

# Independent Auditors' Report



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## TO THE SHAREHOLDERS OF COMMERCIAL BANK OF CEYLON PLC

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of Commercial Bank of Ceylon PLC ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group"), which comprise the statement of financial position as at December 31, 2019, and the income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Bank and the Group gives a true and fair view of the financial position of the Bank and the Group as at December 31, 2019, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards ("SLAuSs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka ("Code of Ethics") and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of our financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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 Jayasinghe FCA FCMA  
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajewani 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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Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment allowance for Loans and advances to other customers.</b></p> <p>Our audit considered impairment allowance for loans and advances to other customers as a key audit matter. The materiality of the reported amounts for loans and advances to other customers (and impairment allowance thereof), the subjectivity associated with management's impairment estimation, involvement of complex manual calculations and overarching economic conditions in Sri Lanka underpinned our basis for considering it as a Key Audit Matter.</p> <p>As at 31 December 2019, 63 % of its total assets of the Group consisted of loans and advances to other customers amounting to Rs. 893,919 Mn., net of impairment allowance of Rs. 36,818 Mn. (Note 34).</p> <p>Significant estimates and assumptions used by the management in such calculations, its sensitivities and the basis for impairment allowance are disclosed in Note 7.1.12 and 18 and 69.1.3.</p>	<p>To assess the reasonableness of the impairment allowance, our audit procedures (among others) were designed to obtain sufficient and appropriate audit evidences, included the following:</p> <ul style="list-style-type: none"> <li>• We evaluated design effectiveness of controls over estimation of impairment loans and advances to other customers, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committees and management.</li> <li>• We test-checked the underlying calculations and data.</li> <li>• In addition to the above, following focused procedures were performed: <ul style="list-style-type: none"> <li>For a sample of loans to and receivables from other customers individually assessed for impairment: <ul style="list-style-type: none"> <li>– We assessed the main criteria used by the management for determining whether an impairment event had occurred;</li> <li>– Where impairment indicators existed. We obtained an understanding of the latest developments in the borrower's situation and the factors impacting the measurement of provisions;</li> <li>– We assessed the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held. We also compared the actual recoveries against previously estimated amounts of future recoveries.</li> <li>– We involved our internal specialists to assess the market value of a sample of collateral valuations.</li> </ul> </li> <li>For loans to and receivables from other customers collectively assessed for impairment: <ul style="list-style-type: none"> <li>– We assessed Management's key assumptions, such as: definition of default, probability of default ("PD"), loss given default, significant increases in credit risk and the staging applied by Management, forward looking assumptions and the determination of lifetime PD curves;</li> <li>– We assessed the completeness of the underlying information in loans and advances used in the impairment calculations by agreeing details to the Group's source documents and information in IT systems.</li> <li>– We also considered reasonableness of macro-economic and other factors used by management in their judgemental overlays for various types of loan portfolios, by comparing them with publicly available data and information sources.</li> <li>– We assessed the management procedure over identification and staging of modified loans.</li> </ul> </li> </ul> </li> <li>• We assessed the adequacy of the related financial statement disclosures as set out in Note 34.</li> </ul>
<p><b>Bank's financial reporting process and related IT systems and Controls</b></p> <p>Bank uses multitude complex IT systems in its operations. As a result, preparation of financial statements inclusive of key disclosures are heavily dependent on information derived from multiple systems that are being used. The process of preparing key disclosures involve running multiple system reports, collation and spread sheet based calculations.</p> <p>Accordingly we considered the risk of any control lapses of the preparation of accounting and financial information as a Key Audit Matter.</p>	<p>We performed the following procedures, among others.</p> <ul style="list-style-type: none"> <li>• Understanding and evaluation of design effectiveness of key automated, IT dependent or manual controls implemented by management over generation of multiple system reports and collation of required information underpinning the significant financial statement disclosures.</li> <li>• Examining Management's reconciliations between source systems and the general ledgers through to the consolidation spreadsheet, including substantiation of the source system balances;</li> <li>• Test-checking; <ul style="list-style-type: none"> <li>– the system report generation functionalities that were deemed key to financial statement disclosures;</li> <li>– source data with those of the related systems;</li> <li>– calculations and categorisations performed by management to ensure accuracy and reasonability of functions and procedures respectively; and</li> </ul> </li> <li>• Assessing if the significant disclosures are being made in line with applicable accounting standards. <ul style="list-style-type: none"> <li>– Where we considered necessary, performing additional substantive audit procedures on specific account reconciliations underpinning significant financial statements disclosures.</li> </ul> </li> <li>• Testing material post-closing adjustments to appropriate supporting evidence.</li> </ul>

### Other information included in the 2019 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do 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 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### 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 determines 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 intends 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.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in

accordance with SLAuSs 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 SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We 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 our 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 internal controls of the Bank and the Group.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of 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 we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 1884.



Chartered Accountants

February 20, 2020  
Colombo