Liability	Liability	Liability	Liability
Coupons/Dividends					
Fixed or Floating Dividend/Coupon	FLOATING	FIXED	FIXED	FLOATING	FIXED
Coupon Rate and any Related Index %	10.43	8.25	8.00	13.05	9.50
Non-Cumulative or Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative
Convertible or Non-Convertible	Non Convertible	Non Convertible	Non Convertible	Non Convertible	Non Convertible

Main Features of Regulatory Capital Instruments

Issuer	Bank of Ceylon	Bank of Ceylon	Bank of Ceylon	Bank of Ceylon	Bank of Ceylon
Unique Identifier	LK0357D23219	LK0357D23763	LK0357D23797	LK0357D23771	LK0357D23789
Governing Laws of the Instrument	Laws of Sri Lanka	Laws of Sri Lanka	Laws of Sri Lanka	Laws of Sri Lanka	Laws of Sri Lanka
Original Date of Issuance	6-Oct-15	29-Dec-16	29-Dec-16	29-Dec-16	29-Dec-16
Par Value of Instrument -LKR	100	100	100	100	100
Issued quantity (No of Debentures)	20,405,480	79,981,764	10,200	7,836	200
Issued Quantity (LKR'000)	2,040,548	7,998,176	1,020	784	20
Perpetual or Dated					
Original Maturity Date, if Applicable	5-Oct-23	28-Dec-21	28-Dec-21	28-Dec-24	28-Dec-24
Amount Recognised in Regulatory Capital (in LKR'000 as at the Reporting Date)	1,530,411	3,199,271	408	784	20
Accounting Classification (equity/Liability)	Liability	Liability	Liability	Liability	Liability
Coupons/Dividends					
Fixed or Floating Dividend/Coupon	FLOATING	FIXED	FLOATING	FIXED	FLOATING
Coupon Rate and any Related Index %	13.05	13.25	12.68	12.75	12.68
Non-Cumulative or Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative
Convertible or Non-Convertible	Non Convertible	Non Convertible	Non Convertible	Non Convertible	Non Convertible

Issuer	Bank of Ceylon	Bank of Ceylon	Bank of Ceylon	Bank of Ceylon	Bank of Ceylon
Governing Laws of the Instrument	Laws of Sri Lanka	Laws of Sri Lanka	Laws of Sri Lanka	Laws of Sri Lanka	Laws of Sri Lanka
Original Date of Issuance	29-Dec-17	29-Dec-17	31-Jul-18	3-Dec-18	27-Jun-19
Par Value of Instrument - LKR	100	100	100	100	100
Issued quantity (No of Debentures)	50,000,000	10,000,000	67,000,000	53,000,000	30,000,000
Issued Quantity (LKR'000)	5,000,000	1,000,000	6,700,000	5,300,000	3,000,000
Perpetual or Dated					
Original Maturity Date, if Applicable	28-Dec-25	28-Dec-22	30-Jul-26	2-Dec-23	26-Jun-24
Amount Recognised in Regulatory Capital (in LKR'000 as at the Reporting Date)	5,000,000	600,000	6,700,000	4,240,000	2,700,000
Accounting Classification (equity/Liability)	Liability	Liability	Liability	Liability	Liability
Coupons/Dividends					
Fixed or Floating Dividend/Coupon	FIXED	FIXED	FIXED	FIXED	FIXED
Coupon Rate and any Related Index %	12.75	12.50	12.00	12.00	11.75
Non-Cumulative or Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative
Convertible or Non-Convertible	Non Convertible	Non Convertible	Non Convertible	Non Convertible	Non Convertible

Main Features of Regulatory Capital Instruments

Issuer	Bank of Ceylon	Bank of Ceylon	Bank of Ceylon	Bank of Ceylon	Bank of Ceylon
Governing Laws of the Instrument	Laws of Sri Lanka	Laws of Sri Lanka	Laws of Sri Lanka	Laws of Sri Lanka	Laws of Sri Lanka
Original Date of Issuance	17-Jul-19	18-Jul-19	23-Jul-19	24-Jul-19	26-Jul-19
Par Value of Instrument -LKR	100	100	100	100	100
Issued quantity (No of Debentures)	10,488,500	22,000,000	25,000,000	4,000,000	611,500
Issued Quantity (LKR'000)	1,048,850	2,200,000	2,500,000	400,000	61,150
Perpetual or Dated	Dated	Dated	Dated	Dated	Dated
Original Maturity Date, if Applicable	16-Jul-24	17-Jul-24	22-Jul-24	23-Jul-24	25-Jul-27
Amount Recognised in Regulatory Capital (in LKR'000 as at the Reporting Date)	996,408	2,090,000	2,375,000	380,000	61,150
Accounting Classification (equity/Liability)	Liability	Liability	Liability	Liability	Liability
Coupons/Dividends					
Fixed or Floating Dividend/Coupon	FIXED	FIXED	FIXED	FIXED	FIXED
Coupon Rate and any Related Index %	11.80	11.80	11.80	11.50	11.75
Non-Cumulative or Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative
Convertible or Non-Convertible	Non Viability write down	Non Viability write down	Non Viability write down	Non Viability write down	Non Viability write down

Capital Adequacy

Credit Risk Under Standardised Approach

Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects -Bank

Asset Class	Amount (LKR'000) as at **31.12.2019**					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures Post CCF and CRM		RWA and RWA Density (%)	
	On Balance Sheet Amount	Off Balance Sheet Amount	On Balance Sheet Amount	Off Balance Sheet Amount	RWA	RWA Density (%)
Claims on Central Goverment and CBSL	827,086,112	17,270,595	827,086,112	3,454,119	47,817,419	5.76%
Claims on Foreign Sovereigns and their Central Bank	21,025,325	-	21,025,325	-	19,867,539	94.49%
Claims on Public Sector Entities	375,550,829	193,373,793	52,637,440	35,437,508	76,074,947	86.38%
Claim on Official Entities and Multilateral Development Banks	-	-	-	-	-	-
Claims on Banks Exposures	68,943,366	-	68,943,366	-	52,630,334	76.34%
Claims on Financial Institutions	14,285,831	-	14,285,831	-	7,970,991	55.80%
Claims on Corporates	295,885,838	136,267,923	263,081,573	35,386,414	285,587,820	95.68%
Retail Claims	431,030,414	61,520,801	389,335,062	-	306,441,265	78.71%
Claims Secured by Gold	64,552,862	-	64,552,862	-	305,545	0.47%
Claims Secured by Residential Property	83,047,046	-	83,047,046	-	53,488,418	64.41%
Claims secured by Commercial Real Estate	36,303,077	-	36,303,077	-	36,303,077	100.00%
Non- Performing Assets (NPAs)	30,549,350	-	31,158,601	-	31,158,601	100.00%
Higher - risk Categories	1,314,877	-	1,314,877	-	3,287,193	250.00%
Cash Items and Other Assets	123,402,185	62,493,745	123,402,185	62,493,745	130,281,962	70.08%
Total	2,372,977,113	470,926,857	1,976,173,358	136,771,785	1,051,215,112	49.75%

Credit Risk Under Standardised Approach

Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects -Group

Asset Class	Amount (LKR'000) as at 31.12.2019					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures Post CCF and CRM		RWA and RWA Density (%)	
	On Balance Sheet Amount	Off Balance Sheet Amount	On Balance Sheet Amount	Off Balance Sheet Amount	RWA	RWA Density (%)
Claims on Central Goverment and CBSL	832,666,366	17,270,595	832,666,366	3,454,119	47,817,419	5.72%
Claims on Foreign Sovereigns and their Central Bank	21,025,325	-	21,025,325	-	19,867,539	94.49%
Claims on Public Sector Entities	383,643,956	193,373,793	52,637,440	35,437,508	76,074,947	86.38%
Claim on Official Entities and Multilateral Development Banks	-	-	-	-	-	-
Claims on Banks Exposures	72,425,460	-	72,425,460	-	56,112,428	77.48%
Claims on Financial Institutions	14,285,831	-	14,285,831	-	7,970,991	55.80%
Claims on Corporates	322,133,836	136,267,923	289,329,571	35,386,414	311,835,818	96.03%
Retail Claims	431,030,414	61,520,801	389,335,062	-	306,441,265	78.71%
Claims Secured by Gold	64,552,862	-	64,552,862	-	305,545	0.47%
Claims Secured by Residential Property	83,047,046	-	83,047,046	-	53,488,418	64.41%
Claims secured by Commercial Real Estate	36,303,077	-	36,303,077	-	36,303,077	100.00%
Non- Performing Assets (NPAs)	30,549,350	-	31,158,601	-	31,158,601	100.00%
Higher - risk Categories	162,300	-	162,300	-	405,750	250.00%
Cash Items and Other Assets	134,792,175	62,493,745	134,792,175	62,493,745	141,711,112	71.83%
Total	2,426,618,000	470,926,857	2,021,721,117	136,771,785	1,089,492,911	50.47%

Credit Risk under Standardised Approach : Exposures by Asset Classes and Risk Weights - Bank

Risk Weight / Asset Classes	Amount (LKR'000)as at 31.12.2019 (Post CCF & CRM)								
	0%	20%	50%	60%	75%	100%	150%	>150%	Total Credit Exposures Amount
Claims on Central Government and Central Bank of Sri Lanka	588,793,134	238,292,978							827,086,112
Claims on Foreign Sovereigns and their Central Bank			2,315,572			18,709,753			21,025,325
Claims on public Sector Entities		15,000,000				37,637,440			52,637,440
Claims on Official Entities and Multilateral Development Banks									-
Claims on Banks Exposures		20,208,641	292,238			48,442,487			68,943,366
Claims on Financial Institutions		887,500	11,209,680			2,188,651			14,285,831
Claims on Corporates		11,941,152	4,628,627			245,952,528	559,266		263,081,573
Retail Claims				673,305	330,497,902	58,163,855			389,335,062
Claims Secured by Gold	63,025,138	1,527,725							64,552,862
Claims Secured by Commercial Residential Property			59,117,257			23,929,790			83,047,046
Claims secured by Commercial Real Estate						36,303,077			36,303,077
Non- Performing Assests(NPAs)			-			31,158,602	(0)		31,158,601
Higher -risk Categories								1,314,877	1,314,877
Cash Item and Other Assests	46,658,722	11,194,058				65,549,406			123,402,185
Total	698,476,994	299,052,053	77,563,374	673,305	330,497,902	568,035,588	559,266	1,314,877	1,976,173,358

Capital Adequacy

Credit Risk under Standardised Approach : Exposures by Asset Classes and Risk Weights - Group

Risk Weight / Asset Classes	Amount (LKR'000)as at 31.12.2019 (Post CCF & CRM)								
	0%	20%	50%	60%	75%	100%	150%	>150%	Total Credit Exposures Amount
Claims on Central Government and Central Bank of Sri Lanka	594,373,388	238,292,978							832,666,366
Claims on Foreign Sovereigns and their Central Bank			2,315,572			18,709,753			21,025,325
Claims on public Sector Entities		15,000,000				37,637,440			52,637,440
Claims on Official Entities and Multilateral Development Banks									-
Claims on Banks Exposures		20,208,641	292,238			51,924,581			72,425,460
Claims on Financial Institutions		887,500	11,209,680			2,188,651			14,285,831
Claims on Corporates		11,941,152	4,628,627			272,200,526	559,266		289,329,571
Retail Claims				673,305	330,497,902	58,163,855			389,335,062
Claims Secured by Gold	63,025,138	1,527,725							64,552,862
Claims Secured by Commercial Residential Property			59,117,257			23,929,790			83,047,046
Claims secured by Commercial Real Estate						36,303,077			36,303,077
Non- Performing Assests(NPAs)						31,158,602	(0)		31,158,601
Higher -risk Categories								162,300	162,300
Cash Item and Other Assests	46,619,562	11,194,058				76,978,555			134,792,174
Total	704,018,088	299,052,053	77,563,374	673,305	330,497,902	609,194,829	559,266	162,300	2,021,721,116

Market Risk Under Standardised Measurement Method

Item	31.12.2019	
	Bank	Group
	LKR'000	LKR'000
(a) Capital Charge for Interest Rate Risk	**171,648**	**171,648**
General Interest Rate Risk	171,648	171,648
(i) Net Long or Short Position	171,648	171,648
(ii) Horizontal Disallowance	-	-
(iii) Vertical Disallowance	-	-
(iv) Options	-	-
Specific Interest Rate Risk	-	-
(b) Capital Charge for Equity	696,256	696,256
(i) General Equity Risk	363,460	363,460
(ii) Specific Equity Risk	332,796	332,796
(c) Capital Charge for Foreign Exchange & Gold	61,118	61,118
Total Capital Charge for Market Risk [(a)+(b)+(c)]	929,022	929,022
Total Risk Weighted Amount for Market Risk	6,635,871	6,635,871

Operational Risk under Basic Indicator Approach - Bank

Business Lines	Capital Charge Factor	Gross Income (LKR'000)as at 31.12.2019			
		Fixed Factor	1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		68,808,549	85,490,210	88,071,593
Capital Charges for Operational Risk(LKR'000)					12,118,518
Risk Weighted Amount for Operational Risk(LKR'000)					86,560,843

Operational Risk under Basic Indicator Approach - Group

Business Lines	Capital Charge Factor	Gross Income (LKR'000)as at 31.12.2019			
		Fixed Factor	1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		80,756,706	96,341,700	94,297,623
Capital Charges for Operational Risk(LKR'000)					13,569,801
Risk Weighted Amount for Operational Risk(LKR'000)					96,927,150

Capital Adequacy

Differences between Accounting and Regulatory Scopes and mapping of Financial Statement categories with Regulatory Risk Categories - Bank only.

Item	Amount (LKR'000) as at 31.12.2019				
	a	b	c	d	e
	Carrying Values Reported in Published Financial Statement	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deducation from Capital
Assets	2,415,116,629	2,425,218,523	2,418,354,397	9,098,774	6,732,037
Cash and Cash Equivalents	64,868,895	63,015,224	63,015,224	126,090	-
Balances With Central Bank	54,594,436	58,532,301	58,532,301	-	-
Placements with Banks	44,476,343	45,166,260	45,166,260	-	-
Securities Purchased under resale agreements	2,179,449	2,179,000	2,179,000	-	-
Derivative Financial Instruments	132,090	132,090	-	-	-
Financial assets recognized through profit or loss measured at fair value	10,055,415	8,369,905	8,359,164	8,972,684	10,741
Financial assets at amortized cost		-	-	-	-
Loans and advances	1,549,804,871	1,583,352,660	1,583,352,660	-	-
Debt and other instruments	572,747,809	561,648,424	559,977,300	-	1,671,124
Financial assests - measured at fair value through other comprehensive income / Available for sale	14,236,090	14,417,308	13,839,082	-	578,226
Investments in Subsidiaries	6,513,048	6,488,048	3,264,384	-	3,223,664
investments in Associates	92,988	117,988	117,988	-	
Investment Properties	2,648,784	2,648,784	2,648,784	-	-
Property,plant and Equipment	25,579,065	25,727,695	25,727,695	-	-
Right of Use Asset	3,479,937				
Intangible Assets	1,127,007	1,089,462		-	1,089,462
Deferred Tax Assets		158,820	-	-	158,820
Other Assets	62,580,402	52,174,555	52,174,555	-	-
On Balance Sheet Liabilities	2,272,833,892	2,273,357,776	-	-	-
Due to banks	2,669,407	3,751,785	-	-	-
Securities Sold under resale agreements	34,183,210	34,005,403	-	-	-
Derivative Financial Instruments	106,677		-	-	-
Financial Liabilities at amortised cost	-	-	-	-	-
- Due to Depositors	2,005,211,794	1,957,022,980	-	-	-
- Other Borrowings	137,833,543	133,315,794	-	-	-
Debt Securities Issued	-	-	-	-	-
Current Tax Liabilities		30,899,820	-	-	-
Deferred Tax Liabilities	4,592,022	-	-	-	-
Other Provisions	-	-	-	-	-
Other Liabilities	34,015,688	61,318,468	-	-	-
Subordinated Term Debts	54,221,552	53,043,525	-	-	-

Item	Amount (LKR'000) as at 31.12.2019				
	a	b	c	d	e
	Carrying Values Reported in Published Financial Statement	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deducation from Capital
Off-Balance Sheet Liabilities	508,217,961	491,427,328	-	-	-
Guarantees	72,825,976	72,688,274	72,688,274	-	-
Performance Bonds	28,436,586	28,436,586	28,436,586	-	-
Letters of Credit	118,292,304	118,292,304	118,292,304	-	-
Other Contingent Items	97,706,812	97,706,812	97,706,812	-	-
Undrawn Loan Commitment	48,756,752	48,756,752	48,756,752	-	-
Other Commitments	142,199,531	125,546,600	125,546,600	-	-
Shareholder's Equity	25,000,000	25,000,000	-	-	-
Equity Capital (Stated Capital)/Assigned Capital					
of which Amount Eligible for CET 1	25,000,000	25,000,000	-	-	-
of which Amount Eligible FOR AT1	-	-	-	-	-
Permanent Reserve Fund	13,383,000	12,890,000			
OCI Reserves	1,976,601	-	-	-	-
Retained Earnings	87,689,480	99,475,973	-	-	-
Other Reserves	14,233,656	14,494,774	-	-	-
Total Shareholder's Equity	142,282,737	151,860,747	-	-	-
Total On -Balance Sheet Liabilities & Equity Capital and Reserves	2,415,116,629	2,425,218,523	-	-	-

Explanations of Differences between Accounting and Regulatory Exposure Amounts

Difference arises due to fair value adjustments, impairment under expected loss model on financial instruments and the classification adjustments between line items of the financial position under SLFRSs.

Derivative Financial Instruments

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk, indices etc.

Derivative financial instruments are measured at fair value using forward pricing models in Published Financial Statement and more details are given in Note 25 and Note 40 in this Report.

Loans and Advances to Customers

Allowance for Impairment

Time-based provisions under Central Bank guidelines have been netted off from the amortised cost when arriving loans and advances to the customers under regulatory reporting, however as per SLFRS 9 "impairment under expected loss model" have been netted off from amortised cost when arriving loans and advances to the customers under reporting purposes. More details are given under Note 27.

Day One Difference

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, Bank recognises fair value of such transactions as per SLFRS 9. More details are given in Note 4.5.4. However, Bank recognises cost of such transactions under regulatory reporting.

Financial assets – FVTOCI

Financial assets FVTOCI are measured at fair value under published Financial Statements and carried at cost for regulatory reporting purposes. The details of financial investments – FVTOCI and the fair valuation of these instruments are disclosed in Note 29 and Note 61 respectively. The following disclosures are included in Note 63 on Risk Management on page 321 to 338.

(i) Summary discussions on adequacy/ meeting current and future capital requirement.

(ii) Bank risk management approach.

(iii) Risk management related to key risk exposure.

Capital Adequacy

D-SIB Assessment Exercise	LKR Group
Size Indicator	
Section 1 - Total Exposures	
Total exposures measure	2,619,193,506
Interconnectedness Indicators	
Section 2 - Intra-Financial System Assets	
a. Funds deposited with or lent to other financial institutions (including unused portion of committed lines extended)	
(i) Funds deposited	7,810
(ii) Lending	14,786
b. Holdings of securities issued by other financial institutions	14,210
c. Net positive current exposure of securities financing transactions (SFTs) with other financial institutions	253
d. Over-the-counter (OTC) derivatives with other financial institutions that have a net positive mark to market value	131
Intra-financial system assets	
Section 3 - Intra-Financial System Liabilities	
a. Funds deposited by or borrowed from other financial institutions (including unused portion of committed lines obtained)	
(i) Funds deposited	18,814
(ii) Borrowings	132,747
b. Net negative current exposure of securities financing transactions with other financial institutions	-
c. Over-the-counter derivatives with other financial institutions that have a net negative mark to market value	20,081
Intra-financial system liabilities	
Section 4 - Securities Outstanding	
Securities outstanding	53,043
Substitutability/Financial Institution Infrastructure Indicators	
Section 5 - Payments made in the reporting year (excluding intragroup payments)	
Payments activity	12,119,716
Section 6 - Assets Under Custody	
Assets under custody	382,439
Section 7 - Underwritten Transactions in Debt and Equity Markets	
Underwriting activity	-
Section 8 - Trading Volume	
Trading volume	12,330
Complexity indicators	
Section 9 - Notional Amount of Over-the-Counter (OTC) Derivatives	
OTC derivatives	23,020
Section 10 - Level 2 Assets	
Level 2 assets	3,842
Section 11 - Trading and available for sale (AFS) securities	
Trading and AFS securities	14,777
Section 12 - Cross-Jurisdictional Liabilities	
Foreign Liabilities (excluding derivatives and intragroup liabilities)	
Cross-jurisdictional liabilities	247,208
Section 13 - Cross-Jurisdictional Claims	
Foreign claims (excluding derivatives and intragroup liabilities)	
Cross-jurisdictional claims	11,942

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GRI Index

GRI Standard	Disclosure	Location/ Explanation	Page number
GRI 101: Foundation 2016 (does not include any disclosures)			
General Disclosures			
GRI 102: General Disclosures 2016	102-1 Name of Organisation	About this Report	5
	102-2 Activities, brands, products and services	Strategic Report	69
	102-3 Location of headquarters	Corporate Information	425
	102-4 Location of operations	Organisational Overview	22
	102-5 Ownership and legal form	Corporate Information, Financial Reports	300, 425
	102-6 Markets served	Organisational Overview, Strategic Report	22, 69, 70, 96
	102-7 Scale of the organisation	Performance Highlights 2019	8 - 10
	102-8 Information on employees and other workers	Organisational Overview	38
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	102-10 Significant changes to the organisation and supply chain	About this Report	5
	102-11 Precautionary principle	Strategic Report	107
	102-12 External initiatives	About this Report	6
	102-13 Membership of associations	Strategic Report	83
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	102-16 Values, principles, norms and standards of behaviour	Bankers to the Nation, Strategic Report	4, 106
	102-18 Governance Structure	Strategic Report	79, 101
	102-40 List of stakeholder groups	Value Creation	128 - 130
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	102-42 Identifying and selecting stakeholders	Value Creation	128
	102-43 Approach to stakeholder engagement	Value Creation	128 - 130
	102-44 Key topics and concerns raised	Stakeholder Value Creation	128 - 130
	102-45 Entities included in the consolidated financial statements	Financial Report	160
	102-46 Defining report content and topic boundary	About this Report, Organisational Overview	5, 42 - 43
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	102-53 Contact point for questions regarding Report	About this Report	6
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GRI Standard	Disclosure	Location/ Explanation	Page number
103 Management Approach			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	Organisational Overview	42 - 43
	103-2 The Management Approach and its components	Strategic Report	64 - 67 68 - 108
	103-3 Evaluation of the Management Approach	Strategic Report	64 - 67, 68 - 108
200 Economic Performance			
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	Organisational Overview	37
	201-2 Financial implications and other risks and opportunities due climate change	Organisational Overview, Strategic Report	41, 85
	201-3 Defined benefit plan obligations and other retirement plans	Financial Report, Strategic Report	91, 274
GRI 202: Market Presence 2016	202-2: Proportion of senior management hired from local community	Strategic Report	38
GRI 203: Indirect Economic Impacts 2016	203-2: Significant indirect economic impacts	Strategic Report	80 - 81
GRI 204: Procurement practices 2016	204-1 Proportion of spending on local suppliers	Strategic Report	9
GRI 205: Anti-corruption	205-2 Communication and training related to anti-corruption policies and procedures	Strategic Report	106
300 Environmental Performance			
GRI 302: Energy 2016	302-1 Energy consumption within the organisation	Strategic Report	84
	302-4 Reduction of energy consumption	Strategic Report	84
GRI 305 Emissions: 2016	305-1 Direct (scope 1) Greenhouse Gas (GHG) emissions	Strategic Report	84
	305-2 Energy Indirect (scope 2) Greenhouse Gas (GHG) emissions	Strategic Report	84
	305-4 GHG emission intensity	Strategic Report	84
GRI 307: Environmental Compliance	307-1 Non-compliance with environmental laws and regulations	Strategic Report	60
400 Social Performance			
GRI 401: Employment 2016	401-1 New Employee hires and employee turnover	Strategic Report	91, 94
	401-2 Benefits provided to full time employees that are not provided to temporary or part-time employees	Strategic Report	91
	401-3 Parental leave	Strategic Report	93
GRI 402: Labour Management Relations 2016	402-1 Minimum notice periods regarding operational changes	Strategic Report	92
403: Occupational health and safety 2016	403-4 Health and safety topics covered in formal agreements with trade unions	Strategic Report	92
GRI 404: Training and education	404-1 Average hours of training per year per employee	Strategic Report	93

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GRI Standard	Disclosure	Location/ Explanation	Page number
	404-2 Programmes for upgrading skills and transition assistance programmes	Strategic Report	93
	404-3 Percentage of employees receiving regular performance and career development reviews	Strategic Report	93 - 94
GRI 405: Diversity and equal opportunity 2016	405-2 Ratio of basic salary and remuneration of women to men	Strategic Report	92
GRI 406: Non Discrimination	406-1 incidents of discrimination and corrective actions taken	Strategic Report	92
GRI 407 Freedom of Association and Collection Bargaining	407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	Strategic Report	83
GRI 408: Child Labour	408-1 Operations and suppliers at significant risk for incidents of child labour	Strategic Report	83
GRI 409: Forced or Compulsory labour	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour	Strategic Report	83
GRI 413: Local communities 2016	413-1 Operations with local community engagement, impact assessments and development programmes	Strategic Report	82, 86, 92
GRI 417: Marketing and labelling	417-1 Requirements for product and service labelling	Strategic Report	70
	417-3 Incidents of non-compliance concerning marketing communications	Strategic Report	70
GRI 418: Customer Privacy 2016	418-1 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Strategic Report	70
GRI 419: Socio Economic Compliance	419-1 Non - Compliance with laws and regulations in the social and economic era	Organisational Overview	60

Independent Assurance Report - Sustainability

Building a better working world

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Independent Assurance Report to Bank of Ceylon on the Sustainability Reporting Criteria Presented in the Integrated Annual Report- 2019

Introduction and scope of the engagement

The management of Bank of Ceylon ("the Bank") engaged us to provide an independent assurance on the following elements of the sustainability reporting criteria presented in the annual report-2019 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 37 of the Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative GRI Standards: 'In accordance' – Core guidelines.

Basis of our work and level of assurance

We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information', issued by the Institute of Chartered Accountants of Sri Lanka ("CASL").

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines ("GRI Guidelines") and related information in particular, the requirements to achieve GRI Standards 'In accordance' - Core guideline publication, publicly available at GRI's global website at "www.globalreporting.org".

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

Management of the Bank's responsibility for the Report

The management of the Bank is responsible for the preparation of the self-declaration, the information and statements contained within the Report, and for maintaining adequate records and internal controls that are designed to support the sustainability reporting process in line with the GRI Sustainability Reporting Guidelines.

Ernst & Young's responsibility

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative, GRI Standards: 'In accordance' - Core guidelines. This report is made solely to the Bank in accordance with our engagement letter dated 17 February 2020. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Bank or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the CASL.

Key assurance procedures

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusions. Key assurance procedures included:

- Interviewing relevant the Bank's personnel to understand the process for collection, analysis, aggregation and presentation of data.
- Reviewing and validation of the information contained in the Report.
- Checking the calculations performed by the Bank on a sample basis through recalculation.
- Reconciling and agreeing the data on financial performance are properly derived from the Bank's audited financial statements for the year ended 31 December 2019.

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayesinghe FCA FCMA Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principal G B Goudian ACMA A A J R Perera ACA ACMA T P M Ruberu FCMA FCCA

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Independent Assurance Report

- Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: 'In accordance' – Core guidelines.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

Limitations and considerations

Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

Conclusion

Based on the procedures performed, as described above, we conclude that;

- The information on financial performance as specified on page 37 of the Report are properly derived from the audited financial statements of the Bank for the year ended 31 December 2019.
- Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Bank's sustainability practices and policies some of which are derived from Sustainability Reporting Guideline, GRI Standards- 'In accordance' Core.

Ernst & Young
Chartered Accountants

24 March 2020
Colombo

Statement of Profit or Loss in USD

For the year ended 31 December	Bank 2019	Bank Restated 2018	Group 2019	Group Restated 2018
	USD '000	USD '000	USD '000	USD '000
Total income	**1,316,474**	1,209,416	**1,369,193**	1,255,000
Interest income	**1,213,854**	1,069,188	**1,251,846**	1,104,293
Less : Interest expenses	**800,129**	710,457	**820,787**	728,427
Net interest income	**413,725**	358,731	**431,059**	375,866
Fee and commission income	**80,215**	70,682	**82,416**	72,807
Less : Fee and commission expenses	**13,615**	12,293	**13,831**	12,370
Net fee and commission income	**66,600**	**58,389**	**68,585**	60,437
Net gains/ (losses) from trading	**13,958**	18,779	**14,068**	18,978
Net fair value gains/ (losses) from financial instruments at fair value through profit or loss	**1,772**	(3,728)	**1,887**	(3,924)
Net gains/ (losses) from derecognition of financial assets	**1,554**	832	**1,612**	839
Net other operating income	**5,121**	53,664	**17,364**	62,007
Total operating income	**502,730**	**486,667**	**534,575**	514,203
Less : Impairment charge/ (reversal) for loans and other losses	**102,391**	82,304	**103,060**	83,045
Net operating income	**400,339**	**404,363**	**431,515**	431,158
Less : Operating expenses				
Personnel expenses	**101,110**	94,947	**111,285**	104,388
Depreciation and amortisation expenses	**20,393**	12,040	**20,784**	15,395
Other expenses	**57,480**	62,057	**71,085**	71,868
Total operating expenses	**178,983**	**169,044**	**203,154**	191,651
Operating profit/ (loss) before Taxes on financial services	**221,356**	**235,319**	**228,361**	239,507
Less : Taxes on financial services	**57,922**	52,467	**59,739**	53,724
Operating profit/ (loss) after Taxes on financial services	**163,434**	**182,852**	**168,622**	185,783
Share of profits/ (losses) of associate companies, net of tax	**-**	-	**265**	51
Profit/ (loss) before income tax	**163,434**	**182,852**	**168,887**	185,834
Less : Income tax expense	**36,266**	67,926	**38,144**	70,709
Profit/ (loss) for the year	**127,168**	**114,926**	**130,743**	115,125
Profit attributable to :				
Equity holder of the Bank	**127,168**	114,926	**129,117**	115,222
Non-controlling interest	**-**	-	**1,626**	(97)
Profit for the year	**127,168**	**114,926**	**130,743**	115,125
Earnings per share and Dividend per share				
Basic earnings per share (USD)	**5.35**	6.16	**5.43**	6.18
Diluted earnings per share (USD)	**5.09**	5.40	**5.16**	5.41
Dividend per share (USD)	**0.08**	1.42	**0.08**	1.42

Exchange rate of 1 USD was LKR 181.6340 as at 31 December 2019. (LKR 182.7499 as at 31 December 2018)

The Statement of Profit or Loss given in this page does not form part of the Audited Financial Statements and it is solely for the convenience of the shareholders, investors, bankers and other interested parties of the Financial Statements of the Bank.

Statement of Comprehensive Income in USD

For the year ended 31 December	Bank 2019	Bank Restated 2018	Group 2019	Group Restated 2018
	USD '000	USD '000	USD '000	USD '000
Profit for the year	**127,168**	114,926	**130,743**	115,125
Items that will be reclassified to the profit or loss				
Exchange differences on translation of foreign operations	**(784)**	6,079	**(304)**	7,952
Net gains/ (losses) on investments in debt instruments measured				
at fair value through other comprehensive income	**424**	(1,486)	**438**	(1,562)
Net (gains)/ losses on investment in financial assets at fair value through OCI				
reclassification to profit or loss	**1,272**	(83)	**1,272**	(83)
Deferred tax effect on above	**(442)**	-	**(442)**	-
Share of other comprehensive income of Associate companies, net of tax	**-**	-	**(39)**	19
Total items that will be reclassified to the profit or loss	**470**	**4,510**	**925**	6,326
Items that will not be reclassified to profit or loss				
Change in fair value on investments in equity instruments				
designated at fair value through other comprehensive income	**303**	(2,244)	**80**	(4,509)
Deferred tax effect on above	**(795)**	(37)	**(795)**	(37)
Gain/ (Loss) of derecognition of investments in equity instruments				
designated at fair value through other comprehensive income	**84**	-	**84**	-
Changes in revaluation surplus/ (deficit)	**-**	(1,847)	**4,354**	807
Deferred tax effect on above	**-**	517	**(1,219)**	(226)
Net actuarial gains/ (losses) on defined benefit plans	**(69,736)**	(9,953)	**(69,944)**	(9,797)
Deferred tax effect on above	**91**	17	**187**	(51)
Total items that will not be reclassified to the profit or loss	**(70,053)**	**(13,547)**	**(67,253)**	(13,813)
Other comprehensive income for the year, net of tax	**(69,583)**	**(9,037)**	**(66,328)**	(7,487)
Total comprehensive income for the year	**57,585**	**105,889**	**64,415**	107,638
Attributable to:				
Equity holder of the Bank	**57,585**	105,889	**62,667**	107,750
Non-controlling interest	**-**	-	**1,748**	(112)
Total comprehensive income for the year	**57,585**	**105,889**	**64,415**	107,638

Exchange rate of 1 USD was LKR 181.6340 as at 31 December 2019. (LKR 182.7499 as at 31 December 2018)

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Statement of Financial Position in USD

	Bank		Group	
As at 31 December	**2019**	Restated 2018	**2019**	Restated 2018
	USD '000	USD '000	USD '000	USD '000
Assets				
Cash and cash equivalents	**357,141**	429,262	**356,925**	429,866
Balances with Central Banks	**300,574**	359,400	**300,574**	359,400
Placements with banks	**244,868**	221,341	**263,781**	228,082
Securities purchased under resale agreements	**11,999**	-	**21,923**	7,858
Derivative financial instruments	**727**	6,597	**727**	6,597
Financial assets recognised through profit or loss - measured at fair value	**55,361**	50,765	**60,852**	52,440
Financial assets at amortised cost	**8,532,570**	7,820,017	**8,704,037**	7,992,445
Loans and advances				
Debt and other instruments	**3,153,307**	3,019,643	**3,160,076**	3,026,175
Financial assets measured at fair value through OCI	**78,378**	91,379	**93,686**	105,821
Investment in subsidiary companies	**35,858**	35,639	**-**	-
Investment in associate companies	**512**	509	**2,461**	2,414
Investment properties	**14,583**	15,135	**646**	658
Property, Plant and Equipment	**140,828**	132,302	**217,395**	206,635
Right of Use Assets/ Leasehold properties	**19,159**	541	**12,044**	714
Intangible assets	**6,205**	6,775	**7,498**	7,971
Deferred tax assets	**-**	-	**2,819**	17
Other assets	**344,541**	313,197	**351,950**	320,381
Total assets	**13,296,611**	**12,502,502**	**13,557,394**	12,747,474
Liabilities				
Due to banks	**14,697**	13,146	**16,148**	13,767
Securities sold under repurchase agreements	**188,198**	532,965	**192,037**	533,096
Derivative financial instruments	**587**	2,785	**587**	2,785
Financial liabilities at amortised cost				
Due to depositors	**11,039,848**	9,690,702	**11,149,917**	9,794,393
Other borrowings	**758,853**	1,104,199	**798,833**	1,132,989
Debt securities issued	**-**	-	**11,605**	22,466
Current tax liabilities	**-**	21,462	**763**	22,103
Deferred tax liabilities	**25,282**	27,762	**39,546**	42,475
Insurance provision - Life	**-**	-	**2,814**	3,150
Insurance provision - Non life	**-**	-	**1,974**	2,006
Other liabilities	**187,276**	108,128	**191,363**	120,223
Subordinated liabilities	**298,521**	278,125	**298,466**	276,250
Total liabilities	**12,513,262**	11,779,274	**12,704,053**	11,965,703
Equity				
Share capital	**137,639**	136,799	**137,639**	136,799
Permanent reserve fund	**73,681**	70,534	**73,681**	70,534
Retained earnings	**482,782**	427,150	**490,771**	433,267
Other reserves	**89,247**	88,745	**141,422**	137,367
Total equity attributable to equity holder of the Bank	**783,349**	723,228	**843,513**	777,967
Non-controlling interest	**-**	-	**9,828**	3,804
Total equity	**783,349**	**723,228**	**853,341**	781,771
Total liabilities and equity	**13,296,611**	**12,502,502**	**13,557,394**	12,747,474
Contingent liabilities and commitments	**2,798,033**	2,781,434	**2,844,363**	2,808,168
Net assets value per share (USD)	**31.33**	36.16	**33.74**	38.90

Exchange rate of 1 USD was LKR 181.6340 as at 31 December 2019. (LKR 182.7499 as at 31 December 2018)

The Statement of Financial Position given in this page does not form part of the Audited Financial Statements and it is solely for the convenience of the shareholders, investors, bankers and other interested parties of the Financial Statements of the Bank.

Quarterly Performance

Summary of the Statement of Profir or Loss

	2019				2018			
	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar	30-Jun	30-Sep	31-Dec
	LKR Million	LKR Million	LKR Million	LKR Million	LKR Million	LKR Million	LKR Million	LKR Million
Bank								
Net interest income	18,407	20,049	19,066	17,625	14,350	15,133	17,558	18,515
Non interest income	2,266	4,137	6,685	5,551	4,731	4,506	6,541	9,624
Non interest expense	(8,444)	(9,238)	(9,046)	(8,254)	(8,130)	(8,926)	(9,392)	(6,691)
Impairment (charge)/ reversal for loans and other losses	(3,589)	(6,808)	(4,217)	(3,572)	(2,218)	(5,023)	(4,084)	(3,112)
Operating profit before Taxes on Financial Services	8,640	8,140	12,488	11,350	8,733	5,690	10,623	18,336
Taxes on financial services	(2,205)	(2,774)	(2,930)	(2,611)	(1,947)	(1,424)	(2,001)	(4,215)
Profit before income tax	6,435	5,366	9,558	8,739	6,786	4,266	8,622	14,121
Income tax expense	(2,219)	(2,633)	(2,855)	1,121	(2,017)	(2,020)	(3,328)	(5,048)
Profit after income tax	4,216	2,733	6,703	9,860	4,769	2,246	5,294	9,072
Other comprehensive income	(442)	(69)	370	(12,129)	(11)	(40)	(140)	(1,475)
Total comprehensive income	3,774	2,664	7,073	(2,269)	4,758	2,206	5,154	7,598
Group								
Net interest income	19,106	20,707	19,911	18,571	15,129	15,888	18,352	19,321
Non interest income	2,891	4,374	7,890	6,159	5,478	4,543	7,166	10,131
Non interest expense	(9,627)	(9,585)	(10,811)	(9,389)	(9,360)	(9,703)	(10,607)	(7,615)
Impairment (charge)/ reversal for loans and other losses	(3,682)	(6,850)	(4,283)	(3,904)	(2,451)	(5,152)	(4,177)	(2,795)
Operating profit before Taxes on Financial Services	8,688	8,646	12,707	11,437	8,796	5,576	10,734	19,042
Taxes on financial services	(2,217)	(2,849)	(3,042)	(2,743)	(1,976)	(1,454)	(2,051)	(4,337)
Operating profit after Taxes on Financial Services	6,471	5,797	9,665	8,694	6,820	4,122	8,683	14,705
Share of profit/ (losses) of associate companies,net of tax	0.2	20	7	22	1	17	(1)	(7)
Profit before income tax	6,471	5,817	9,672	8,716	6,821	4,139	8,682	14,698
Income tax expense	(2,292)	(2,717)	(2,925)	1,006	(2,059)	(2,100)	(3,414)	(5,349)
Profit after income tax	4,179	3,100	6,747	9,722	4,762	2,039	5,268	9,349
Other comprehensive income	(449)	(61)	221	(11,552)	135	(181)	(268)	(545)
Total comprehensive income	3,730	3,039	6,968	(1,830)	4,897	1,858	5,000	8,804

Summary of the Statement of Financial Position

	2019				2018			
	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar	30-Jun	30-Sep	31-Dec
	LKR Million	LKR Million	LKR Million	LKR Million	LKR Million	LKR Million	LKR Million	LKR Million
Bank								
Assets								
Investments	601,829	606,219	603,006	650,301	638,963	579,952	566,730	624,872
Loans and advances to customers	1,396,787	1,409,513	1,445,357	1,549,805	1,186,473	1,208,724	1,294,017	1,429,107
Property, Plant and Equipment	25,373	26,297	28,301	30,186	24,596	24,910	24,917	25,515
Other assets	183,030	191,317	226,871	184,825	197,789	173,088	214,014	205,337
Total assets	2,207,019	2,233,346	2,303,535	2,415,117	2,047,821	1,986,674	2,099,678	2,284,831
Liabilities and Equity								
Due to customers	1,770,802	1,819,931	1,879,709	2,005,212	1,624,851	1,617,378	1,648,255	1,770,975
Debt securities and borrowed funds	281,450	255,557	258,457	226,238	278,006	228,411	298,165	350,018
Other liabilities	29,725	30,152	30,763	41,384	29,224	24,299	29,958	31,668
Equity	125,042	127,706	134,606	142,283	115,740	116,586	123,300	132,170
Total liabilities and equity	2,207,019	2,233,346	2,303,535	2,415,117	2,047,821	1,986,674	2,099,678	2,284,831
Group								
Assets								
Investments	603,159	611,297	606,267	654,387	635,535	576,634	563,110	625,514
Loans and advances to customers	1,429,923	1,442,312	1,477,009	1,580,949	1,217,390	1,240,103	1,326,943	1,460,619
Property, Plant and Equipment	39,019	39,845	40,735	43,036	38,360	38,472	38,363	39,350
Other assets	182,453	190,687	226,327	184,112	201,383	180,765	216,670	204,117
Total assets	2,254,554	2,284,141	2,350,338	2,462,484	2,092,668	2,035,974	2,145,086	2,329,600
Liabilities and Equity								
Due to customers	1,791,528	1,839,691	1,899,422	2,025,204	1,642,764	1,636,818	1,668,414	1,789,924
Debt securities and borrowed funds	291,446	268,291	269,761	236,295	286,515	239,045	306,953	359,067
Other liabilities	35,883	36,639	34,841	45,989	36,338	32,839	35,827	37,741
Equity	135,023	137,854	144,612	153,211	126,163	126,448	133,060	142,173
Non controlling interest	674	1,666	1,702	1,785	888	824	832	695
Total liabilities and equity	2,254,554	2,284,141	2,350,338	2,462,484	2,092,668	2,035,974	2,145,086	2,329,600

Quarterly Performance

Summary of the Statement of Financial Position

	2019				2018			
	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar	30-Jun	30-Sep	31-Dec
	LKR Million	LKR Million	LKR Million	LKR Million	LKR Million	LKR Million	LKR Million	LKR Million
Bank								
Profitability								
Interest margin (%)	3.3	3.4	3.4	3.2	2.9	3.0	3.1	3.1
Return on average assets (before tax) (%)	1.2	1.1	1.3	1.3	1.4	1.2	1.3	1.6
Return on average equity (after tax) (%)	13.7	11.2	14.2	16.8	16.8	13.5	14.8	17.3
Investor Information								
Interest cover (times)	2.3	2.2	2.5	2.6	2.6	2.4	2.6	2.8
Net assets value per share (LKR)	5,002	5,108	5,384	5,691	7,716	5,829	6,165	6,608
Capital Adequacy Ratio								
Core capital adequacy ratio, (%) (Tier I)	10.2	10.7	10.3	11.2	9.8	9.9	10.0	10.3
Total capital adequacy ratio, (%) (Tier I + II)	14.2	15.5	15.3	15.6	13.7	13.7	14.0	14.6
Assets Quality								
Gross non - performing advances ratio (%)	4.7	5.3	5.4	4.8	3.8	4.5	4.5	3.6
(Net of interest in suspense)								
Net non - performing advances ratio (%)	1.9	2.4	2.3	1.8	1.3	2.0	1.7	1.0
(Net of interest in suspense and provisions)								
Regulatory Liquidity								
Statutory liquid assets ratio								
- Domestic banking unit (%)	25.1	26.6	24.1	24.6	30.4	26.1	23.8	24.5
- Off shore banking unit (%)	57.8	47.9	54.9	58.3	22.9	51.9	61.7	60.2
Group								
Profitability								
Interest margin (%)	3.4	3.5	3.4	3.3	3.0	3.1	3.2	3.1
Return on average assets (before tax) (%)	1.1	1.1	1.3	1.3	1.3	1.2	1.3	1.6
Return on average equity (after tax) (%)	12.5	10.7	13.4	16.0	15.3	11.9	13.3	15.9
Investor Information								
Net assets value per share (LKR)	5,401	5,514	5,784	6,128	8,411	6,322	6,653	7,109
Capital Adequacy Ratio								
Core capital adequacy ratio, (%) (Tier I)	10.3	10.7	10.1	11.4	10.0	10.1	9.9	10.4
Total capital adequacy ratio, (%) (Tier I +II)	14.2	15.3	14.8	15.7	13.8	13.8	13.8	14.6

Share and Debenture Information

Share Information

As at 31 December	2019		2018	
Shareholder	No. of ordinary shares	Holding %	No. of ordinary shares	Holding %
Government of Sri Lanka	25,000,000	100	25,000,000*	100

* This includes 5,000,000 numbers of shares in pending allotment.

Debenture Information

The Bank has issued the following debt securities which are listed on Colombo Stock Exchange (CSE)

Unsecured, Subordinated, Redeemable Debentures (par value LKR 100)	Type	Interest Payable Frequency	Interest Rate (per annum)
October 2013/2023 series	D	Annually	13.25%
	E	Semi annually	6 months TB rate (gross) plus 100 basis points
	F	Annually	13.25%
	H	Annually	13.75%
September 2014/2022 series	D	Annually	8.25%
	E	Semi annually	6 months TB (gross) rate plus 50 basis points
October 2015/2023 series	A	Annually	8.25%
	B	Quarterly	8.00%
	C	Semi annually	6 months TB (gross) rate plus 125 basis points
	D	Annually	9.50%
	E	Semi annually	6 months TB (gross) rate plus 125 basis points
December 2016/2024 series	A	Annually	13.25%
	B	Semi annually	6 months TB (gross) rate plus 125 basis points
	C	Annually	12.75%
	D	Semi annually	6 months TB (gross) rate plus 125 basis points

Share and Debenture Information

Trading Information on Listed Debenture

The debentures that have been traded during the year ended 2019 and 2018 are as follows.

	2019					2018				
	Highest LKR	Lowest LKR	Last traded LKR	Interest yield * %	Yield to maturity * %	Highest LKR	Lowest LKR	Last traded LKR	Interest yield * %	Yield to maturity * %
BoC Debentures 2013/2023 ,										
Unsecured, subordinated, redeemable, 10 years, fixed rate (13.75%)	**102.22**	**102.22**	**102.22**	**13.00**	**13.04**	N/T	N/T	N/T	N/T	N/T
BoC Debentures 2014/2022,										
Unsecured, subordinated, redeemable, 5 years, fixed rate (8.0%)	**97.31**	**97.3**	**97.3**	**12.5**	**12.67**	N/T	N/T	N/T	N/T	N/T
BoC Debentures 2014/2022,										
Unsecured, subordinated, redeemable, 8 years, fixed rate (8.25%)	**80**	**80**	**80**	**16.56**	**16.06**	N/T	N/T	N/T	N/T	N/T
BoC Debentures 2015/2023,										
Unsecured, subordinated, redeemable, 5 years, floating rate 06 months TB rate (Gross) plus 125 basis points	**98.5**	**97**	**97**	**13.08**	**13.24**	97	94	97	11.7	11.05
BoC Debentures 2016/2024,										
Unsecured, subordinated, redeemable, 5 years, fixed rate (13.25%)	**100.34**	**98.2**	**100.34**	**13.02**	**13.10**	N/T	N/T	N/T	N/T	N/T

* As the date of last trade done.

N/T - Not Traded

Ten Year Statistical Summary – Bank

For the year ended 31 December	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	LKR million	LKR million	LKR million	LKR million	LKR million	LKR million	LKR million	LKR million	LKR million	LKR million
Operating results										
Income	63,363	70,457	110,138	127,464	126,546	131,502	154,121	189,211	221,021	239,116
Interest income	50,843	61,222	95,022	114,863	107,395	112,745	134,685	171,344	195,394	220,477
Interest expenses	(31,200)	(36,216)	(59,701)	(77,720)	(68,945)	(66,419)	(80,728)	(112,988)	(129,836)	(145,331)
Net interest income	19,643	25,006	35,321	37,143	38,450	46,326	53,957	58,356	65,558	75,146
Other operating income	12,515	9,235	15,116	12,601	19,151	18,756	19,437	17,868	25,627	18,640
Other operating expenses	(18,104)	(15,241)	(27,428)	(31,324)	(33,258)	(34,987)	(35,940)	(38,632)	(48,181)	(53,580)
Operating profit before VAT and NBT	14,054	19,000	23,009	18,420	24,343	30,095	37,454	37,592	43,004	40,206
VAT & NBT on financial services	(4,001)	(2,516)	(3,214)	(2,711)	(4,052)	(4,816)	(6,265)	(7,249)	(9,588)	(10,521)
Profit before income tax	10,053	16,484	19,795	15,709	20,291	25,279	31,189	30,343	33,416	29,685
Income tax expense	(3,688)	(4,567)	(5,378)	(3,622)	(6,717)	(7,922)	(6,398)	(9,031)	(12,413)	(6,587)
Profit for the year	6,365	11,917	14,417	12,087	13,574	17,357	24,791	21,312	21,003	23,098

As at 31 December	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	LKR million	LKR million	LKR million	LKR million	LKR million	LKR million	LKR million	LKR million	LKR million	LKR million
Assets										
Cash and cash equivalents	14,104	18,671	31,545	24,901	35,583	79,917	67,706	72,843	78,447	64,869
Balances with Central Banks	25,642	30,223	29,963	28,699	30,422	38,940	56,388	68,689	65,680	54,594
Placements with banks	42,709	14,581	19,394	19,315	13,349	27,976	11,675	8,067	40,450	44,476
Loans and advances to customers	368,302	543,149	691,899	725,332	741,348	826,790	1,000,082	1,163,161	1,429,107	1,549,805
Other financial assets	241,205	195,444	239,089	335,455	438,554	522,762	461,193	567,778	579,023	599,352
Investments in subsidiaries and associates	6,124	7,084	7,636	7,672	7,056	7,056	6,306	6,606	6,606	6,606
Investment properties	-	-	-	-	-	-	3,000	2,883	2,766	2,649
Property, Plant and Equipment	5,621	10,595	11,516	12,089	16,296	16,431	15,584	23,148	24,277	29,059
Intangible assets	164	343	376	501	385	373	563	811	1,238	1,127
Other assets	16,377	18,183	16,803	39,617	46,027	48,044	46,794	37,818	57,237	62,580
Total assets	720,248	838,273	1,048,221	1,193,581	1,329,020	1,568,289	1,669,291	1,951,804	2,284,831	2,415,117
Liabilities										
Due to banks	2,215	6,508	10,128	1,166	890	2,630	2,042	2,203	2,402	2,669
Due to customers	530,092	595,774	693,441	842,070	933,966	1,082,337	1,256,589	1,546,832	1,770,975	2,005,212
Debt securities issued and subordinated term debts	40,115	42,591	47,114	45,326	53,282	39,055	42,072	42,570	50,827	54,222
Other borrowings	105,169	138,389	233,795	235,370	246,736	337,442	254,895	222,679	299,192	172,017
Current tax liabilities	2,200	1,139	2,208	-	-	2,081	-	1,877	3,922	-
Other liabilities	10,551	12,518	10,582	11,949	19,340	23,259	20,843	24,488	25,343	38,714
Total liabilities	690,342	796,919	997,268	1,135,881	1,254,214	1,486,804	1,576,441	1,840,649	2,152,661	2,272,834
Equity										
Share capital	5,000	5,000	5,000	5,000	10,000	10,000	15,000	20,000	25,000	25,000
Permanent reserve fund	2,777	3,008	3,286	3,538	3,810	5,210	7,996	10,427	12,890	13,383
Retained earnings	14,564	21,733	27,639	31,419	44,861	51,086	54,155	63,472	78,062	87,689
Other reserves	7,565	11,613	15,028	17,743	16,135	15,189	15,699	17,256	16,218	16,211
Total equity	29,906	41,354	50,953	57,700	74,806	81,485	92,850	111,155	132,170	142,283
Total liabilities and equity	720,248	838,273	1,048,221	1,193,581	1,329,020	1,568,289	1,669,291	1,951,804	2,284,831	2,415,117
Contingent liabilities and commitments	313,040	409,747	455,181	655,441	721,763	696,857	547,399	496,477	508,307	508,218

Ten Year Statistical Summary – Bank

As at 31 December	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	LKR million	LKR million	LKR million	LKR million	LKR million	LKR million	LKR million	LKR million	LKR million	LKR million
Ratios										
Return on average assets (%)	1.6	2.1	2.1	1.4	1.6	1.7	1.9	1.7	1.6	**1.3**
Return on average equity (%)	24.0	33.5	31.2	22.2	20.5	22.2	28.4	20.9	17.3	**16.8**
Income growth (%)	(0.2)	11.2	56.3	15.7	(0.7)	3.9	17.2	22.8	16.8	**8.2**
Capital adequacy ratio (%) **										
- Tier I	10.3	7.8	8.3	8.4	9.5	9.1	8.7	10.8	10.3	**11.2**
- Tier I + Tier II	13.7	10.9	11.5	12.1	13.6	13.1	12.3	14.6	14.6	**15.6**
Capital funds to liabilities including contingent liabilities (%)	3.1	3.4	3.5	3.2	3.8	3.7	4.4	4.8	5.0	**5.1**
Liquidity ratio - domestic (%)	28.7	23.4	21.8	27.7	30.8	28.2	21.6	27.2	24.5	**24.60**
Cost to income ratio (%)	53.7	51.1	42.7	49.1	44.0	44.7	43.0	38.4	38.1	**37.3**
Other information										
Number of employees	8,204	8,115	7,790	8,883	8,577	7,980	7,569	7,587	8,724	**8,503**
Number of branches	309	318	324	567	573	578	580	578	577	**581**
Number of ATMs	352	404	451	523	540	549	678	764	776	**772**
Number of advances ('000)	2,261	2,837	3,363	3,193	2,384	2,146	2,122	2,226	2,606	**2,715**
Number of deposits ('000)	9,321	10,179	10,955	11,606	12,311	12,322	12,706	13,254	13,421	**14,480**
Cash flow from operating activities	10,271	(42,348)	(19,271)	47,051	72,987	127,503	(21,346)	135,039	(25,790)	**36,202**
Cash flow from investing activities	(59,418)	6,924	(52,965)	(51,351)	(27,222)	(101,988)	83,642	(56,384)	11,667	**25,631**
Cash flow from financing activities	46,554	12,476	89,640	(4,377)	(29,519)	17,982	(73,927)	(73,822)	19,983	**(75,901)**
Capital expenditure on purchase of	(1,168)	(1,905)	(1,483)	(1,682)	(1,743)	(1,332)	(2,053)	(3,081)	(3,400)	**(3,386)**

* Highlighted information is based on LKASs/ SLFRSs.

** 2017, 2018 and 2019 figures are as per Basel III guidelines issued by the Central Bank of Sri Lanka.

Disclosure in terms of Section 7.6 (xvi) of the Listing Rules of the Colombo Stock Exchange on related party transactions exceeding 10% of the equity or 5% of the total assets of the Bank

The Bank did not carry out any transactions exceeding 10% of the equity or 5% of the total assets of the Bank, whichever is lower, with the related parties given in Note 59 to the Financial Statements, except for the transactions engaged with the Government of Sri Lanka and Government related entities.

The Government of Sri Lanka, who holds 100% shareholding in Bank of Ceylon and Government related entities, carry out transactions with the Bank, in the ordinary course of business and the aggregate monetary value of these transactions exceeded the threshold given in Section 7.6 (xvi) of the Listing Rules of Colombo Stock Exchange.

These transactions include:

1. Overdraft facility granted to the Deputy Secretary to the Treasury
2. Foreign currency loans granted to the Government of Sri Lanka and State-Owned Enterprises
3. Investment in Sri Lanka Development Bonds and Restructuring Bonds issued by the Government of Sri Lanka
4. Extending of trade finance credit and other related services to facilitate import transactions of the Government of Sri Lanka and State-Owned Enterprises
5. Deposits made by the Government and Government related entities with the Bank

Most of these transactions are considered as recurrent nature transactions and the outstanding balances as at reporting date during the year 2019 are given in Note 59.4 to the Financial Statements.

Subsidiaries and Associates

Subsidiary Companies	Directors
Property Development PLC 19th Floor, BoC Head Office Building, "BOC Square", No. 01, Bank of Ceylon Mawatha, Colombo 01. Tel : 011 2544328 Fax : 011 2544329 e-mail : pdlhrm@sltnet.lk	Mr D M P R K Bandara *Non-Executive Independent Director/ Chairman* Mr W T L Weeratne *Non-Executive Independent Director* **Representation from Directors Management of BoC** Mr W P Russel Fonseka *Non-Executive Non-Independent Director* **Alternate** Mr D N L Fernando *(To Mr W P Russel Fonseka)*
Merchant Bank of Sri Lanka & Finance PLC BoC Merchant Tower, No. 28, St. Michael's Road, Colombo 03. Tel : 011 4711711 : 011 2565636 Fax : 011 2565666 e-mail : mbslbank@mbslbank.com Website : www.mbslbank.com	Dr Sujeewa Lokuhewa *Non- Executive, Non-Independent / Chairman* Mr Sunil Nayanasiri Dayaratne *Non-Executive, Independent Director* Mr S P Arsakularatne *Non-Executive, Independent Director* **Representation from Directors Management of BoC** Mr K B S Bandara *Non-Executive, Non-Independent Director* Mr W P Russel Fonseka *Non-Executive, Non-Independent Director* Mr C Amarasinghe *Non-Executive, Non-Independent Director* Mr D N L Fernando *Non-Executive, Non-Independent Director* **Alternate** Mr M P Ruwan Kumara *(To Mr W P Russel Fonseka)* Mr J A Jayashantha *(To Mr K B S Bandara)*

Subsidiary Companies	Directors
BOC Management & Support Services (Private) Limited BoC Head Office Building, "BOC Square", No. 01, Bank of Ceylon Mawatha, Colombo 01. Tel : 011 2432680	Mr K B S Bandara *Non-Executive Director/ Chairman* Mr D P K Gunasekara *Non-Executive Director* Mr S T K Hewage *Non-Executive Director*
BOC Property Development & Management (Private) Limited 10th Floor, BoC Merchant Tower, No. 28, St. Michael's Road, Colombo 03. Tel : 011 2301911 Fax : 011 2370606 e-mail : bocmt@bocpdml.lk	**Representation from Directors Management of BoC** Mr K B S Bandara *Non- Executive Director* **Alternate** Mr C Amarasinghe *(To Mr K B S Bandara)*
BOC Travels (Private) Limited 1st Floor, BoC Super Grade Branch Building, Baseline Road, Colombo 08. Tel : 011 2688154-8 Fax : 011 2688175 e-mail : info@boctravels.lk Website : www.boctravels.com	Mr K H Wilfred *Non-Executive Director/ Chairman* Mrs F A Rezani Aziz *Non-Executive Director* Mr P Dheerasinghe *Non-Executive Director* Mr Romel Wijewardena *Non-Executive Director* **Representation from Directors Management of BoC** Mr K B S Bandara *Non-Executive Director* Mr S T K Hewage *Non-Executive Director* **Alternate** Mr E M Jayaratne *(To Mr K B S Bandara)*

Subsidiaries and Associates

Subsidiary Companies	Directors
Hotels Colombo (1963) Limited No. 02, York Street, Colombo 01. Tel : 011 2320320 011 5221100 Fax : 011 2447640 e-mail : info@grandoriental.com Website : www.grandoriental.com	Mr J C Ratwatte *Non-Executive Director* *Minority representative* **Representation from Directors Management of BoC** Mr K E D Sumanasiri *Non- Executive Director*
Ceybank Holiday Homes (Private) Limited 12th Floor, BoC Head Office Building, "BOC Square", No. 01, Bank of Ceylon Mawatha, Colombo 01. Tel : 011 2447845 : 011 2204103-4 Fax : 011 2447845 e-mail : ceybankhh@gmail.com Website : www.ceybankholidayhomes.com	Mr K B S Bandara *Non- Executive Director/ Chairman* Mr K E D Sumanasiri *Non- Executive Director* Mr M P Ruwan Kumara *Non- Executive Director* Mr G K G M Bandara *Non- Executive Director*
MBSL Insurance Company Limited No. 122, Kew Road, Colombo 02. Tel : 011 2304500 Fax : 011 2300499 e-mail : info@mbslinsurance.lk Website : www.mbslinsurance.lk	Dr Sujeewa Lokuhewa *Non-Executive/ Non-Independent Director/ Chairman* Mr W L A Fernando *Executive Non-Independent Managing Director* Mr P I Kandanaarachchi *Non-Executive/ Non-Independent Director* Mr G M J A R Gamalath *Non-Executive/ Non-Independent Director* Mr H A S Samaraweera *Non-Executive/ Non-Independent Director* Mr T D D K Gunawardhana *Non-Executive/ Non-Independent Director* Mr W S R Fernando *Non-Executive/ Non-Independent Director*

Subsidiary Companies	Directors
Koladeniya Hydropower (Private) Limited 19th Floor, BoC Head Office Building, "BOC Square", No. 01, Bank of Ceylon Mawatha, Colombo 01. Tel : 011 2544328 Fax : 011 2544329 e-mail : pdlceo@sltnet.lk	**Representation from Directors Management of BoC** Mr D M L B Dassanayake *Non-Executive Director* Mr K E D Sumanasiri *Non-Executive Director*
Bank of Ceylon (UK) Limited No: 1, Devonshire Square, London EC2M 4WD, United Kingdom. Tel : +44 207 3771 888 Fax : +44 207 3775 430 e-mail : info@bankofceylon.co.uk Website : www.bankofceylon.co.uk	Mr W D R Swanney *Acting Chairman/ Non- Executive Independent Director* Mr K B S Bandara *Non-Executive Director* Mr R England *Non-Executive Independent Director* Mr M D C Nilantha *Chief Executive Officer/ Executive Director*

Associate Companies	Directors
Lanka Securities (Private) Limited No. 228/1, Galle Road, Colombo 04. Tel : 011 4706757 Fax : 011 4706767 e-mail : lankasec@sltnet.lk Website : www.lankasecurities.com	Ms Aamna Taseer *Non-Executive Director/ Chairman* Mr Mian Ehsan Ul-Haq *Non-Executive Director* Mr Shehryar Ali Taseer *Non-Executive Director* Mr K U D Gamage *Executive Director* **Representative from MBSL** Mr G M J A R Gamalath *Non-Executive Director* **Representation from BOC** Mr D P K Gunasekara *Non-Executive Director* **Alternate** Mr Imran Hafeez *(To Ms Aamna Taseer)* Mr Shehryar Ali Taseer *(To Mr Mian Ehsan Ul-Haq)* Ms Sherbano Taseer *(Mr Shehryar Ali Taseer)*
Transnational Lanka Records Solutions (Private) Limited No. 55/60, Vauxhall Lane, Colombo 02. Tel : 011 7574574 Fax : 011 4514588 e-mail : suneth@transnational-grp.com Website : www.transnational-grp.com	Mr Daron Kuan Wye Liew *Non-Executive Director* Ms Daphne M H Liew *Non-Executive Director* Mr Jonathan Liew Chin Yew *Non-Executive Director* Mrs P C Dodanwela *Non-Executive Director* **Representation from BoC** Mr W P Russel Fonseka *Non-Executive Director* Mr W W P Suranimala *Non-Executive Director*

Associate Companies	Directors
Ceybank Asset Management Limited No. 85, York Street, Colombo 01. Tel : 011 7602002 Fax : 011 2327203 e-mail : info@ceybank.com Website : www.ceybank.com	Mr P S C Pelpola *Non-Executive Director/ Chairman* Ms V Govindan *Non- Executive Director* Mr Chithrananda Sathkumara *CEO/ Executive Director* Mr R D M U M M Bandara *Non-Executive Director* **Representation from BOC** Mr K B S Bandara *Non-Executive Director* Mr D P K Gunasekara *Non-Executive Director* **Alternate** Mr M P Ruwan Kumara *(To Mr K B S Bandara)*

Correspondent Banks By Country

Argentina
1. Banco Credicoop Cooperativo Ltd
2. Banco De Galicia Y Buenas Aires SA (Former Banco Finansur SA)

Armenia
3. Ardshin Bank(Former Ardshininvestment Bank JSC)

Australia
4. Australia & New Zealand Banking Group Ltd
5. HSBC Bank Australia Ltd
6. National Australia Bank Limited
7. Westpec Banking Corporation

Austria
8. Allgemeine Sparkasse Oberosterreich
9. BKS Bank AG
10. Erste Bank DER Oesterreichischen Sparkassen AG
11. ERSTE Group Bank AG
12. Oberbank AG
13. Raiffeisen Bank International AG
14. Raiffeisenlandesbank Oberosterreich Aktiengesellschaft
15. Salzburger Landes - Hypothekenbank AG
16. UNI Credit Bank Austria (Former Bank Austria Creditanstalt AG)
17. Volksbank Wien-Baden AG (Osterreichische Volksbanken AG- Name changed as above)
18. Vorarlberger Landes- und Hypothekenbank Aktiengesellschaft

Bahrain
19. Ahli United BANK
20. Albaraka Islamic BANK BSC
21. Bahrain Islamic BANK BSC
22. ARAB Banking Corporation BSC
23. BBK (Formerly Bank of Bahrain & Kuwait BSC)
24. National Bank of Bahrain
25. The Arab Investment Company SAA

Bangladesh
26. Agrani Bank
27. Bangladesh Krishi Bank
28. BASIC Bank Limited (Banladesh Small Industries & Commerce Bank Ltd)
29. Dutch-Bangla Bank Ltd
30. Janata Bank
31. Prime Bank Ltd
32. Sonali Bank
33. The Premier Bank Limited
34. Uttara Bank

Belarus
35. Belarus Bank (Formerly Minskcomplex Bank)
36. Belvnesheconombank

Belgium
37. Banca Monte Paschi, Belgio
38. Byblos Bank Europe S A
39. Deutsche Bank SA/NV
40. BNP Paribas Fortis SA/NA (Former Fortis Bank NV / SA)
41. ING Belgium SA/NV (Formerly Bank Brussels Lambert)
42. KBC Bank NV
43. KBC Bank NV (Former Antwerpse Diamant Bank NV)

Botswana
44. Barclays Bank of Botswana Ltd

Brazil
45. Banco ABC Brasil SA
46. Banco Do Brazil
47. Banco Fibra SA
48. Banco Industriel e Commercial SA (Bicbanco)

Bulgaria
49. Central Cooperative Bank
50. Investbank PLC
51. Municipal Bank PLC
52. Raiffeisenbank (Bulgaria) EAD
53. Texim Bank
54. Unicredit Bulbank AD (Formerly Bulbank AD)
55. United Bulgarian Bank AD

Cambodia
56. ACLEDA Bank PLC

Canada
57. Bank of Montreal
58. Bank of Nova Scotia
59. Canadian Imperial Bank of Commerce
60. HSBC Bank Canada (Formerly Credit Lyonnais Canada)
61. Royal Bank of Canada
62. Toronto Dominion Bank

Chile
63. Corpbanca

China
64. Bank of Changsha
65. Bank of China Limited
66. Bank of Communications Co. Ltd.
67. Bank of Hangzhou Co Ltd
68. Bank of Jiangsu Co. Ltd.
69. Bank of Jiujiang Co. Ltd
70. Bank of Nanjing
71. Bank of Shaoxing Co. Ltd
72. Bank of Xian Co. Ltd.
73. Changshu Rural Commercial Bank
74. China Construction Bank
75. China Development Bank Corporation
76. China Everbright Bank
77. Evergrowing Bank
78. Export Import Bank of China
79. Zhejiang Nanxun Rural Cooperative Bank
80. Zhejiang Xiaoshan Rural Cooperative Bank

Colombia
81. Banco Popular

Croatia
82. Zagrebacka Banka DD

Cyprus
83. Alpha Bank Cyprus Limited
84. Bank of Cyprus Public Company Ltd (Cyprus Popular Bank Public Co.Ltd merged with the above on 06.06.2014).
85. Hellenic Bank Public Company Limited
86. National Bank Of Greece (Cyprus) Ltd

Czech Republic
87. Ceska Sporitelna AS
88. Ceskoslovenska Obchodni Banka AS
89. Komercni Banka A S
90. Moneta Money Bank A.S. (Name Changed w.e.f. 06.05.2016) (Former Name - GE Money Bank AS)
91. Raiffeisen Bank
92. Unicredit Bank Czech Republic AS

Denmark
93. ALS Skiern Bank
94. Danske Bank A/S
95. Nordea Bank Denmark AS
96. Rinkjobing Landbobank
97. Skjern Bank
98. Sydbank A/S
99. Vestjysk Bank

Ecuador

100. Banca International Produbanco

Egypt

101. Arab International Bank
102. Bank of Alexandria (Alexbank)
103. Central Bank of Egypt
104. Egyptian Saudi Finance Bank (Name changed into Al Baraka Bank Egypt w.e.f. 01.04.2010)
105. Faisal Islamic Bank of Egypt Sae
106. National Bank of Egypt
107. Suez Canal Bank SAE

Estonia

108. SEB Pank

Ethiopia

109. Commercial Bank of Ethiopia

Fiji

110. Bank of South Pacific Ltd (Former National Bank of Fiji)
111. Westpac Banking Corporation

Finland

112. Aktia Bank PLC
113. Danske Bank A/S (Former Sampo Bank PLC)
114. Nordea Bank Finland PLC
115. OKO Osuuspankkien Keskuspankki OYJ
116. OP Corporate Bank PLC (Name Changed w.e.f. 04.04.2016) (Former Name - Pohjola Bank PLC)

France

117. AL Khaliji France S A
118. Bank of India (Paris Branch)
119. Banque BIA
120. Banque D'Escompte
121. Banque Federative Du Credit Mutuel
122. Banque Palatine
123. CIC Lyonnaise De Banque
124. Credit Du Nord
125. Credit Industrial Del' Quest
126. Credit Lyonnais
127. HSBC France
128. Natixis (Formerly Natexis Banque Populaires)
129. Societe Generale
130. Union De Banques Arabes ET Francaises (UBAF)
131. VTB Bank (France) S A (Formerly Banque Commerciale Pour L'Europe Du Nordeurobank)

Georgia

132. JSC Bank of Georgia (Former Bank of Georgia)

Germany

133. Berliner Volksbank EG
134. BNorddeutsche Landesbank Girozentrale (Former BHF Bank Aktiengeselschaft)
135. Bremer Landesbank
136. Commerzbank AG - (Dusseldorf)
137. Commerzbank AG - (Frankfurt)
138. Degussa Bank
139. Deutsche Bank AG
140. DB Privat- und Firmenkundenbank AG (Deutsche Bank 24 AG) (Former Deutsche Bundesbank)
141. DZ Bank AG Deutsche Zentral Genossenschaftsbank (New Name w.e.f. 01.08.2016) (Former Name - DZ Bank AG)
142. Frankfurter Volksbank EG
143. Hamburger Sparkasse AG
144. HSBC Trinkaus & Burkhardt KGA
145. Joh. Berenberg Gossler & Co. KG (Former Berenberg Bank)
146. Kreissparkasse Esslingen- Nurtingen
147. Kreissparkasse Goppingen
148. Kreissparkasse Heilbronn
149. Landesbank Baden- Wurttemberg
150. Landesbank Berlin AG (Merger of Bankgesel-lschaft BerlinAG & Landesbank Berlin AG)
151. Landesbank Hessen Thuringen Girozentrale
152. Landesbank Baden-Württemberg (Former LRP Landesbank Rheinland PFALZ)
153. M.M. Warburg & CO (AG & Co) KGaA (Former Bankhaus Carlf Plump & Co.)
154. Nordeutsche Landesbank Girozentrale
155. Oldenburgische Landesbank AG
156. Oldenburgische Landesbank AG (Former Bankhaus Neelmeyer AG)
157. Sparkasse Bielefeld
158. Sparkasse Dortmund
159. Sparkasse Herford
160. Sparkasse Pforzheim Calw
161. Stadtsparkasse Dusseldorf
162. Stadtsparkasse Monchengladbach
163. Stadtsparkasse Wuppertal
164. Standard Chartered Bank (Frankfurt)
165. Unicredit Bank AG (Bayerische Hypo-Und Vereinsbank AG)

Greece

166. Agroindustrijsko-Komercijalna Banka AIK Banka Ad Beograd (Former ALPHA Bank)
167. Eurobank Ergasias SA
168. National Bank of Greece
169. Piraeus Bank

Hong Kong

170. Cathay Bank
171. Chong Hing Bank Limited (Formerly Liu Chong Hing Bank Ltd)
172. DBS Bank (Hong Kong) Ltd
173. Hang Seng Bank Ltd
174. Hongkong & Shanghai Banking Corporation
175. Industrial and Commercial Bank of China (Asia) Ltd
176. OCBC Wing Hang Bank Ltd (Name changed as above w.e.f.29.09.2014)
177. Oversea - Chinese Banking Corporation
178. Shanghi Commercial Bank Ltd

Hungary

179. Magyar Takarekszovetkezeti Bank ZRT (Former Bank of Hungarian Savings) Cooperatives Co Ltd
180. Budapest Bank NYRT (Former Budapest Credit Development Bank RT)
181. CIB Bank ZRT(Former Central-European Int'l Bank Ltd (CIC Bank))
182. ERST Bank Hungary NYRT
183. Kereskedelmi ES Hitelbank (K and H Bank NYRT)
184. Magyar Nemzeti Bank
185. Raiffeisen Bank ZRT

India

186. Allahabad Bank
187. Andhra Bank
188. Axis Bank
189. Bank of Baroda
190. Bank of India (Mumbai)
191. Bank of Maharashtra
192. Canara Bank
193. Central Bank of India
194. Corporation Bank
195. Development Credit Bank Ltd

Correspondent Banks By Country

196. HDFC Bank
197. ICICI Bank Ltd
198. IDBI Bank Ltd
199. Indian Bank
200. Indian Overseas Bank
201. Indusind Bank Ltd
202. Jammu & Kashmir Bank Ltd
203. Karur Vysya Bank
204. Punjab & Sind Bank Ltd
205. Punjab National Bank
206. RBL Bank Ltd
207. Saraswat - Cooperative Bank Ltd
208. State Bank of India
209. State Bank of Hyderabad
210. State Bank of Travancore
211. Tamilnad Mercantile Bank Ltd
212. UCO Bank
213. Union Bank of India
214. United Bank of India
215. Yes Bank

Indonesia

216. PT Bank Maybank Indonesia TBK (Bank Artha Graha)
217. Bank International Indonesia
218. Bank Mega
219. PT Bank Bukopin
220. PT Bank Central Asia TBK
221. Indonesia Eximbank (PT Bank Ekspor Indonesia)
222. PT Bank Mandiri (Persero)
223. PT Bank Negara Indonesia TBK
224. PT Bank Pan Indonesia TBK (Panin Bank)
225. PT Bank Permata TBK

Israel

226. Bank Hapoalim BM
227. Bank Leumi Le Israel BM
228. Bank of Palestine
229. Israel Discount Bank
230. Mercantile Discount Bank Ltd
231. Mizrahi Tefahot Bank Ltd
232. Union Bank of Israel Ltd

Italy

233. Banca Popolare DI Cividale SCPA
234. Banca DI Credito Cooperativo DI ALBA
235. Banca Di imola Spa
236. Banca Monte DEI Paschi Di Siena
237. Banca Nazional Del Lavoro Spa (Merged into BNP Paribas)
238. Banco Popolare Soc. Coop (Banc Popolare Di Verona E Novara Scrl) (Including Creito Bergamasco spa,Banca PopolareDi Novara Spa) Verona
239. Banca Popolare - Volksbank (Banca Popolare Dell Alto Adige)
240. Banca Popolare Dell Emilia Romagna
241. Banca Popolare DI Milano
242. Banca Popolare DI Ravenna SPA
243. Banca Popolare DI Sondrio
244. Banca Ubae Spa
245. Banca Valsabbina SCPA
246. Banco DI Desio E Della Brianza Spa
247. Credit Agricole Italia Spa (Former Cariparma Spa)
248. Cassa DI Risparmio DI Bolzano Spa
249. Credito Valtellinese Società per Azioni (Former Credito Valtellinese)
250. Deutsche Bank SPA
251. Hypo Alpe - Adria - Bank Spa
252. Intesa Sanpaolo SPA (Formerly Banca Intesa SpA)
253. IW Bank SPA (UBI Banca Private Investment merged into IW Bank SPA) Bbrand Name IW Bank SPA Private Investments SPA (w.e.f. 25.05.2015)
254. Unipol Banca SPA
255. Unipol Banca SPA (Former UGF Banca)
256. Unicredit Bank AG (Unicredito Italiano SPA)
257. Union De Banche Italian SPA (Former Banca Etruria Soc Coop)

Japan

258. 77 Bank Ltd
259. Australia & New Zealand Banking Group Ltd
260. Bank of Kyoto
261. MUFG Bank (Former Bank of Tokyo-Mitsubishi UFJ Ltd)
262. Bank of Yokohama Ltd
263. Chiba Kogyo Bank Ltd
264. Chukyo Bank Ltd
265. Gunma Bank Limited
266. Higashi - Nippon Bank
267. Hokuriku Bank Ltd
268. Kansai Mirai Bank(Kinki Osaka Bank Ltd merged with Kansai Urban Banking Corperation renamed as Kansai Mirai Bank)
269. Kiyo Bank Ltd
270. Minato Bank Ltd (Formerly Midori Bank Ltd)
271. Mizuho Bank Ltd
272. Nishi Nippon City Bank Ltd
273. Okazaki Shinkim Bank
274. Osaka City Shinking Bank
275. Resona Bank Limited
276. Saitama Resona Bank Ltd
277. SETO Shinkin Bank
278. Shiga Bank Ltd
279. Shinkin Central Bank
280. Standard Chartered Bank
281. Sugamo Shinkin Bank
282. Sumitomo Mitsui Banking Corporation
283. The Asahi Shinkin Bank
284. The Ashikaga Bank Ltd
285. The Hokkaido Bank Limited
286. The Shikoku Bank Ltd
287. The Shizuoka Bank Ltd
288. The Yokohama Shinkin Bank
289. Tokushima Bank Ltd
290. Tomato Bank Ltd
291. Yamagata Bank Ltd
292. Yamanashi Chuo Bank Ltd

Jordan

293. Arab Bank PLC
294. Arab Jordan Investment Bank
295. Bank Al Etihad
296. Bank Audi Sal - Audi Saradar Group
297. Bank of Jordan PLC
298. Cairo Amman Bank
299. Housing Bank For Trade & Finance
300. Investbank (formely jordan Investment & Finance Bank (JIF Bank)
301. Islamic International Arab Bank Ltd
302. Jordan Ahli Bank PLC w.e.f. 12/11/2006 (Formerly Jordan National Bank)
303. Jordan Commercial Bank (Formerly Jordan Gulf Bank)
304. Jordan Dubai Islamic Bank
305. Jordan Kuwait Bank

Kazakstan

306. JSC Bank Centercredit

Kenya

307. Barclays Bank of Kenya Ltd

Korea

308. Citibank Korea INC (Formerly Koram Bank)
309. Kookmin Bank

310. Korea Development Bank
311. KEB Hana Bank (Merged between Hana Bank & Kores Exchange Bank)
312. Kyongnam Bank
313. Pusan Bank
314. The Kwangju Bank Ltd
315. Woori Bank

Kuwait

316. Burgan Bank SAK
317. Commercial Bank of Kuwait SAKP
318. Gulf Bank KSCP
319. Kuwait International Bank
320. National Bank of Kuwait SAKP

Latvia

321. AS Reverta (Former Parex Bank)
322. Rietumu Bank
323. SEB Banka

Lebanon

324. Arab Bank PLC (Lebanon Branches Centre) Beirut
325. Bank Audi SAL - Audi Saradar Group
326. Bank Bemo SAL
327. Bankmed SAL
328. Bank of Beirut SAL
329. Banque Libano Francaise
330. BBAC SAL (Formerly Bank of Beirut & the Arab CountriesSAL)
331. BLC Bank SAL (Formerly Banque Libanaise Pour Le Commerce SAL)
332. BLOM Bank SAL
333. Byblos Bank SAL
334. Credit Libanais SAL
335. First National Bank SAL
336. Fransbank SAL
337. IBL Bank
338. Jamal Trust Bank SAL
339. MEAB Bank (Middle East & Africian Bank SAL)
340. Societe Generale Banque AU Liban SAL (Lebanese Canadian Bank S.A.L merged with Societe Generale Banque Au Liban SAL)
341. BSL Bank SAL (Former Societe Nouvelle De La Banque) De Syrie Et Du Liban Sal

Libya

342. National Commercial Bank SAL

Lithuania

343. UKIO Bank AS

Madagascar

344. Bank of Africa - Madagascar
345. Banque Centrale De Madagascar

Malaysia

346. Bank Islam Malaysia Berhad
347. CIMB Bank Berhad (Formerly Bumiputra Commerce Bank Berhad)
348. Hong Leong Bank (Former EON)
349. Malayan Banking Berhad (Maybank)
350. OCBC (Malaysia) Berhad
351. Oversea - Chinese Banking Corporation Ltd (Kuala Lumpur)
352. Public Bank Berhad
353. RHB Bank Berhad
354. United Overseas Bank (Malaysia) Berhad

Maldives

355. Bank of Maldives PLC
356. Habib Bank Limited

Malta

357. FIM Bank PLC Ltd

Mauritius

358. SBM Bank (Former State Bank of Mauritius Ltd)
359. The Mauritius Commercial Bank Ltd

Mexico

360. Banco Nacional De Mexico SA
361. BBVA Bancomer SA

Mongolia

362. Trade & Development Bank of Mongolia

Morocco

363. Credit Du Marco SA

Mozambique

364. Banco International De Mocambique S A R L

Namibia

365. Bank Windhoek Ltd

Nepal

366. Himalanyan Bank Ltd
367. Nepal Credit Commercial Bank
368. Standared Chartered Bank Nepal Ltd

Netherlands

369. RBS Hollandsche NV (Former Hollandsche Bank - Unie NV)
370. ING Bank NV
371. Cooperatieve Rabobank UA (Name Changed w.e.f. 01.01.2016) (Former Name Rabobank Nederland)
372. Yapi Ve Kredi Bankasi AS

New Zealand

373. ANZ Bank National Bank Ltd
374. ANZ Bank SA Newzealand Limited (Former ANZ Bank National Bank Ltd)
375. WESTPAC BANKING CORPORATION

Norway

376. DNB NOR Bank ASA (Formerly Den Norske Bank NA)
377. Nordea Bank Norge AS
378. Spare Bank 1 Ostlandet (Sparebanken Hedmark Merged with Bank 1 Oslo Akershus)
379. Sparebanken More
380. Sparebanken Nord Norge

Oman

381. Sohar International Bank SAOG (Former Bank Sohar Saog)
382. Bankmuscat SAOG
383. National Bank of Oman SAOG

Pakistan

384. Allied Bank of Pakistan
385. Askaribank Limited (Formerly Askari Commercial Bank Ltd)
386. Summit Bank Ltd (Atlas Bank Merged to Summit Bank)
387. Bank AL Habib Ltd
388. Bank of Panjab
389. Dawood Islamic Bank Ltd
390. Dubai Islamic Bank Pakistand Ltd
391. Faysal Bank Ltd
392. Habib Bank Limited
393. Habib Metropolitian Bank Ltd
394. MCB Bank Ltd (Formerely Muslim Commercial Bank)
395. Meezan Bank Ltd
396. Summit Bank (Former Mybank Ltd)
397. National Bank of Pakistan
398. Soneri Bank Ltd
399. Standared Chartered Bank (Pakistan) Ltd
400. United Bank Limited

Papua New Guinea

401. Westpac Banking Corporation (Westpac Bank PNG Ltd)

Paraguay

402. Banco Amambay S A

Correspondent Banks By Country

Peru
403. Banco De Credito DEL Peru

Philippines
404. Metropolitian Bank & Trust Co

Poland
405. Bank Handlowy Warszawa SA
406. Bank Millennium SA
407. Bank Pekao SA
408. Santander Bank Polska SA (Kredyt Bank SA)
409. PKO Bank Polski SA (New name) (Powszechna Kasa Oszczednosci Bank Polski SA) (Former Name Nordea Bank Polska SA)
410. BNP Paribas Bank Polska SA wef 29.03.2019 former Raiffeisen Bank Polska SA

Portugal
411. Banco BPI SA
412. Banco BIC Portugues SA(Former BNP - Banco Portugues De Negocios SA)
413. Caixa Economica Montepio Geral Caixa Economica Bancaria SA (Former Finibanco SA)

Qatar
414. Barwa Bank
415. Doha Bank
416. Qatar International Islamic Bank
417. Qatar Islamic Bank SAQ

Romania
418. Banca Commerciala Romana SA
419. Banca Transilvania
420. BRD - Groupe Societe Generale S A
421. Unicredit Bank, SA (New Name .w.e.f 18.08.2015) (Former Unicredit Tiriac Bank)
422. Patria Bank SA

Russia
423. B and N Bank (Public Joint - Stock Compay) (M D M Bank - Name Changed as above w.e.f. 18.11.2016)
424. International Moscow Bank (New Name Joint Stock Company Uni Credit Bank)
425. Khanty - Mansiysk BANK Otkritie (PJSC) - New Name - w.e.f. 22.08.2016 Bank Otkritie Financial Corporation - (JSC) (Otkritie FC Bank) (Former-Nomos-Bank (Novaya Moskva)"
426. Sberbank
427. Vnesheconombank
428. VTB Bank (PJSC) (Public Joint Stock Company) (Formerly JSC VTB Bank - Bank for Foreign Trade (Vneshtorgbank)

Saudi Arabia
429. Al Rajhi Bank (Formerly Al Rajhi Banking & Investment Corporation)
430. Arab National Bank
431. Bank Al Bilad - Riyadh
432. Bank Al Jazira - Jeddah
433. Banque Saudi Fransi - Riyadh
434. National Commercial Bank Limited - Jeddah
435. Riyad Bank - Riyadh
436. Samba Financial Group - Riyadh
437. Saudi British Bank (merged with Alawwal Bank wef 16.06.2019)

Scotland
438. Royal Bank of Scotland International Limited

Seychelles
439. Seychelles International Mercantile Banking (NOUVOBNQ)

Singapore
440. ABN AMRO
441. Bank of India (Singapore)
442. DBS Bank Ltd
443. Dexia Banque Internationale A Luxembourge
444. Indian Bank
445. Oversea - Chinese Banking Corporation Ltd
446. Skandinaviska Enskilda Banken AB
447. State Bank of India
448. The B Ank of East Asia Ltd
449. UCO BANK
450. Union De Banques Arabes ET Francaises (UBAF)
451. United Overseas Bank Ltd

Slovakia
452. Ceskoslovenska Obchodni Banka AS
453. Postova Bank AS
454. Slovenska Sporitelna A S
455. TARTA Bank AS
456. Unicredit Bank Slovakia AS
457. Vseobecna Uverova Bank AS

Slovenia
458. Abanka DD
459. Gorenjska Banka
460. Nova Kreditna Banka Maribor D D

Solomon Islands
461. Bank of South Pacific Ltd (Former National Bank Of Solomon Islands)

South Africa
462. ABSA Bank Ltd
463. Firstrand Bank Ltd
464. Nedcor Bank Ltd (NED Bank)
465. Standard Bank of South Africa Ltd
466. The Standard Chartered Bank of South Africa, Johannesburg

Spain
467. Banco Bilbao Vizcaya Argentaria
468. Banco De Europa SA
469. Banco De Sabadell S.A.
470. Caixa Bank (Banco De Valencia Merged with Caixa)
471. Banco Intercontinential Espanol (Bankinter)
472. Banco Santander SA (Former Banco Pastor SA)
473. Banco Santander Central Hispano
474. Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona 'la Caixa' (Former Caja De Ahorrosy Pensiones De) Barcelona La Caixa
475. Bankia SA (Former Caja Madrid)

Sweden
476. Nordea Bank Abp (Nordbanken AB (PUBL) merged to above in 2018)
477. SEB Merchant Banking
478. Skandinaviska Enskilda Banken AB (PUBL)
479. Svenska Handelsbanken AG (PUBL)
480. Swed Bank

Switzerland
481. Banque Cantonale De Geneve
482. Banque Cantonale Vandoise
483. Banque De Commerce Et De Placements
484. BNP Paribas (Suisse) SA
485. EFG Bank AG (Former BSI SA)
486. CA Indosuez (Switzerland) SA (Former Credit Agricole (Sussie) SA)
487. Faisal Private Bank (Switzerland) SA
488. Habib Bank AG Zurich

489. Luzerner Kantonal Bank AG
490. UBS Switzerland AG
491. Zurcher Kantonalbank

Taiwan

492. Bank of Taiwan
493. E-Sun Commercial Bank Ltd
494. First Commercial Bank
495. HUA NAN Commercial Bank
496. Mega International Commercial Bank
497. Shanghi Commercial & Savings Bank Ltd
498. Thaiwan Shin Kong Commercial Bank Ltd (Former Shin Kong Bank)
499. Taipei Fubon Commercial Bank
500. Taiwan Cooperative Bank
501. Union Bank of Taiwan

Thailand

502. Bangkok Bank Public Company Ltd
503. Bank of Ayudhya Public Company Ltd
504. Export Import Bank of Thailand
505. Kasikornabank Public Company Ltd (Formerly Thai Farmers Bank)
506. Krung Thai Bank Public Company Limited
507. Thanachart Bank Public Limited (Former Siam City Bank Public Company Ltd)
508. Siam Commercial Bank PCL
509. Standard Chartered Bank (Thai) Public Company Ltd
510. United Overseas Bank (Thai) Public Co Ltd

Tunisia

511. Banque Nationale Agricole
512. Attijari Bank
513. Societe Tunisienne De Banque

Turkey

514. AK Bank TAS
515. Anadolu Bank
516. Arab Turkish Bank
517. Burgan Bank (Former Euro Tekfen AS)
518. ING Bank AS
519. Kuvoyt Turk Kurk Katilim Bankasi AS
520. Tekstil Bankasi AS
521. Turk Economi Bankasi
522. Turkiye Finance Katilinu Bankasi AS
523. Turkiye Halk Bankasi AS
524. Turkiye is Bankasi AS
525. Turkiye Vakiflar Bankasi TAO
526. Turkland Bank - T Bank
527. Yapi VE Kredi Bankasi AS

UAE

528. Abu Dhabi Commercial Bank
529. Abu Dhabi Islamic Bank
530. Arab Bank for Investment & Foreign rade
531. Commercial Bank International PLC
532. Commercial Bank of Dubai PSC
533. Dubai Islamic Bank PLC
534. Emirates NBD PJSC
535. First Abu Dhabi Bank
536. Mashreqbank PSC
537. Emirates Islamic Bank PJSC (Former Middle East Bank)
538. First Abu Dhabi Bank PJSC (Former National Bank of Abu Dhabi)
539. National Bank of Fujirah
540. Noor Bank
541. United Arab Bank

Uganda

542. Barclays Bank of Uganda Ltd

UK

543. AIB Group (Formerly Allied Irish Bank)
544. Barclays Bank PLC
545. Gulf International Bank (UK) Limited
546. HBL Lanka UK Ltd (Former Habibsons Bank Ltd)
547. HSBC Bank PLC
548. Lloyds TSB Bank PLC
549. National Westminster Bank PLC (Metro)
550. Standard Chartered Bank

Ukraine

551. Ukreximbank (State Export- Import Bank of Ukrain)
552. First Ukrainian International Bank - PJSC
553. OTP Bank - Public Joint Stock Company
554. PJSC 'Alfa - Bank' 713 Prominvest Bank
555. Industrial Invest Bank (Former Prominvest Bank)

Uruguay

556. The Banco De La Republic Oriental Del Uruguay

USA

557. Bank of America NA
558. Bank of New York Mellon (The Bank of NewYork) (Merged with Mellon Bank 21.07.08)
559. Branch Banking & Trust Co
560. CITIBANK NA
561. Cobank ACB
562. Commerce Bank NA
563. Deutsche Bank Trust Company Americas
564. First Hawiian Bank
565. French American Banking CORP
566. Habib American Bank
567. HSBC Bank USA
568. Huntington National Bank
569. Israel Discount Bank of New York
570. JP Morgan Chase Bank (Metro)
571. PNC Bank NA
572. Silicon Valley Bank
573. Santander Bank National Association (Former Sovereign Bank)
574. Standard Chartered Bank
575. Sun Trust Bank Ltd
576. UMB Bank NA
577. MUFG Union Bank National Association (Former Union Bank of California Na)
578. US Bank NA
579. Wells Fargo Bank NA (Wachovia Bank NA merged with Wells Fargo)

Vietnam

580. Bank for Foreign Trade of Vietnam
581. Commercial Bank for Bank for Investment & Development of Vietnam

Exchange Companies By Country

Australia

1 Cash Plus Forex Pty Ltd
2 Kapruka (Pty) Ltd
3 Serendib Financial Pty Ltd
4 PFG Forex

Bahrian

5 Bahrain Financing Company
6 Ezremit Ltd (BFC Bank)
7 National Finance & Exchange Co WLL
8 Zenj Exchange
9 Zenj Exchange Company WLL (Turbo Cash)

Cyprus

10 GS Cash Line

France

11 Tempo - France

Greece

12 International Express Remittance International Money Transfer Mediation Co.

Israel

13 Tifco Logistics & Trade Ltd
14 Global Remit Currency Services

Italy

15 National Exchange Company SRL
16 Valutrans Spa (METRO)

Japan

17 Japan Remit Finance Co. Ltd
18 Unidos Co. Ltd (Kyodai Remittance)

Jordan

19 Alawaneh Exchange Co
20 Shift Financial Services Ltd

Kuwait

21 Aman Exchange Co. WLL
22 Al Mulla International Exchange Co WLL
23 Al Muzaini Exchange Co Ksc (Closed)
24 Bahrain Exchange Co WLL
25 Citiy International Exchange Co WLL
26 Dollarco Exchange Co Ltd
27 Etemadco Exchange Co WLL
28 Joyalukkas Exchange Co. WLL
29 Kuwait Asian International Exchange Co WLL
30 Kuwait Bahrain International Ex.
31 Kuwait India International Ex.co
32 National Exchange Co WLL
33 National Money Exchange Co WLL
34 Oman Exchange Co Ltd
35 Al Nada International Exchange (Former Security Exchange Co WLL)
36 Uae Exchange Centre WLL

Lebanon

37 Services Exchange Co (Imad Al Hariri Trading Co & Partners - Seco)
38 Srour Exchange

Malaysia

39 Merchantrade Asia Sdn Bhd

Oman

40 Lulu Exchange Co. LLC (Asia Express Exchange)
41 Gulf Overseas Exchange Co. LLC
42 Hamdan Exchange
43 Joyalukkas Exchange (Majan Exchange LLC)
44 Modern Exchange Co. LLC
45 Musandam Exchange
46 Mustafa Sultan Exchange Co. LLC
47 Unimoni Exchange LLC (Oman & Uae Exchange Centre Co. LLC)
48 Oman International Exchange LLC
49 Oman United Exchange Co. LLC
50 Purshottam Kanji Exchange Co. LLC

Qatar

51 AL Dar For Exchange Works
52 AL Fardan Exchange Co. WLL
53 AL Mana Exchange WLL
54 AL Sadd Exchange
55 AL Zaman Exchange WLL
56 AL-Mirqab Exchange Co.
57 Arabian Exchange Company WLL
58 City Exchange Co.WLL
59 Eastern Exchange Est
60 Gulf Exchange Company
61 Habib Qatar International Exch.ltd
62 Islamic Exchange
63 National Exchange Co WLL (Formerly Al Shaibei Exchange Co)

Singapore

64 Hbz International Exchange Co (Metro) (Singapore) Pvt Ltd
65 Mustafa Foreign Exchange (Metro)

Switzerland

66 Motherhouse Gmbh (Metro)

UAE

67 AL Ahalia Money Exchange Bureau- Abu Dhabi
68 AL Ansari Exchange Est- Abu Dhabi
69 AL Fardan Exchange- Abu Dhabi
70 Al Mona Exchange Co LLC- Dubai
71 AL Rostamani International Exchange (Formerly Thomas Cook Al Rostamani Exch. Co.)-Dubai
72 Delma Exchange - Abu Dhabi
73 Emirates India International Exchange Company - Dubai

74 Index Exchange Co LLC - Abu Dhabi

75 Joyalukkas Exchange - Dubai

76 Lari Exchange Establishment - Abu Dhabi

77 Lulu International Exchange LLC - Abu Dhabi

78 National Exchange Co - Abu Dhabi

79 Orient Exchange Co. LLC - Dubai

80 Redha AL-Ansari Exchange Est - Dubai

81 UAE Exchange Centre - Abu Dhabi

82 Wall Street Exchange Centre - Dubai

83 Xpress Money Services Limited - Abu Dhabi

UK

84 An Express Ltd

85 Global Exchange Ltd)

86 INTL FC Stone Ltd (IFL)

87 NEC Money Transfer Limited

88 SGC Corporation (Former Sigue Global Services Ltd) (Metro) (Former Coinstar)

89 Worldremit(Metro)

USA

90 Moneygram

91 Prabhu Group INC

92 RIA Financial Services (Continental Exchange Solutions Inc)

93 Trans-Fast Remittance LLC

94 Western Union

Glossary of Financial/ Banking Terms

A

Acceptances

Promise to pay created when the drawee of a time draft stamps or writes the word "accepted" above his signature and a designated payment date.

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual Basis

To recognise the effects of transactions and other events as they occur, without waiting for the receipt or payment of related cash or its equivalent.

Actuarial Assumptions

An entity's unbiased and mutually compatible best estimates of the demographic and financial variables that will determine the ultimate cost of providing post-employment benefits.

Actuarial Gains and Losses

Actuarial gains and losses comprise the effects of differences between the previous actuarial assumptions and what has actually occurred and the effects of changes in actuarial assumptions.

Actuarial Present Value of Promised Retirement Benefits

The present value of the expected payments by a retirement benefit plan to existing and past employees, attributable to the service already rendered.

Actuarial Valuation

Fund value determined by computing its normal cost, actuarial accrued liability, actuarial value of its assets, and other relevant costs and values.

Amortisation

The systematic allocation of the depreciable amount of an asset over its useful life. In the case of an intangible asset or goodwill, the term "amortisation" is generally used instead of "depreciation". Both terms have the same meaning.

Amortised Cost

The amount at which a financial asset or liability is measured at initial recognition, minus any repayment of principal, minus any reduction for impairment or uncollectibility, and plus or minus the cumulative amortisation using the effective interest method of the difference between that initial amount and maturity amount.

Anti-Money Laundering (AML)

A set of procedures, laws or regulations designed to prevent money laundering. Money laundering is an activity which aims to disguise the ownership of money that has an illegal origin such as trading of drugs, organised crimes, fraud and terrorism.

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.

Attrition Rate

A measure of how many employees leave over a certain period of time.

Average Weighted Deposit Rate (AWDR)

AWDR is calculated by the Central Bank of Sri Lanka monthly on the weighted average of all outstanding interest bearing deposits of commercial banks and the corresponding interest rates.

Average Weighted Prime Lending Rate (AWPLR)

AWPLR is calculated by the Central Bank of Sri Lanka weekly based on commercial banks lending rates offered to their prime customers during the week.

B

BASEL III

The Basel Committee on Banking Supervision (BCBS) issued the BASEL III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity.

Basis Points

A unit that is equal to 1/100th of 1%. Often used in quotation of spreads between interest rates or to change in yield in securities.

Bills of Exchange

A signed, written unconditional order addressed by one person (the drawer) directing another person (the drawee) to pay a specified sum of money to the order of a third person (the payee). The terms bills of exchange and drafts are often used interchangeably.

C

Capital Adequacy Ratio (CAR)

The ratio between capital and risk-weighted assets, as defined under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS) and as modified to suit local requirements by Central Bank of Sri Lanka.

Cash Equivalents

Investments / assets that are readily convertible to cash, subject only to an insignificant risk of change in their value.

Collectively-Assessed Loan Impairment Provisions

Impairment assessment which carried out on a collective basis for homogeneous groups of loans that are not considered individually significant, in order to cover losses that has been incurred but has not yet been identified at the Reporting date.

Compound Annual Growth Rate (CAGR)

The year over year growth rate over a specified period of time.

Common Equity Tier 1 (CET 1)

Common Equity Tier 1 (CET 1) is a component of Tier 1 capital that consists mostly of Stated Capital. It is a capital measure that was introduced as a precautionary measure to protect the economy from a financial crisis.

Contractual Maturity

Contractual maturity refers to the final payment date of a loan or other financial instrument,at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

Corporate Governance

The process by which corporations are directed and controlled. It is concerned with the rights and responsibilities among stakeholders used to determine and control the strategic directions and performance of the corporation.

Correspondent Banks

A bank in a foreign country that offers banking facilities to the customers of a bank in another country.

Cost/ Income Ratio

Operating expenses excluding impairment charge for loans and other losses, as a percentage of total operating income.

Country Risk

The credit risk associated with lending to borrowers within a particular country, sometimes taken to include sovereign risk.

Credit Risk

The risk of loss due to non-payment of a loan or other line of credit (either the principal or interest or both), by the borrower or a counterparty.

Credit Ratings

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting carried out by an independent rating agency.

D

Dealing Securities

Securities acquired and held with the intention of reselling them in the short term.

Debt Equity Ratio

Long-term borrowings divided by shareholder's equity.

Deferred Taxation

Sum set aside for tax in the Financial Statements that will become payable/ receivable in a financial year other than the current financial year. It arises because of temporary differences between tax rules and accounting conventions.

Defined Benefit Plans

Retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' earning history, tenure of service and age.

Derivatives

A financial instrument, the price of which has a strong relationship with an underlying commodity, currency variable or financial instrument.

Documentary Letters of Credit (LC)

Written undertakings by a bank on behalf of its customers (typically an importer), authorising a third party (e.g. an exporter) to draw drafts on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

Domestic Systemically Important Banks (D-SIBs)

Systemically Important Banks (SIBs) are perceived as banks that are "Too Big To Fail".

D-SIBs are critical for the uninterrupted availability of essential banking services to the country's real economy even during crisis. The CBSL has designated Licenced Commercial Banks with total assets equal to or greater than LKR 500 billion as D-SIBs.

E

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 invested. The Statement of profit or loss reflects the investor's share of the results of operations of the invested.

Events After the Reporting Date

Events after the Reporting date are those events, both favourable and unfavourable, that occur between the Reporting date and the date when the financial statements are authorised for issue.

Exchange Company / House

An overseas location where the Bank's representatives provide banking services as a promotional tool.

F

Fair Value

The price that would be required to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Finance Lease

Leases which transfer risks and rewards of ownership. Title may or may not eventually be transferred.

Glossary of Financial/ Banking Terms

Financing Activities

Activities that result in changes in the size and composition of the equity capital and borrowings of the entity.

Financial Instruments

Financial instrument is any contract that gives rise to financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets Measured at Amortised Cost

A financial asset is measured at amortised cost if the asset is held within a business model whose objective is to hold assets to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)

FVOCI include debt and equity instruments measured at fair value through other comprehensive income. A debt instrument is measured at FVOCI, if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity investments may be irrevocably classified as FVOCI when they meet the definition of Equity under LKAS 32 Financial Instruments: Presentation, and are not held for trading.

Financial Assets Measured at Fair Value through Profit or Loss (FVTPL)

All financial assets other than those classified at Amortised Cost or FVOCI are classified as measured at FVTPL. These are held for trading or managed and their performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Foreclosed Properties

Properties acquired in full or partial settlement of debts, which will be held with the intention of resale at the earliest opportunity.

Foreign Exchange Income

The gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan Rupees on the Reporting date at prevailing rates which differ from those rates in force at inception or on the previous Reporting date. Foreign exchange income also arises from trading in foreign currencies.

Forward Exchange Contracts

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

G

Global Reporting Initiatives (GRI)

GRI is a leading organisation in the sustainability field. GRI promotes the use of sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development.

Gross Domestic Product (GDP)

The value of all goods and services produced domestically in an economy during a specified period, usually a year. Nominal GDP, adjusted for inflation, gives GDP in real terms.

Guarantees

Primarily represent irrevocable assurances that a bank will make payments in the event that its customer is unable to perform its financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

H

Historical Cost Convention

Recording transactions at the actual value received or paid.

I

Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

Individually Significant Loan Impairment Provisions

Impairment measured individually for loans that are individually significant to the Group.

Intangible Asset

An identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

Interest Margin

Net interest income as a percentage of average interest earning assets.

Interest Spread

Represents the difference between the average interest rate earned on interest earning assets and the average interest rate incurred on interest bearing liabilities.

Investment Securities

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

K

Key Management Personnel (KMP)

Those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

Key Performance Indicators (KPI)

KPIs are quantifiable measures that a company users to gauge its performance over time.

L

Liquid Assets

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

Liquid Assets Ratio

Liquid assets expressed as a percentage of total liabilities other than shareholders' funds.

Liquidity Coverage Ratio – LCR

Refers to highly liquid assets held by Banks to meet short-term obligations. The ratio represents a generic stress scenario that aims to anticipate market-wide shocks.

Loss Given Default (LGD)

LGD is the percentage of an exposure that a lender expects to lose in the event of default.

M

Mark to Market

The practice of periodically revaluing marketable securities to their current market value.

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.

Minority Interest

That portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through Subsidiaries, by the Parent.

Mortality Rate

A measure of the number of deaths in some population, scaled to the size of that population, per unit time.

N

Net Asset Value Per Share

Shareholders' equity divided by the number of ordinary shares in issue.

Net Interest Income

The difference between what the Bank earns as interest on assets such as loans and securities and what it pays as interest on liabilities such as deposits, refinance funds and interbank borrowings.

Net Realisable Value

The estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Net Stable Funding Ratio (NSFR)

NSFR measures the amount of long-term, stable sources of funding employed by a bank relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

Nostro Account

A nostro account is a bank account held in a foreign country by a domestic bank, denominated in the currency of that country.

O

Off-Balance Sheet Transactions

Transactions not recognised as assets or liabilities in the Statement of Financial Position but which give rise to contingencies and commitments.

Operating Activities

The principal revenue producing activities of an entity and other activities that are not investing or financing activities.

P

Plan Assets of an Employee Benefit Plan

Assets held by a long-term employee benefit fund.

Price Value Per Basic Point (PVBP)

Estimated change in the value of portfolio due to one basic point change in interest rate.

Primary Dealer Special Risk Reserve

Reserve maintained in order to strengthen capital base further with development of capital market.

Probability of Default (PD)

PD is a financial term describing the likelihood of a default over a particular time horizon. It provides an estimate of the likelihood that a borrower will be unable to meet its debt obligations.

Projected Unit Credit Method

An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Property, Plant and Equipment (PPE)

Tangible assets that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one period.

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.

Glossary of Financial/ Banking Terms

R

Redemption

Repayment of principal monies.

Related Parties

Two parties where one controls the other or exercise significant influence in financial and operating decisions, directly or indirectly.

Repurchase Agreement

Contracts relating to securities sold to creditors (who lend money for funding purposes), with the intention of buying them back at a set price on a specified future date.

Return On Average Assets (ROAA)

Profit before tax expressed as a percentage of average total assets. Used along with ROAE, as a measure of profitability and as a basis of intra industry performance comparison.

Return On Average Equity (ROAE)

Profit after tax less preferred share dividends, if any, expressed as a percentage of average ordinary shareholders' equity.

Revenue Reserves

Reserves set aside for future distribution and investment.

Right of Use Assets

An asset which bears the lessee's right to use that throughout the lease term.

Risk-Weighted Assets

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

S

Securities Purchased Under Resale Agreement

The purchase of securities under an agreement to resell at a given price on a specific future date.

Shareholders' Equity

Shareholders' equity consists of issued and fully paid ordinary share capital plus capital and revenue reserves.

Significant Influence

Significant influence is the power to participate in the financial and operating policy decisions of an investee but is not controlled or jointly controlled over those policies.

Solvency

The availability of cash over the long term to meet financial commitments as they fall due.

Subordinated Debenture

The claims of the debenture holders shall in the event of winding up, rank after all the claims of the secured and unsecured creditors and any preferential claims under any statutes, but in priority to and over claims and rights of the shareholders.

Swaps

The simultaneous purchase and sale of foreign exchange or securities, with the purchase executed at once and the sale back to the same party. Carried out on an agreed upon price to be completed at a specified future date. Swaps include interest rate swaps, currency swaps and credit swaps.

Syndicated Loan

A large loan by a group of banks to a large multinational firm or government. Syndicated loans allow the participating banks to maintain diversification by not lending too much to a single borrower.

T

Tier 1 Capital

Consists of the sum total of paid up ordinary shares, non-cumulative, non-redeemable preference shares, share premium, statutory reserve fund, published retained profits, general and other reserves, less intangible assets and other deductions.

Tier 2 Capital

Consists of the sum total of revaluation reserves, general provisions, hybrid capital instruments and approved subordinated debentures.

Total Capital

The sum of Tier 1 and Tier 2 capital.

U

Unit Trust

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

Unsecured

Repayment of the principal and interest not being secured by any specific asset.

V

Value at Risk (VaR)

Estimated maximum loss that the Bank may incur in a given horizon at 99% confidence level.

Vostro Account

A local currency current account maintained with a bank by another bank.

Corporate Offices and Overseas Branches

Corporate Offices

BoC Card Centre

Issuing and managing VISA and Master branded Credit Cards. Franchising and servicing merchants using point of sales machines

Level - 1, West Tower,
World Trade Centre, Echelon Square,
Colombo 1, Sri Lanka.

Tel : +94 11 2325088, 2325095, 2541935, 2205620 2205621, 2205650
Fax : +94 11 2325092, 2395807
Email : cmccc@boc.lk, mgrmktacq@boc.lk

Branch Code : 731

BoC Premier Centre

Dedicated Centre for Private Banking

No. 21, Sir Ernest De Silva Mawatha,
Colombo 7, Sri Lanka.

Tel : +94 11 2694282 - 86
Fax : +94 11 2694280
Email : pbc@boc.lk

Branch Code : 788

Correspondent Banking Unit

Gateway to global banking and financial relationships

9th Floor,
Bank of Ceylon Head Office,
"BOC Square",
No. 1, Bank of Ceylon Mawatha,
Colombo 1, Sri Lanka.

Tel : +94 11 2445791
Fax : +94 11 2445791
Email : corresbd@boc.lk/ cbd@boc.lk/ cmcbd@boc.lk

Branch Code : 087

Credit Support Department

Issuing of local and International Guarantees and documentation of credit facilities

3rd Floor,
Bank of Ceylon Head Office,
"BOC Square",
No. 1, Bank of Ceylon Mawatha,
Colombo 1, Sri Lanka.

Tel : +94 11 2541943
Fax : +94 11 2446820
Email : corpcrsupport@boc.lk
crsupport@boc.lk

Branch Code : 660

Dealing Room

Providing money market and foreign exchange related services

7th Floor,
Bank of Ceylon Head Office,
"BOC Square",
No. 1, Bank of Ceylon Mawatha,
Colombo 1, Sri Lanka.

Tel : +94 11 2445785-7, 2395814
Fax : +94 11 2445788
Email : chiefdealer@boc.lk

Branch Code : 760

Electronic Banking Unit

Management of ATM Card operations, facilitator for Internet and Mobile banking

21st Floor,
Bank of Ceylon Head Office,
"BOC Square",
No. 1, Bank of Ceylon Mawatha,
Colombo 1, Sri Lanka.

Tel : +94 11 2204650, 2204674
Fax : +94 11 2447569
Email : cmebu@boc.lk, debitcard@boc.lk
ebank@boc.lk

Branch Code : 777

Ceybank Gold Shop

Supplier of precious gold to the nation

Ground Floor,
Bank of Ceylon Head Office,
"BOC Square",
No. 1, Bank of Ceylon Mawatha,
Colombo 1, Sri Lanka.

Tel : +94 11 2345420
Fax : +94 11 2345420
Email : goldshop@boc.lk

Branch Code : 087

Inward Remittances Department

Facilitator in processing inward remittances to Sri Lanka

8th Floor,
Bank of Ceylon Head Office,
"BOC Square",
No. 1, Bank of Ceylon Mawatha,
Colombo 1, Sri Lanka.

Tel : +94 11 243956, 2541933
Fax : +94 11 2344845
Email : irdept@boc.lk

Branch Code : 087

Islamic Banking Unit

Brand house for all Islamic Banking products and services

25th Floor,
Bank of Ceylon Head Office,
"BOC Square",

No. 1, Bank of Ceylon Mawatha,
Colombo 1, Sri Lanka.

Tel : +94 11 2205030, 2445811
Fax : +94 11 2205036
Email : ibu@boc.lk

Branch Code : 776

Primary Dealer Unit

Buying and selling of Government Securities

7th Floor,
Bank of Ceylon Head Office,
"BOC Square",
No. 1, Bank of Ceylon Mawatha,
Colombo 1, Sri Lanka.

Tel : +94 11 2448830, 2203607
Fax : +94 11 2448207
Email : pdu@boc.lk

Branch Code : 760

Corporate Offices and Overseas Branches

Trade Promotion Department

Service provider for migrant employee community

7th Floor,
Bank of Ceylon Head Office,
"BOC Square",
No. 1, Bank of Ceylon Mawatha,
Colombo 1, Sri Lanka.

Tel : +94 11 2447831, 2203626
Fax : +94 11 2346841
Email : cminttrade@boc.lk

Branch Code : 087

Trade Services Department

Providing trade finance facilities and services

2nd Floor,
Bank of Ceylon Head Office,
"BOC Square",
No. 1, Bank of Ceylon Mawatha,
Colombo 1, Sri Lanka.

Tel : +94 11 2394310, 2203310
Fax : +94 11 2542170
Email : agmtradefinance@boc.lk

Branch Code : 660

Overseas Branches

Malé Branch

"Aage" No. 12, Boduthakurufaanu Magu,
Henveiru, Male. 20094,
Republic of Maldives.

Tel : +960 3323045, 3020500
Email : agmmale@boc.lk
SWIFT code : BCEYMVMV

Branch code : 632

Hulhumale Branch

Teak Unit 1,
Amin Avenue, Hulhumale,
Repuplic of Maldives

Tel : +960 3350921, 3350923
Fax : +960 3350924

Chennai Branch

No. 20/21, Casa Major Road,
New No. 2 (Old No. 11), Zerat Garden,
2nd Lane, Egmore, Chennai 600 008,
India.

Tel : +91 44 2819 0972/73/75
3951 9913
Email : agmcb@boc.lk
SWIFT code : BCEYIN5M

Branch code : 758

Seychelles Branch

Oliaji Trade Center, Fransis Rachel Street,
P.O. Box 1599, Victoria, Mahe,
Republic of Seychelles.

Tel : +248 461 1880, 461 1889
Email : agmseychelles@boc.lk
SWIFT code : BCEYSCSC

Branch code : 807

Corporate Information

Name of the Institution

Bank of Ceylon

Legal Form

A banking corporation domiciled in Sri Lanka, duly incorporated on 1 August 1939 under the Bank of Ceylon Ordinance No. 53 of 1938.

A licensed commercial bank established under the Banking Act No. 30 of 1988.

Registered Office

No. 01, 'BOC Square',
Bank of Ceylon Mawatha,
Colombo 01, Sri Lanka.

Tel: +94 11 2203333 (Hotline)
+94 11 2446790-811 (22 lines)
+94 11 2338741-47 (7 lines)
+94 11 2445815-20 (6 lines)
+94 11 2544340-44 (5 lines)
+94 11 2544333-37 (5 lines)

Facsimile : +94 11 2321160

Bank : 7010

SWIFT code : BCEYLKLX

E-Mail : boc@boc.lk, customercare@boc.lk

Website : www.boc.lk

Call Centre

Tel : +94 11 2204444

Facsimile : +94 11 2320864

24 Hour Service Centre

Travel Counter, Ground Floor,
Bank of Ceylon Head Office,
No. 01, 'BOC Square',
Bank of Ceylon Mawatha,
Colombo 01, Sri Lanka

Tel : +94 11 2203044/45

Facsimile : +94 11 2445801

Accounting Year End

31 December

Tax Payer Identification Number (TIN)

409000070

VAT Registration Number

409000070-7000

SVAT Registration Number

SVAT002898

Stock Exchange Listing

The Unsecured, Subordinated Redeemable Debentures of October 2013/ October 2023 series, September 2014/ September 2022 series, October 2015/ October 2023 series and December 2016/ December 2024 series with fixed and floating interest rates are listed on Colombo Stock Exchange.

Local Ratings

- National Long-term rating: 'AA+(lka)' Outlook Negative
- Subordinated debentures: 'AA (lka)' by Fitch Ratings Lanka Limited
- Issuer rating: (SL) AAA (Negative) by ICRA Lanka Limited

Global Ratings

'B' outlook Negative by Fitch Ratings and 'B2' stable by Moody's Investors Service

Lawyers

Mr S T K Hewage

Chief Legal Officer of Bank of Ceylon and his assistants

Tel : +94 11 2445813/ 2204900

Facsimile : +94 11 2321167

E-mail : clo@boc.lk

Compliance Officer

Mr A De S Pinnaduwage

(Deputy General Manager – Compliance)

Tel : +94 11 2448532/ 2204805
Facsimile : +94 11 2544306
E-mail : dgmcmpl@boc.lk

Auditor

The Auditor General,
The Auditor General's Department,
306/72, Polduwa Road,
Battaramulla, Sri Lanka.

Tel : +94 11 2887028-34 (6 lines)
Facsimile : +94 11 2887223
E-mail : oaggov@sltnet.lk

(Appointed in terms of the provisions of Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka)

Registrars to the Debenture Issues

Bank of Ceylon
Investment Banking Division,

7th Floor, Bank of Ceylon Head Office,
No. 01, 'BOC Square',
Bank of Ceylon Mawatha, Colombo 01,
Sri Lanka.

Tel : +94 11 2448348
+94 11 2440081
+94 11 2346845
Facsimile : +94 11 2346842
E-mail : investment@boc.lk

Board of Directors

Mr Kanchana Ratwatte (Chairman)
Mr Lalith P Withana
Mr G Harsha Wijayawardhana
Mr Hasitha Premaratne
Ms Visakha Amarasekere

Secretary, Bank of Ceylon/ Secretary to the Board

Ms Janaki Senanayake Siriwardane

For Clarifications on the Report, Please Contact

Mr H P K Silva

Deputy General Manager
(Finance and Planning)

10th Floor, Bank of Ceylon Head Office,
No. 01, 'BOC Square',
Bank of Ceylon Mawatha, Colombo 01,
Sri Lanka

Tel : +94 11 2432680
+94 11 2203900
Facsimile : +94 11 2448203
E-Mail : dgmfp@boc.lk

Audit Committee

Mr Lalith P Withana (Chairman)
Ms Visakha Amarasekere
Mr G Harsha Wijayawardhana
Mr Hasitha Premaratne

Human Resources and Remuneration Committee

Mr Kanchana Ratwatte (Chairman)
Ms Visakha Amarasekere
Mr Hasitha Premaratne

Nomination and Corporate Governance Committee

Mr Hasitha Premaratne (Chairman)
Ms Visakha Amarasekere
Mr G Harsha Wijayawardhana

Integrated Risk Management Committee

Mr Hasitha Premaratne (Chairman)
Ms Visakha Amarasekere
Mr G Harsha Wijayawardhana
Mr Lalith P Withana

Information and Communication Technology Committee

Mr G Harsha Wijayawardhana (Chairman)
Mr Lalith P Withana
Mr Hasitha Premaratne

Notes

This Annual Report is conceptualised, designed and produced by Redworks.

REDWORKS

Member of the Ogilvy Group

BANK OF CEYLON

Bankers to the Nation

Bank of Ceylon,
No. 01, "BOC Square",
Bank of Ceylon Mawatha,
Colombo 01
Sri Lanka

Tel : +94 11 220 3333 (Hotline)
+94 11 244 6790-811 (22 lines)
Facsimile: +94 11 232 1160
e-mail: boc@boc.lk/customercare@boc.lk

www.boc.lk