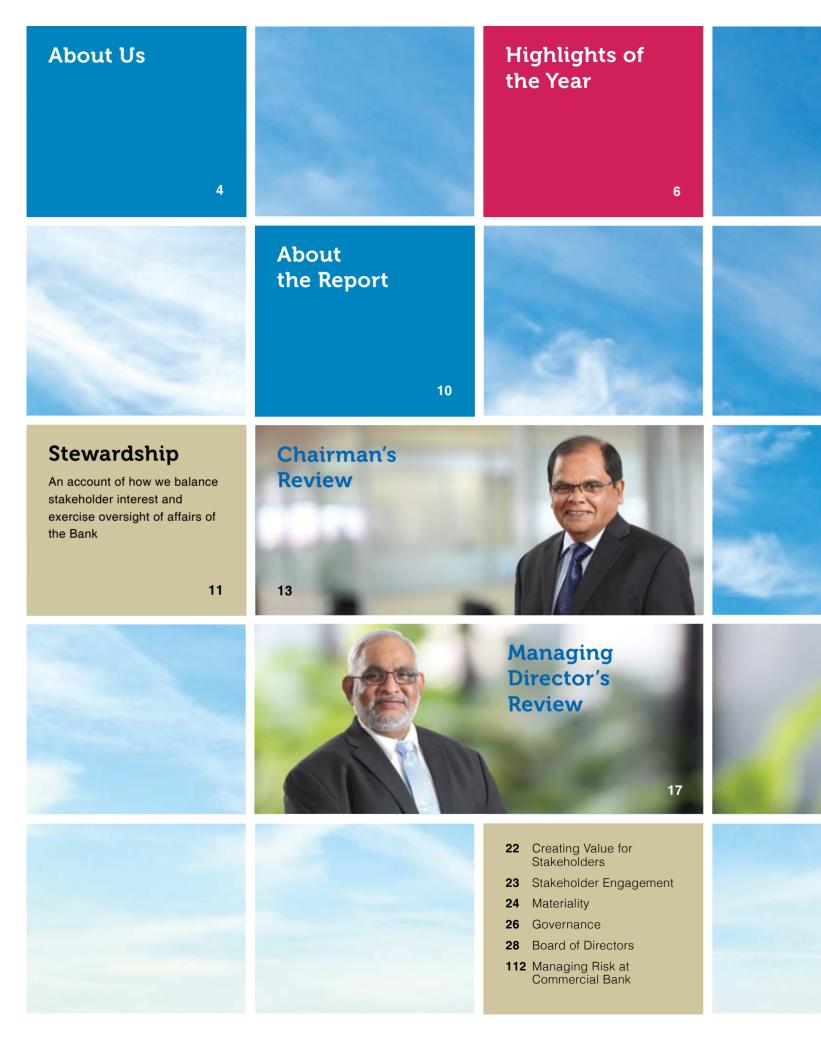
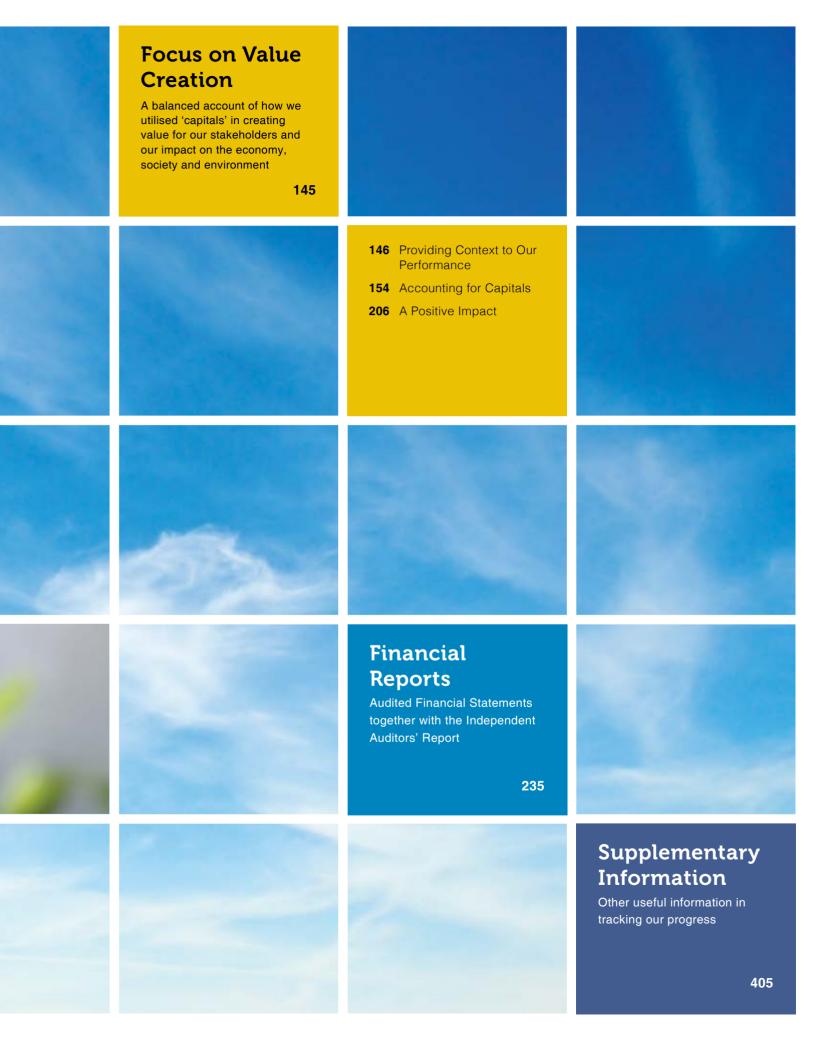


It is a tradition of the Bank to 'walk in step' with its stakeholders. Such is the closeness of this relationship that it is akin to 'walking in the same shoes'...where every strategy and action of the Bank is driven by the paramount desire to satisfy and delight our customers and other stakeholders...at every step.

Simply put...this is walking in step at its purest.





Commercial Bank of Ceylon PLC is the largest listed financial institution in Sri Lanka and the most awarded bank in the country. With a market capitalisation of around US\$ 1 Bn., it is the 3rd largest of all listed entities in the country and also the only Bank which is ranked amongst the world's top 1,000 banks for the past 5 consecutive years in the country. A high performing team of 4,951 employees serve over 3 million customers through our network of 264 branches in Sri Lanka and Bangladesh and a representative office in Myanmar. In step with our customers and responsive to their needs, we aspire to be their primary banker supporting their growth through our global network of 50 correspondent banks – a true partner in the country's socio-economic progress.



# **Our Vision**

To be the most technologically advanced, innovative and customer-friendly financial services organisation in Sri Lanka, poised for further expansion in South Asia.

#### Our Mission

Providing reliable, innovative, customer-friendly financial services, utilising cutting-edge technology and focusing continuously on productivity improvement whilst developing our staff and acquiring necessary expertise to expand locally and regionally.

# **Financial Highlights**

	GROUP		BANK			
	2015	2014	Change %	2015	2014	Change %
Results for the year (Rs. Bn.)						
Gross income	78.225	72.848	7.38	77.868	72.752	7.03
Operating profit before financial VAT and tax	20.013	18.542	7.93	20.033	18.425	8.73
Profit before taxation (PBT)	17.136	15.860	8.05	17.144	15.736	8.94
Income tax expense	5.277	4.617	14.29	5.240	4.556	15.02
Profit for the year	11.859	11.243	5.48	11.903	11.180	6.47
Revenue to the Governments	10.772	7.295	47.66	10.682	7.235	47.64
Gross dividends	5.700	5.630	1.24	5.700	5.630	1.24
Position at the year-end (Rs. Bn.)						
Shareholders' funds (Stated capital and reserves)	70.964	71.206	(0.34)	70.341	70.512	(0.24)
Deposits from customers	624.021	529.267	17.90	624.102	529.361	17.90
Gross loans and advances	528.383	423.701	24.71	526.167	422.388	24.57
Total assets	882.183	797.258	10.65	879,805	795.610	10.58
Information per Ordinary Share (Rs.)						
Earnings (Basic)	13.53	12.87	5.13	13.59	12.81	6.09
Earnings (Diluted)	13.51	12.82	5.38	13.57	12.75	6.43
Dividends - Cash	_	_	_	4.50	4.50	-
Dividends - Shares	_	_	_	2.00	2.00	-
Net assets value	80.93	82.24	(1.59)	80.22	81.44	(1.50)
Market value at the year-end – Voting	N/A	N/A	-	140.20	171.00	(18.01)
Market value at the year-end – Non-Voting	N/A	N/A		123.00	125.10	(1.68)
Ratios						
Return on average shareholders' funds (%)	16.68	18.11	(1.43)	16.90	17.01	(0.11)
Return on average assets (%)	1.41	1.72	(0.31)	1.42	1.60	(0.18)
Price earnings (times) – Ordinary Voting Shares	N/A	N/A		10.33	13.24	(21.98)
Price Earnings (times) - Ordinary Non-Voting Shares	N/A	N/A		9.06	9.69	(6.50)
Year-on-year growth in earnings (%)	5.48	11.52	(6.04)	6.47	7.03	(0.56)
Dividend yield (%) - Ordinary Voting Shares	N/A	N/A		4.64	3.80	0.84
Dividend yield (%) - Ordinary Non-Voting Shares	N/A	N/A		5.28	5.20	0.08
Dividend cover on Ordinary Shares (times)	N/A	N/A		2.09	1.99	5.03
Statutory Ratios:						
Liquid assets (%)	N/A	N/A		27.72	33.11	(5.39)
Capital adequacy ratios:						
Tier I (%) – Minimum requirement 5%	11.55	13.07	(1.52)	11.60	12.93	(1.33)
Tier I & II (%) – Minimum requirement 10%	14.28	16.22	(1.94)	14.26	15.97	(1.71)

# Financial Goals and Achievements - Bank

	Goal	Achievement				
Financial Indicator		2015	2014	2013	2012	2011
Return on average assets (ROA) (%)	Over 2%	1.42	1.60	1.87	2.12	1.94
Return on average shareholders' funds (%)	Over 20%	16.90	17.01	18.40	20.96	20.28
Growth in income (%)	Over 20%	7.03	0.96	15.40	38.25	10.45
Growth in profit for the year (%)	Over 20%	6.47	7.03	3.44	28.10	42.72
Growth in total assets (%)	Over 20%	10.58	31.29	18.54	15.95	18.95
Dividend per share (DPS) (Rs.)	Over Rs. 5.00	6.50	6.50	6.50	6.50	6.00
Capital adequacy ratios:						
Tier I (%) – Minimum requirement 5%	Over 8%	11.60	12.93	13.27	12.64	12.11
Tier II (%) – Minimum requirement 10%	Over 13%	14.26	15.97	16.91	13.85	13.01

# A Snapshot of Value Created for the Stakeholders

Rs. 78.225 Bn.

Gross Income

# 14.28%

Total Capital Adequacy Ratio

Rs. 882.183 Bn.

Total Assets
Group

# **Customers**



Growth
in No. of Deposits
& Advances
Accounts (%)

2015	3.62
2014	2.14



No of Customer Touch Points

Sri Lanka

2015	246
2014	239

Bangladesh

2015	18
2014	18



**Employees** 

Total No. of Employees

2015	4,951
2014	4,852



Average Hours of Training per Employee per Year

2015	24.26
2014	27.24



Attrition Ratio (%)

2015	3.74
2014	4.26

# Government Institutions



Taxes Paid to Governments

(Rs. Mn.)

2015	10,682
2014	7,235



Tax Collected on behalf of Governments

(Rs. Mn.)

2015	1,///
2014	2,211





Assets Purchased (Other than Investments) (Rs. Mn.)

2015	1,193
2014	1,134



No. of Correspondent Banks

2015	50
2014	48

# Community



Donations (Rs. Mn.)

015	6
04.4	_

2014 55



ATIVIS

Sri Lanka

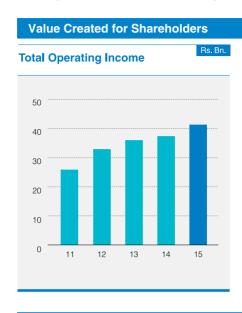
**2015 621** 2014 606

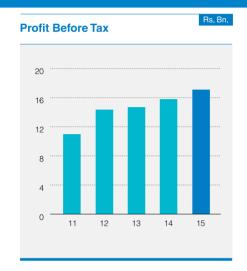
Bangladesh

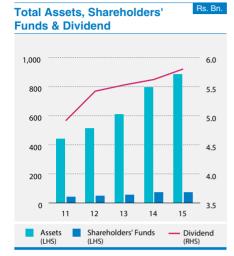
**2015 19** 2014 19

# **Performance Highlights**

A strong commitment to sustainable growth

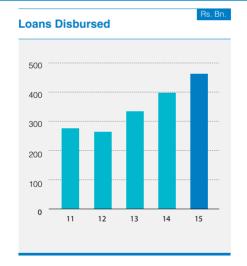


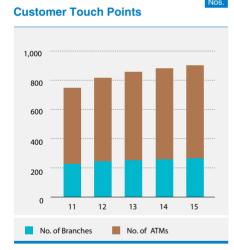




# Interest Paid to Customers 40 32 24 16 8 0 11 12 13 14 15

**Value Created for Customers** 



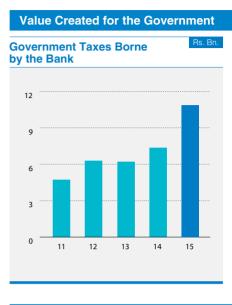


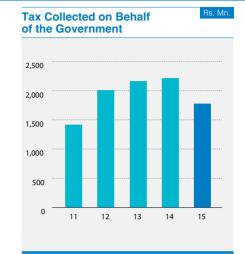
# 5,000 4,000 3,000 1,000 0 11 12 13 14 15 Male Female

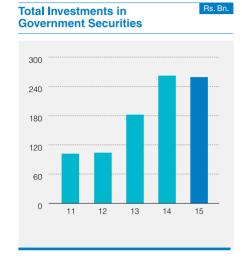
**Value Created for Employees** 



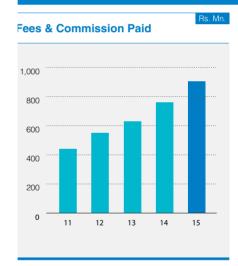


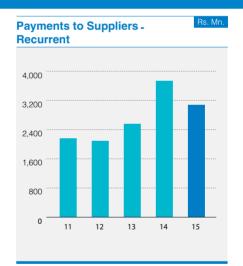






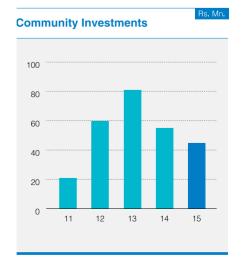
# **Value Created for Business Partners**

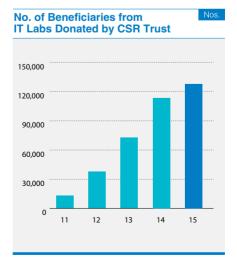


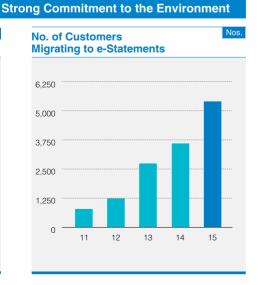




# **Value Created for the Community**







#### **Basis of Preparation**

This is the 47th Annual Report of Commercial Bank of Cevlon PLC which provides a comprehensive but concise account of how the Bank has created value to its shareholders and other stakeholders in 2015, in its 95th year of operations. This Report discusses the Bank's economic, environmental and social performance in a holistic manner and is carefully structured to present material information where it is most relevant. The Financial Statements have been prepared in accordance with the Sri Lanka Accounting Standards and provide the information required by the Companies Act No. 07 of 2007. The Section on 'How We Govern' appearing on pages 26 to 58 provides a concise narrative on how the Bank complies with the Code of Best Practice on Corporate Governance and the Banking Act Direction No.11 of 2007. The remainder of the Report is based on the Integrated Reporting Framework published by the International Integrated Reporting Council (IIRC) and the Global Reporting Initiative (GRI) G4 Guidelines 'In Accordance -Core' option and the Financial Services Sector Disclosures published by GRI. This is our 7th Report presenting information in accordance with the GRI Guidelines with the most recent Report being for the year ended December 31, 2014 for which comparatives are given throughout this Report. There were no re-statements of previously reported economic, social or environmental information. The Report also sets out how the Bank complies with the United Nations Global Compact (UNGC) principles and the Bank's Social and Environmental Management System derived based on the applicable requirements of the International Finance Corporation (IFC). We have also looked to a Preparer's Guide to Integrated Corporate Reporting Guidance published by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) for further guidance in preparation of this Report.

Commercial Bank of Ceylon PLC, the parent entity of the Group, accounts for over 99% of Group revenue, assets, borrowings and employees and therefore, is the main entity for which social and environmental information is presented in the narrative report unless otherwise

referred to as Group or Consolidated. Consequently, the Bank's four Subsidiaries; Commercial Development Company PLC, ONEzero Company Ltd., Serendib Finance Ltd. and Commex Sri Lanka S.R.L. together with two Associates; Equity Investments Lanka Ltd. and Commercial Insurance Brokers (Pvt) Ltd. are consolidated in preparation of Group financial results, but are excluded from the social and environmental reporting process.

The material aspects boundaries are based on both internal and external assessments covering the Bank's operations in Sri Lanka and where specified Bangladesh. We have provided both quantitative and qualitative data and it has been our intention to provide quantitative data where possible to facilitate comparisons and further analyses.

#### **Commitment to Quality**

We take every effort to ensure that our Report complies with the following qualitative criteria:

- Completeness: This Report includes, material impacts within and under the direct control of the Bank: impacts outside which are indirectly influenced through our engagement with stakeholders; and broader sustainability initiatives undertaken through the CSR Trust of the Bank in co-operation with Government organisations and other groups.
- Comparability: Results from the current period and previous reporting periods are included together with industry benchmarks where relevant and available.
- Accuracy and Consistency: Our information gathering processes have inbuilt internal controls to facilitate traceability and are verified by internal audit and additional assurance has been provided by External Auditors on financial information in accordance with regulatory requirements.
- Clarity: Quantitative and qualitative information has been provided using visual elements such as graphs, tables and pictures to facilitate understanding and brevity of the Report.

- Balance: We have taken every possible effort to present a balanced review and have included relevant material information including facts and trends which may not be necessarily interpreted as favourable to the performance of the Bank.
- Credibility and Reliability: Our policy of providing external assurance on both financial and sustainability information from reputed providers ensures the credibility and reliability of the Report.

#### **External Assurance**

The Bank is required to have Independent External Auditors provide an opinion on the Financial Statements and its External Auditors are rotated every 5 years to ensure their independence and objectivity. Assurance of sustainability disclosures in the Report is also obtained from DNV GL, represented by DNV GL Business Assurance Lanka (Pvt) Ltd. and performance indicators from KPMG.

Commercial Bank of Ceylon PLC, including the Board of Directors and Senior Management, does not have any relationship with DNV GL or KPMG, apart from the latter's engagement as the Independent External Auditor of the Group. The Bank's Managing Director, who is an Executive Director of the Board and members of the Corporate Management of the Bank are responsible for sustainability practices and disclosures reviewed in this Report; worked with the external assurance providers on the Report content.

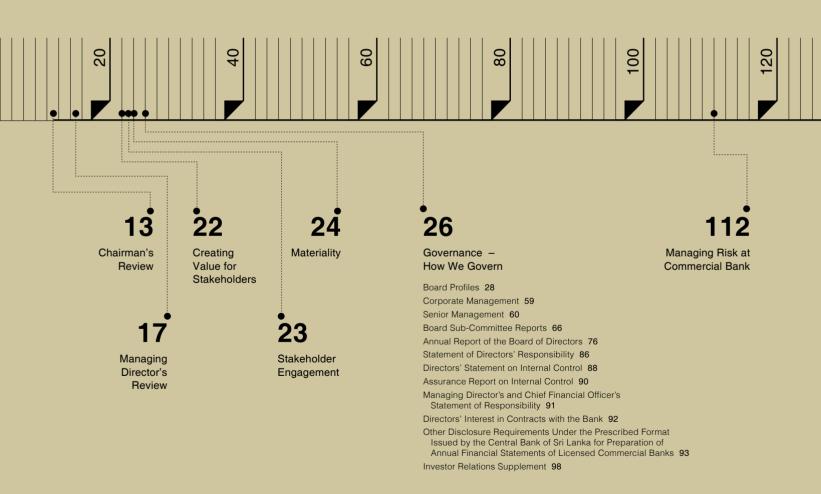
#### **Contact Person**

Please send your inquiries and feedback on this Report to:

Name: K.D.N. Buddhipala Designation: Chief Financial Officer Commercial Bank of Ceylon PLC 'Commercial House' 21, Sir Razik Fareed Mawatha Colombo 01 Sri Lanka

# Stewardship

An account of how we balance stakeholder interest and exercise oversight of affairs of the Bank







3.1% ↑
Global Economy



5.2% \\
Local Economy



Guided by the Mission Statement of the Bank, our focus was primarily centered on innovation, professionalism, service quality, customer retentions and optimisation of profits; while ensuring long-term sustainability

#### **STEWARDSHIP**

Chairman's Review

#### Dear Friends,

The Bank performed exceptionally well in almost all areas of business activities in 2015. I am sure this accomplishment would be to the delight of all our stakeholders. Therefore, at the commencement of my review, I wish to recognise and appreciate the efforts of all those who contributed towards this success. As I highlight the considerable guidance and leadership given by the Board, I must also attribute the operational achievements of the year to the executive team led by our energetic MD/CEO.

Guided by the Mission Statement of the Bank, our focus was primarily centered on innovation, professionalism, service quality, customer retentions and optimisation of profits; while ensuring long-term sustainability. As the Bank focused on fully realising these key performance drivers, our key strengths were bolstered by advanced technology, increased financial capacity, strong credit culture, vast customer base and our solid time-tested reputation. Moreover, the Bank's policies and strategies were formulated in order to ensure a rapid growth of business activities geared towards securing greater market share while mitigating the higher risk exposure associated with further expansions.

The Banking and financial sector of the nation benefitted from the benign macro-economic conditions that prevailed throughout fiscal year. However, the year did not pass without challenges that predominantly stemmed from unconducive external economic conditions. Furthermore, similar to most emerging market economies, Sri Lanka, was also affected by adverse global trends: capital outflows and an overall reduction in global growth.

As a step forward, numerous prospective diversification opportunities for the Bank's core lending business were explored, with an emphasis being laid on expanding fee-based activities. Income from such activities displayed considerable improvement throughout the fiscal year, yet remained fairly tied down by limited market participation and opportunities. Ergo, measures were also taken to bolster and secure a competitive edge for the Bank's Investment Banking Unit.

Traditionally, branch networks have played a significant role in delivering customer service. In a socio-economic atmosphere where advancing technology is replacing and redefining some of the traditionalised functions of branches, the conventionalised branch banking model is in need of innovative revisions. With an orientation towards retail banking, Sri Lankan banks generally operate through large branch networks that currently depend heavily on labour intensive systems and methodology. Therefore, it is my belief that redirecting investments into implementing cutting edge IT systems, machinery and equipment along with wide-spread adoption of mobile and internet banking is bound to see to a decline in substantial labour costs through the reduction of the labour intensity affiliated with branch operations. Moreover, historical strategic outcomes have also shown that investments in technology have consistently produced higher returns while facilitating greater customer convenience. As such, I regard it optimal that the expansion of the Bank's existing branch network is done in unison with the technological revamping process in order to maximise value while minimising non-essential operational costs.

It is no secret that volatile customer demand is largely influenced by the prevalent market conditions. Thus, we constantly survey the shifts in consumer needs to optimise customer value. Moreover, conventional wisdom dictates that supply creates its own demand. Therefore, has little or no relevance in extending good customer care which also denies 'the market fundamental of consumer supremacy'. To achieve this end, several new products were launched during the year, while some existing products were modified to better suit customer needs.

It is generally believed that small and medium enterprises form the backbone of Sri Lanka's economy. The Bank offers a variety of products to this sector including Individual Loans, Agri and Microfinance, Green Development Loans, *Diribala*, Foreign Currency Loans and *Divisaru* Savings Accounts. All of which have been attracted with a significant appetite shown by the SME customers during the year under review. Even

though, SME is a priority sector, banks are faced with many challenges in this sector including the absence of financial information, poor financial and management skills, high labour turnover, low adoption of technology and reluctance to comply with green initiatives and environmental guidelines. In the agri and microfinance sector, these issues are more predominant and this situation invariably reduces the lending opportunities available for banks.

Encouraged by our successful operations in Bangladesh, the Bank was exploring possibilities of overseas expansion. In this endeavour we were successful in obtaining a License to operate a representative office in Myanmar. In June 2015, this representative office was launched in Yangon, the commercial capital of Myanmar. The Bank also was successful in setting up of an Exchange House in Rome, under a license obtained from Bank of Italy. This will enable us enhancing inward remittances from Italy in a big scale. During the year, we were also successful in obtaining a license from the Monetary Authority of the Maldives for setting up of a fully-fledged Tier 1 bank in that country. We hope to commence our operations soon.

The CSR initiatives of the Bank was directed to focus on a fresh level of activities along the lines of 'empowerment of education' for children in schools as well as for university entrants with greater thrust in opening more IT labs across identified locations. Confining to this stipulated framework by end 2015, IT labs established by the Bank totalled 170 of which 17 labs donated to deserving schools during the year. Three more schools were added to the online learning projects during the year thus bringing the total to 53 provided with this learning facility by end of the year. A ground breaking new initiative was launched in 2015 to stimulate and develop the mathematical and analytical skills of school children under the concept of 'math lab' aligned with the Bank's education centric CSR agenda with the involvement of over 4,500 students at four Government schools and a home for differentlyabled children. In another new initiative an educational website Sipnena was launched linking 10 schools in

diverse regions to impart the universe of knowledge close to our children and offer the students free access to support their educational needs in line with local curricula via the IT labs donated by the Bank. Total number of under graduate scholarship recipients of the Bank's CSR Trust, under the Sarasawiyata Nawa Saviyak programme, stood at 300 students. Whilst education remained the Priority Sector, Bank's CSR initiatives on other sectors continued with a stronger commitment towards the society. The CSR Trust is mindful of the fact that the Bank is a responsible stakeholder of the economy and its programmes should fall in line with national priorities so as to maximise the socioeconomic benefits accruing to the society at large from its investments. We are pleased to place on record that the Trust was awarded 'Best Sustainability - Green Initiatives' at the 2015 Asian Customer Engagement Forum Awards in Mumbai, India, which recognises the effectiveness of Commercial Bank's initiatives to migrate customers from traditional banking channels to digital platforms such as mobile and online banking as well as its investments in an effort to promote automation to minimise the use of paper.

We are mindful of the diversity of consumers in the market not only by size but also by their advertising and price consciousness and risk appetite. Our Marketing Strategy recognises this diversity and marketing programmes have been targeted at different segments of the market, while recognising imperfections of competitiveness in a highly regulated market where competition is permitted only within the regulatory framework. The Board is keen particularly on the effectiveness of marketing programmes of the Bank and has found that the interaction with the management was fruitful at Board and Board Sub-Committee discussions in directing the marketing efforts of the Bank. The marketing programmes, among other things focused on into green banking and launched a very innovative, modern and appealing set of 'green' outlook branding to emphasise the new generation of automated cash deposit terminals that completely eliminate the use of paper.

#### **STEWARDSHIP**

Chairman's Review

As the benchmark, private sector bank which has changed the landscape of banking in Sri Lanka, Commercial Bank will continue to consign industry standards by providing convenience through technological innovation and excellence in customer service. The Bank's marketing function is endeavoured to exert increased support for the digitalisation of banking with more focus imparted on migrating customers for real time convenient channels such as ATMs, ADMs, Green Banking Channels, Online Banking, Mobile Banking and Automated Banking Centres which would pave the way for branches to focus more on building and strengthening customer relationship. Our immediate priority is to adopt a highly customer oriented approach in product and service delivery where customer relationship building and service efficiency are the key.

We recognise our staff as the biggest asset of the Bank. Thanks to age old culture of the Bank we today have a very strong human resource base with further potential for upskilling to achieve greater productivity which needs not be overemphasised in the context where staff cost is fast growing and constitutes the largest single component of all costs of the Bank put together. Improved labour productivity will ensure long term sustainability of profitability and cost income ratio at lower if not at present level. Human Resource policies of the Bank have been subject to review periodically by the Board particularly in relation to recruitment, staff training and development and remuneration.

I am pleased to note that the Board has at all times maintained high professional and ethical standards in its deliberations. We have been unanimous in making all our discussions at the Board and have always strived to improve management information supplied to the Board to ensure that its members are better informed of operational matters. I would like to place on record that we have received excellent co-operation from MD/CEO and his staff. All Board Sub-Committees have functioned effectively and I wish to take this opportunity to thank each and every member of the Board. The untimely demise of Professor Uditha Liyanage, our respected Board member has caused an irreparable loss for the Bank. I would like to gratefully

acknowledge his valuable inputs received at all Board discussions and other Committee level meetings. The two new Board members who were appointed to fill the casual vacancies, namely Professor A. K. W. Jayawardane and Mr. K. Dharmasiri, have brought in much needed expertise in technology and banking to the Board. I will be failing in my duty if I do not acknowledge the contribution made by other members of the Board. I wish to make a special mention of the assistance that was received from Mr. John Wilson to study and make recommendations to the Board on the methodology currently used for Funds Transfer Pricing and Treasury Management. Mr. M. P. Jayawardena, Deputy Chairman and Mr. S. Swarnajothy who chair two important Board Sub-Committees, the Board Integrated Risk Management Committee and the Board Audit Committee respectively, have contributed immensely to improve Board oversight and to provide strategic direction to the management through their valuable professional inputs. The operational excellence that has been achieved by the Bank is no doubt a reflection of the efficiency and effectiveness of the two Executive Directors namely, Mr. J. Durairatnam, MD/CEO and Mr. S. Renganathan, COO of the Bank.

The Corporate Plan and the Budget for 2016 has been finalised and approved by the Board. The team is geared to achieve targets that are boundaries beyond that of yesteryear. Furthermore, I am confident that through the strengths of our committed and dedicated team, the Bank is well on its way to make great strides toward achieving a one trillion Rupee balance sheet by the end of the new fiscal year. With this determination brewing at the core, I wish you all much success.

Dharma Dheerasinghe

Chairman

Colombo February 24, 2016



A consistent performance requires an unswerving commitment to good governance and values. As a financial services organisation, our customers rely on our honesty, integrity and professionalism in their daily engagements. At the core of our business is a strong commitment to our values

#### **STEWARDSHIP**

Managing Director's Review

#### **Expanding Horizons**

In our 95th year, we have strengthened our positions in Sri Lanka and Bangladesh, established a representative office in Myanmar and received approval to commence operations in Maldives and Italy, setting strong foundations for our future growth. Each international location has its own value proposition, varying from a focus on SMEs in Myanmar to a technology driven strategy in the Maldives, and is the result of careful study of each market to determine how we can make a significant difference with our expertise. Receiving the license to operate an exchange house in Italy, in 2015 was extremely gratifying as we were able to meet the rigorous processes and standards of the European Union and we expect to commence operations in 2016 under a 100% owned subsidiary. As the first bank in Sri Lanka to identify the need and set in place the mechanisms to legitimise remittances from Italy, we believe we have a unique opportunity in this market which also strengthens our position in our home market. These three achievements are perhaps the most significant for the year as they expand our horizons presenting new opportunities for growth.

I would like to dwell on our economic significance to set our performance in context. Commercial Bank of Ceylon PLC is Sri Lanka's largest private sector Bank, the third largest entity by market capitalisation in the country's stock exchange and the largest provider of funds for SMEs in the country, catering to the needs of millions of customers in Sri Lanka and overseas. We continue to invest in consolidating our position in Sri Lanka as a catalyst in the socio-economic progress of the country shaping how Sri Lankans bank, taking care not to rest on our laurels.

#### **Performance**

It is my pleasure to report that Commercial Bank recorded a profit after tax of Rs. 11.903 Bn. and an asset growth of 10.58% in 2015 closing the year with a market capitalisation of Rs. 115.003 Bn. recording a phenomenal year for growth across all business lines, The Bank's loan portfolios and deposits grew by 25.33% and 17.90% respectively, supported by a strong domestic franchise and a customer centric business model. At the close of the year, our loans and advances were Rs. 508.115 Bn. accounting for approximately 9% of the banking sector as our client acquisition strategies supported growth. During 2015, the Bank witnessed a year-on-year (YoY) growth of over Rs. 100 Bn. in the loans and advances portfolio for the first time in its history. Resurging demand for private sector credit supported growth in corporate portfolios whilst retail lending was driven by SME lending, vehicle leasing and home loans. It is commendable that the quality of the portfolio improved during the year as evinced by the improved NPL ratio of 2.74% and the decline NPLs in absolute terms during 2016 were Rs. 624.101 Bn. as at year-end accounting for 70.94% of the Bank's funding with an improved CASA ratio of 51.54%.

The continuing low interest regime resulted in narrowing interest spreads as predicted. Competition for fee-based income increased during the year reducing margins offset by increased volumes through client acquisition and strengthening our position as their primary bank. Continuous focus on streamlining operations resulted in an improved cost income ratio to 48.81% supporting bottom line growth. NBT, VAT on financial services and income tax accounted for 19.65% of the operating income of the Bank which excludes the Super Gains Tax on profits of year 2013 of Rs. 2.576 Bn. which was charged against retained earnings brought forward.

The soundness indicators of the Bank reflect a healthy position with Core Capital and Total Capital ratios well above regulatory requirements at 11.60% and 14.26% at the close of 2015. The marginal decline in comparison to the previous year reflects normalising of excess liquidity positions due to robust credit growth.

A long term vision coupled with a measured risk appetite, a strong brand and funding base has enabled us to retain the highest rating of AA (lka) from Fitch Ratings Lanka Ltd. amongst our peers in the country whilst our operations in Bangladesh has also retained the highest rating of AAA from Credit Ratings Information Services Ltd. in Bangladesh, which puts us in a strong position for future growth. Accolades awarded to the Bank include a position in the World's Top 1000 Banks for the 5th consecutive year, the most respected Bank in the country, amongst others which enhance our brand value and bear testimony to our commitment to excellence in all we do.

#### **Commitment to Principles and People**

A consistent performance requires an unswerving commitment to good governance and values. As a financial services organisation, our customers rely on our honesty, integrity and professionalism in their daily engagements. At the core of our business is a strong commitment to our values which consist of:

Honesty and Integrity – We are committed to dealing fairly with customers, offering the most appropriate solution for their requirements rather than pushing convenient products. It means that we will listen to the customers' needs and use our specialist knowledge to support their progress.

**Transparency** – Maintaining clarity and candour in our interactions to ensure transparency in our dealings with customers, regulators, business

partners, employees, shareholders and other stakeholders. Well-documented policies and processes ensure that high standards of transparency are upheld in all our dealings.

Competitiveness – We compete effectively in the market striving for excellence in customer relationships to build customer loyalty. Customer engagement is a shared responsibility across the Bank and it provides extremely valuable feedback driving change to ensure that we are responsive to our customers' changing needs and to be prepared for the future.

A business model that is driven by people must necessarily be underpinned by a robust talent development programme which includes sufficient emphasis on organisation values. The Bank has an excellent track record in nurturing talented professionals who contribute to Boards of banks and other corporates which is the strongest testimonial for our talent development processes. Employees past and present have created a unique culture based on values and systems that have evolved over time, tested and future ready.

#### Outlook

A track record of consistently delivering a strong performance coupled with a strong balance sheet gives us a unique vantage point for our ambitious plans for growth in the coming year. Our strategy will focus on enhancing customer convenience addressing both the virtual and face to face experiences. Deploying technology that is easily accessible and readily understood with mass appeal will be key to attracting a generation of tech savvy youth and taking banking to the customer. Adapting our branch network to further enhance customer convenience through specialised services, opening times and location will enable attraction and

#### **STEWARDSHIP**

Managing Director's Review

retention of customer segments favouring the face to face experience. Investments in technology will also support our thrust on the financial inclusion agenda with cost effective banking solutions for a new segment of customers.

We will also continue our programmes to facilitate access to finance for SMEs and support capacity building in this sector focussing on the provinces and a new generation of eager entrepreneurs. Our support to SMEs will be further enriched with a range of self-help tools that will empower them for growth. Cross pollination of ideas and entrepreneurship amongst professionals will be encouraged through access to finance and advice identified business segments building on the initiative launched in 2015 for agricultural loans for professionals.

Our transition to becoming Sri Lanka's first private international bank will be a key strategic imperative as we seek to leverage our strengths in building new markets. Strengthening our position in Bangladesh as a key partner in the country's vibrant economy as a new generation of entrepreneurs step up to drive the country's economic growth is a key item on our international operations agenda. Establishing the operations in Myanmar and commencing operations in Maldives and Italy will be strategic priorities as we execute our customised plans for each location. We have reason to be confident of the outcome as we draw on a considerable talent pool of experienced banking professionals and rely on tried and tested structures, systems and processes to support our plans for the new markets.

#### **Acknowledgements**

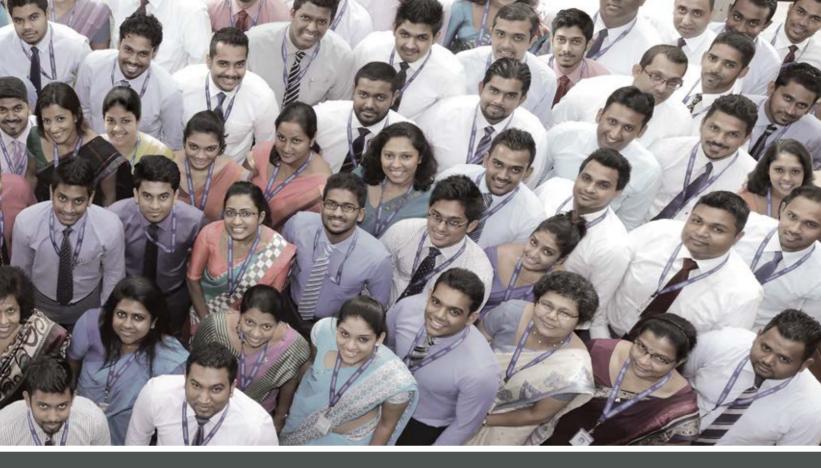
A carefully orchestrated performance requires dedication and commitment from every player and thanking them is my pleasant duty. Accordingly, I extend my sincere appreciation of the Board of Directors who have contributed their considerable collective experience and wisdom, directing the score. We bid farewell to 33 colleagues who retired during the year and I wish to thank them for many years of dedicated service to the Bank. I also wish to acknowledge the guidance and advice provided by officials of Central Bank of Sri Lanka and Bangladesh Bank on regulatory matters and thank them for their diligence. I also thank our External Auditors, KPMG, for their professionalism and prompt completion of the audit.

In closing, I extend my thanks to all employees of the Bank who have executed a complex and carefully written score to deliver a commendable performance. As the largest private sector Bank in Sri Lanka with an equally impressive customer base, we impact millions of lives on a daily basis as we support realisation of their aspirations in innumerable ways. It is an exciting time to be at Commercial Bank as we grow beyond our shores transforming into an international bank.

Jegan Durairatnam

Managing Director/CEO

Colombo February 24, 2016



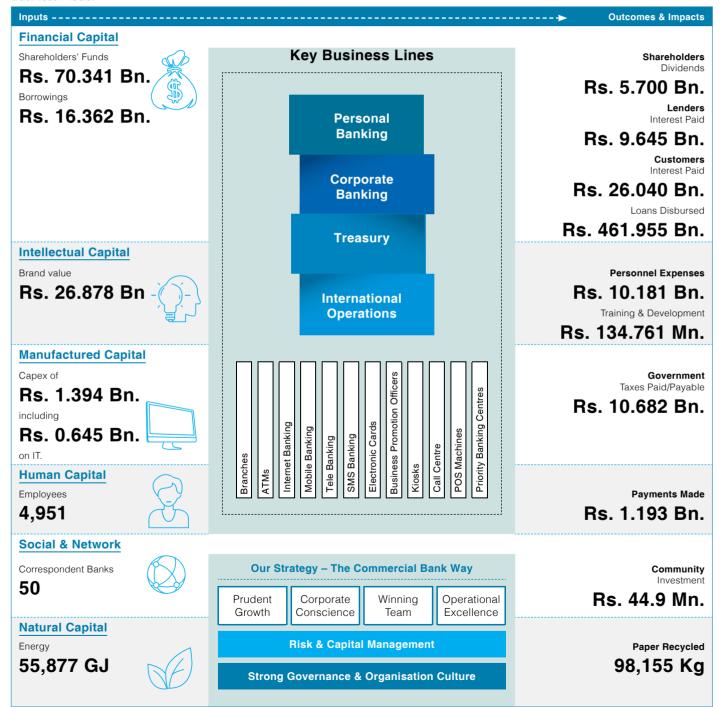




# Creating Value for Stakeholders

Commercial Bank has a proud history of creating value for our stakeholders over 90 years as evinced by our market capitalisation, our deposit and loan portfolio growth, employee retention rates and growth of our footprint. Over time, we have developed our strategy, 'Commercial Bank Way', which encapsulates our commitment to sound principles, values and objective decision-making process supported by expert analytics. We are a prudent Bank committed to long term relationships with a deep understanding of our role as custodians of wealth, impacting many lives directly and indirectly by facilitating trade and providing access to finance. As key partner in growth to over 3 million customers, we play a key role in the socio-economic progress of Sri Lanka and Bangladesh and our strategy reflects this role that entrusted with great responsibility. Our Business Model provides an overview of how we transform our capitals in to value for our key stakeholders.

**Business Model** 



Understanding the concerns of our varied stakeholders is key to our growth and sustained profitability. Accordingly, we have set in place formal mechanisms for engaging with shareholders with responsibility for engagement shared across the organisation (Figure 02). By understanding the needs and concerns of our key stakeholders, we are able to identify opportunities for business growth which address their concerns and drive innovation in a number of areas including products and services (Table 1).

#### How We Connect with Stakeholder Groups

Stakeholder	Engagement activities	Frequency	Areas of Concern
Shareholders and Investors	Annual Reports and Annual General Meetings	Annually	Financial performance
and investors	Extraordinary General Meetings	As required	Governance, transparency and
	Interim Financial Statements	Quarterly	disclosure
	Investor presentations	As required	Shareholder communication policy
	Press conferences and releases	As required	Business expansion plans
	Announcements to Colombo	As required	Customer services
	Stock Exchange		Financial inclusion
	One-to-one discussions	As required	Risk management
	Corporate website	Continuous	Sustainable growth
Customers	Customer satisfaction survey	Bi-annually	Customer service
	Complaint Resolution Officer	As required	Customer security and privacy
	Relationship Managers	As required	Service quality
	Touch points	As required	Financial inclusion
	Media advertisements	As required	Affordability of services and
	Corporate website	Continuous	convenience
	Customer workshops	As required	Dispute resolution
			Financial education and literacy
Employees	Managers' conference	Annually	Performance and reward
and Émployee	Regional review meetings	Quarterly	management
Associations	Newsletters	Quarterly	Investment in HR
	Emails	As required	Work life balance
	Training programmes	As required	Recruitment, retention and attrition
	Intranet	Continuous	Value driven corporate culture
	Special events for staff engagement	As required	Diversity and inclusion
			Future plans
			Carrier progression
Government	On-site and off-site surveillances	Annually	Compliance with regulations,
Institutions	Directives and circulars	As required	directives and codes
	Meetings and consultations	As required	Expansion - Local & Overseas
	Press releases	As required	Microfinance and SME development
	Periodic returns	As specified	Consolidation of the financial sector
Suppliers	Supplier relationship management	As required	Contractual performance
and Business	On-site visits and meetings	As required	Responsible sourcing
Partners			Future business opportunities
Society and	Delivery channels	Continuous	Responsible financing
Environment	Press releases, conferences and	As required	Community investments
	media briefings		Financial inclusion
	Informal briefings and	As required	Recruitment
	communications		Microfinance and SME development
	Public events	As required	Ethics and business conduct
	Call centre and information centre	Continuous	Environmental performance
	Corporate website	Continuous	

#### Identification

- Identify and prioritise issues
- Identify stakeholder groups

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# Planning

- Establish objectives, scope and timelines
- Identify specific stakeholders
- Prioritise stakeholders
- Determine engagement mode
- Allocating necessary resources

# Engagement

**Evaluation** 

Feedback on performance negative/positive

Conduct engagement

- Evaluate results
- Evaluate effectiveness of the process

#### **Prioritisation**

 Prioritise findings for further action

# **(Y**)

#### **Designing**

- Identify methods/modes of addressing the issue
- Formulate necessary policies and procedures
- Pre-implementation testing, if required

# <u>Implementation</u>

 Communicate policies, procedures and timelines of implementation

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Implementation



 Report back to stakeholders

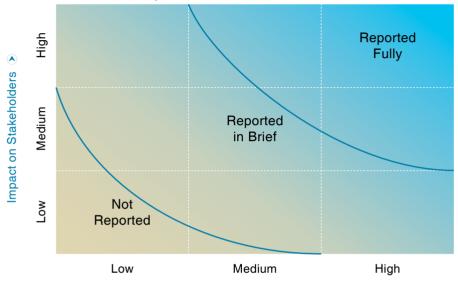
Monitor lapses/ shortcomings

Measure the effectiveness

# → Materiality

A disciplined approach to corporate planning ensures that material matters are identified through critical evaluation of the Bank's value creation processes and the issues identified through our stakeholder engagement processes. Issues are prioritised and matters for inclusion in this Report were determined with reference to their materiality as depicted in the following grid (Figure 3).

How We Determine Materiality



Impact on Organisation >

Good governance and risk management are the bedrock of our strategy and the commonality across all our strategic business units. We are committed to adopting the best practices in these evolving areas to secure the sustainability of our business and safeguard our reputation.

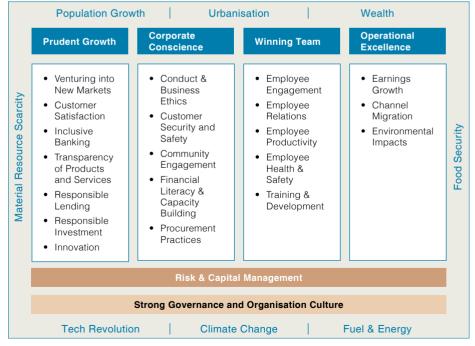
Our plans for growth are prudent, based on principles of sustainable growth, whether it is venturing in to new markets or in realising higher penetration levels in existing markets. Our lending and investment products are developed and marketed in a responsible manner to support financial needs for our customers for their socio-economic progress and our strategies for growth reflect this philosophy.

→ Figure – 3

The process continues to evolve as we seek to increasingly adapt to a leaner style of reporting and communication. This year, we have framed the issues in our terminology and then mapped them to the aspects of the GRI G4 guidelines. Consequently, there are issues that are not included in the GRI G4 Guidelines. which we have included as material topics. Reconciliation of material topics to aspects identified in the GRI G4 Guidelines and UNGC principles is given on page 25 (Figure 5). We also considered the mega trends impacting businesses globally and locally to understand both the opportunities and risks they present to the Bank and these have been mapped around the material issues to complete the picture.

The GRI content index and the boundaries for material aspects are detailed on pages 220 to 225 and page 10, respectively.

#### Material Issues - 2015



#### Reconciliation of Material Aspects to GRI Performance Indicators and UNGC Principles

	Material Aspects	Relevant GRI Performance Indicator/ Other Regulations	UNGC Principles
	Venturing into New Markets	HR1	
	Customer Satisfaction	PR5	
<del>t</del> e	Inclusive Banking	FS7, FS13, FS14, EC7	
owtl	Transparency of Products and Services	PR3	
Prudent Growth	Responsible Lending	FSI-5, FS8 CBSL Requirements	Principle 7,8,9
	Responsible Investment	FSI-5	
	Innovation	Not covered in GRI	
		DD4 DD2 000 FN07	1 [
<b>0</b> 8	Conduct & Business Ethics	PR4, PR9, SO8, EN27	
Corporate Conscience	Customer Security and Safety	FS9, PR7, PR8	
nsci	Community Engagement	SO1, EC6	D: : 1 4 5 0
ပီ ပိ	Financial Literacy & Capacity Building Procurement Practices	EC8	Principle 1,4,5,8
	Procurement Practices	HR10, LA14, SO9, E32	
E	Employee Engagement	HR4	
Теа	Employee Relations	LA4, LA16, HR4	Principle 1,2,3,4,5
g D	Employee Productivity	LA1-3, LA12-13, HR3, HR5-6	Principle 4,5,6
Winning Team	Employee Health & Safety	LA8	Principle 1,2
≽	Training & Development	LA9-11	
_ e a	Earnings Growth	EC1	
Operational Excellence	Channel Migration	Not covered in GRI	
celle			
Q M	Environmental Impacts	FS8, EN6, EN23	Principle 7,9
Risk & Capit	al Management	FS6	
Strong Gove	ernance and Organisation Culture	SO3, SO5, SO8, PR9	Principle 10

→ Figure – 5

Recognising that with great power comes great responsibility, we are committed to conducting business in an ethical manner, beyond mere compliance with regulatory requirements. Additionally, our branches are firmly interwoven in to the socio-economic fabric of geographic regions in which they operate and we are committed to supporting their growth beyond business boundaries. Supporting empowerment of livelihoods and education, we hope to inspire the new generation of youth in reaching their full potential by providing forums for developing their skills.

In a service organisation, it is people who drive the organisation to new heights. We have a winning team who functions in a conducive environment, that has aligned their aspirations with those of the organisation. Indeed, the organisation's strategies for growth rely on the motivation, innovation, hard work and commitment of our people, whom we seek to develop to increase our capacity for creating value.

Operational excellence is necessary to optimise our capacity to create value for our stakeholders forming the fourth pillar

of our strategy. Eliminating waste and streamlining operations will ensure that costs of services are curtailed and processes made more robust and efficient.

The mega trends identified globally such as population growth, urbanisation, etc. as depicted on page 24 (Figure 4) will shape our industry and that of many other industries in the coming years and we monitor these to understand the changing expectations of stakeholders and the opportunities and risks it represents to the organisation.

Governance - How We Govern

The success of the Bank relies on its proven track record in upholding high standards of corporate governance and the Board is committed to ensuring that the governance structures, policies and processes are sufficiently robust and relevant in a fast changing operating environment. This Report provides an insight into how the Board discharges this key responsibility.

The Board of Directors, which is the highest decision making body of Commercial Bank, takes the view that Corporate Governance and Risk Management are the bedrock on which the entire organisation rests, as it guides the Board and all levels of employees in the conduct of business on a day-to-day basis.

It requires a proactive approach to identify areas for improvement and a questioning of the current status quo to ensure that all elements of our governance framework are fit for purpose, enabling value creation and growth, whilst acknowledging the legitimate rights and responsibilities of key groups of stakeholders and preserving accountability. Further, the Banking sector is perhaps the most regulated industry, in order to maintain the right balance between stakeholder

rights and obligations, it will be subject to increased regulations in the near future as developments in global markets are swiftly adopted in the countries we operate in.

Consequently, in setting the governance framework for the Bank, the Board takes in to account the regulatory requirements, voluntary codes, international and market best practices and the need to deliver value to its stakeholders in a clear and transparent manner.

The Corporate Governance Framework of the Bank comprises the following:

- Articles of Association of the Bank
- Board Charter
- Organisational Structure
- Terms of Reference and Charters of Board and Management Committees
- Integrated Risk Management Framework
- Code of Ethics for all employees
- Board approved policies on all major operational aspects

Collectively, they ensure compliance with the following major external steering instruments on governance:

- Companies Act No.7 of 2007 which includes provisions for preserving rights of investors
- Banking Act No.30 of 1988 and amendments thereto which contain provisions for preserving the rights of depositors and rights and responsibilities of regulators
- All Directions for Licensed Commercial Banks issued by the CBSL and Bangladesh Bank for operations

This includes Direction No.11 of 2007 on the subject of Corporate Governance for Licensed Commercial Banks in Sri Lanka

- Continuing Listing Rules of the Colombo Stock Exchange (CSE) which also address the rights of investors
- Shop & Office Employees Act of 1954 and amendments thereto addressing the rights and responsibilities of employees
- Inland Revenue Act No.10 of 2006 and amendments thereto and numerous legislative Acts which are applicable as a collecting agent for regulatory bodies
- Code of Best Practice on Corporate Governance issued jointly by the CASL and SEC, which seeks to address how companies govern balancing the rights of key stakeholder groups including the community in which we operate (Figure 6 on page 27)

This segment of the Report seeks to communicate to our key stakeholders how the Bank is governed. We have used the structure of the Code of Best Practice in Corporate Governance to communicate in a comprehensive but concise manner, the governance structures and processes of the Bank. As Commercial Bank is fully compliant with the requirements of the Banking Act Direction No.11 of 2007, set out on pages 43 to 58 the CSE has exempted the Bank from disclosure of compliance with the requirements stipulated in Section 7.10 of the Continuing Listing Requirements on Corporate Governance. Compliance with the Banking Direction No.11 of 2007 on Corporate Governance has been reviewed by the External Auditors, who have provided assurance to the CBSL on same.



→ Figure –6

#### The Board

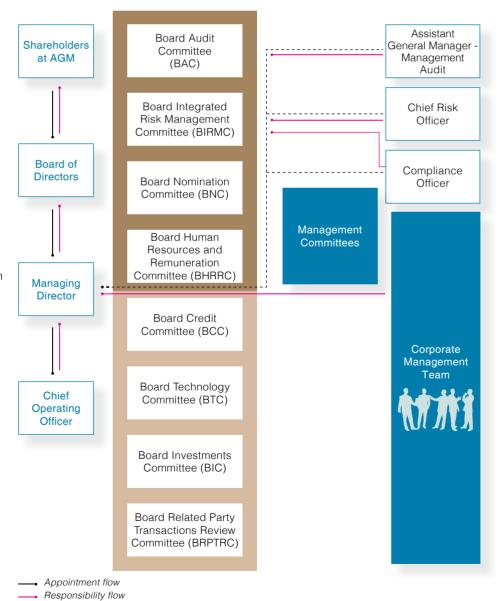
# An Effective Board (Principle A.1)

The Board of Commercial Bank comprises of 8 eminent professionals in the fields of Banking & Finance. Accounting, Management, Economics and Engineering, whose profiles are given on pages 28 to 30 Directors are elected by shareholders at the Annual General Meeting with the exception of the Chief Executive Officer and the Chief Operating Officer who are appointed by the Board and remain as Executive Directors until expiry or termination of such appointments. Casual vacancies are filled by the Board, based on the recommendations of the Board Nomination Committee as provided for in the Articles of Association. They are assisted by the Company Secretary, an Attorney-at-Law, whose profile is given on page 30.

The Board provides strategic direction and sets in place a sufficiently robust governance structure and policy framework to facilitate value creation to stakeholders in accordance with applicable laws and regulations.

#### Organisational Structure

A key element of Corporate Governance is an organisational structure that creates a conducive environment for policies to function effectively. Following diagram (Figure 7) provides an overview of the organisational structure of Commercial Bank.



# → Governance - Board Profiles



K.G.D.D. Dheerasinghe Chairman

Chairman of the Board since July 2014, Chairman of the BHRRC, BNC, BCC, BIC and BRPTRC, Non-Executive Director since December 2011.

#### Skills & Experience:

An eminent Economist with a distinguished career of over 40 years in the banking industry. Published widely and presented papers on many aspects of economics including debt capital markets and financial globalisation in Sri Lanka and overseas.

Holds a B.Phil (Econ) and B.Com with first class honours from the University of Colombo and a M.A. (Econ) from the University of Leeds UK. Honorary Fellow of the Institute of Bankers of Sri Lanka and Honorary ACI Diploma.

#### Other Current Appointments:

Chairman, Commex Sri Lanka S.R.L. Italy Chairman, Serendib Finance Ltd. (The above companies are subsidiaries of the Bank)

#### Previous Appointments:

Senior Deputy Governor of CBSL. Chairman of the Monetary Policy Committee and the Sovereign Ratings Committee. Secretary to the Monetary Board. Alternate Executive Director for Bangladesh, Bhutan, India and Sri Lanka at the International Monetary Fund. Chairman, Bartleet Finance PLC.

#### Shareholding of Bank:

Holds 20,859 Voting Shares



M.P. Jayawardena Deputy Chairman

Deputy Chairman since July 2014, Chairman of the BIRMC, Non-Executive Director since December 2011.

#### Skills & Experience:

A senior finance professional with wide experience in the corporate sector, both in Sri Lanka and overseas.

Fellow member of The Institute of Chartered Accountants of Sri Lanka.

#### Other Current Appointments:

Deputy Chairman, Sri Lanka Institute of Directors.

Group Director, CIC Holdings PLC. Chairman, Commercial Insurance Brokers (Pvt) Ltd.

Chairman of a few subsidiaries of Chemanex PLC.

Serves on the Boards of many other private and public companies.

Group Consultant to Chemanex PLC.

#### **Previous Appointments:**

Head of Treasury, Zambia Consolidated Copper Mines

# Shareholding of Bank:

Nil



#### J. Durairatnam

Managing Director/Chief Executive Officer

Managing Director/Chief Executive Officer since July 2014, Executive Director since April 2012 and former Chief Operating Officer.

#### Skills & Experience:

Substantial professional experience in Banking, covering all aspects of International Trade, Off shore Banking, Credit, Operations and Information Technology. He has served the Bank in several management positions, including, COO, Deputy General Manager, Assistant General Manager – International Division and Head of Imports counting 9 years as a member of Corporate Management.

Holds a Bachelor's Degree from the University of Peradeniya.

#### Other Current Appointments:

Managing Director, Commercial Development Company PLC (The above company is a subsidiary of the Bank)

Director, Lanka Financial Services Bureau Ltd.

Sri Lanka Banks' Association (Guarantee) Ltd., The Financial Ombudsman Sri Lanka (Guarantee) Ltd.

# Previous Appointments:

None

# Shareholding of Bank:

Holds 412,056 Voting Shares





Appointed as an Independent Non-Executive Director in August 2012, Chairman of the BAC.

#### Skills & Experience:

A senior finance professional with experience in both private and public sectors

Fellow of the CASL and CMA Sri Lanka, a member of CMA Australia. Holds a B.Sc. Degree in Management from the University of Sri Jayewardenepura and a M.Sc. in Project Management from the University of Moratuwa.

#### Other Current Appointments:

Member of the Tax Appeals Commission, which position he had held since May 2014.

# Previous Appointments:

Auditor General of Sri Lanka from January 2008 to August 2010.

# Shareholding of Bank:

Holds 8,599 Non-Voting Shares



H.J. Wilson

Appointed as an Independent Non-Executive Director in July 2014.

#### Skills & Experience:

A senior banking professional with experience in retail banking and institutional funding overseas.

Holds a Master's Degree in Economics and Political Science from Uppsala University, Sweden and a Master of Public Administration (MPA) Degree from Princeton University, USA.

#### Other Current Appointments:

Manager of Financial Institutions in sub-Saharan Africa for the IFC/World Bank Group

#### Previous Appointments:

Managing Director and Head of Investment Banking for the Swedish operations of a large retail bank

#### Shareholding of Bank:

Nil



#### S. Renganathan

Appointed as an Executive Director and Chief Operating Officer since July 2014.

#### Skills & Experience:

A senior banker counting over 34 years, he led the Bank's acquisition of the Bangladesh operations of Credit Agricole Indosuez (CAI), Commercial Bank's first ever acquisition of a banking operation, subsequently building up the same as Country Manager. He has also held several other key positions at the Bank including Deputy General Manager – Personal Banking and the first Chief Risk Officer of the Bank.

Fellow of the Chartered Institute of Management Accountants, UK (FCMA), Fellow of the IFS School of Finance, UK (Fifs) and a Fellow of the Institute of Bankers of Sri Lanka (FIB). Also an Associate Member of Financial Services Institute of Australasia.

#### Other Current Appointments:

None.

#### Previous Appointments:

Member of the General Council of the Institute of Bankers of Bangladesh

Founder President Bangladesh Chamber of Commerce & Industry.

Executive Member, Foreign Investor Chamber of Commerce and Industry, Bangladesh

#### Shareholding of Bank:

Holds 191,936 Voting and 10,321 Non-Voting shares



Prof. A.K.W. Jayawardane

Appointed as an Independent Non-Executive Director in April 2015. Chairman of the BTC.

#### Skills & Experience:

An academic of high repute, he brings considerable knowledge and experience of IT to the Board.

Holds a PhD in Construction Management and a Master of Science Degree in Construction from the Loughborough University of Technology, UK and a BSc. Eng. in Civil Engineering Degree with first class honours from the University of Moratuwa.

Also a Corporate Member, a Fellow and an International Professional Engineer of the Institution of Engineers, Sri Lanka (IESL), CEng, FIE(SL), IntPE(SL), Fellow of the National Academy of Sciences of Sri Lanka, FNAS(SL), Founder Member of the Society of Structural Engineers Sri Lanka MSSE(SL), Fellow of the Institute of Project Managers, Sri Lanka, FIPM (SL).

#### Other Current Appointments:

Vice Chancellor of the University of Moratuwa and a Senior Professor in Civil Engineering

Director of Sierra Cables PLC, Chairman of ONEzero Company Ltd and a member of the Board of the Management of several other institutions

#### **Previous Appointments:**

Dean, Faculty of Engineering for six years First NDB Bank Endowed Professor in Entrepreneurship at the University of Moratuwa. President of the Institute of Engineering, Sri Lanka (IESL).

#### Shareholding of Bank:

Nil



#### K. Dharmasiri

Appointed as an Independent Non-Executive Director in July 2015.

#### Skills & Experience:

A senior banker counting over 37 years at Bank of Ceylon and retiring as its General Manager/Chief Executive Officer, he has diversified experience both within and outside Sri Lanka.

Holds First Class Honours in Commerce and a Bachelor of Philosophy in Economics. Also an Associate Member of the Institute of Bankers of Sri Lanka.

# Other Current Appointments:

None.

#### Previous Appointments:

Non-Executive Nominee Director on the Boards of Janashakthi Insurance Ltd., Sabaragamuwa Development Bank, Merchant Bank of Sri Lanka PLC, BOC Travels (Pvt) Ltd., BOC Property Development & Management (Pvt) Ltd., Ceybank Holiday Homes (Pvt) Ltd., Hotels Colombo (1963) Ltd., Ceybank Asset Management Ltd., Lanka Securities (Pvt) Ltd, Institute of Bankers of Sri Lanka, Lanka Financial Services (Bureau) Ltd. and LankaClear (Pvt) Ltd.

#### Shareholding of Bank:

Nil



Ms. J.R. Gamage Company Secretary

Appointed as Company Secretary since May 2014.

#### Skills & Experience:

An Attorney-at-Law who counts over 17 years experience at the Bank. She was appointed as the Company Secretary of Commercial Bank in May 2014.

She holds a Diploma in Company Secretarial Practice from the Institute of Chartered Corporate Secretaries of Sri Lanka and a Post Attorney Diploma in Banking and Insurance Laws from the Incorporated Council of Legal Education of Sri Lanka.

She has received extensive training on Secretarial and Legal fields at a leading Law Firm prior to joining the Bank.

# Previous Appointments:

None

# Shareholding of Bank:

63,121 Voting Shares

# **Board Sub-Committees**

There are 8 Board Sub-Committees which comprise of 4 mandatory committees and 4 voluntary committees that have been established considering the business needs of the Bank and best practice in corporate governance as described below (Table 2).

Board Committee	Areas of Oversight	Composition & Executive Support				
Mandatory Committees						
Board Audit Committee (BAC)	<ul> <li>Financial Reporting</li> <li>Internal Controls</li> <li>Internal Audit</li> <li>External Audit</li> <li>Refer the Report of the BAC on pages 66 to 68 for more information.</li> </ul>	<ul> <li>Comprises 03 Non-Executive Directors</li> <li>The MD/CEO and the CFO attend the meetings by invitation together with other relevant Key Management Personnel (KMP).</li> <li>The Committee is supported by the Inspection Department and the AGM – Management Audit acts as the Secretary to the Committee.</li> <li>Comprises         <ul> <li>03 Independent Non-Executive Directors</li> <li>01 Executive Director</li> <li>CRO</li> </ul> </li> <li>COO, Compliance Officer and CFO attend meetings by invitation.</li> <li>The Committee is supported by the senior staff of the department handling credit, market and operational risks.</li> <li>The CFO serves as the Secretary to the Committee.</li> </ul>				
Board Integrated Risk Management Committee (BIRMC)	<ul> <li>Risk appetite</li> <li>Risk governance</li> <li>Risk policy frameworks</li> <li>Risk monitoring and compliance</li> <li>Risk management</li> <li>Refer the Report of the BIRMC on pages 68 and 69 for more information.</li> </ul>					
Board Nomination Committee (BNC)	<ul> <li>Selection and appointment of Directors and KMP</li> <li>Succession planning</li> <li>Evaluating the effectiveness of the Board and its Committees</li> <li>Refer the Report of the BNC on pages 69 and 70 for more information.</li> </ul>	<ul> <li>Comprises 03 Independent Non-Executive Directors</li> <li>The MD/CEO attends meetings by invitation</li> <li>Executive support is provided by the Human Resources Department whenever required</li> <li>The Company Secretary acts as the Secretary to the Committee</li> </ul>				
Board Human Resources and Remuneration Committee (BHRRC)	<ul> <li>Remuneration of Managing Director and KMP</li> <li>HR Policies including Remuneration Policy</li> <li>Organisational structure</li> <li>HR Systems including Performance Evaluation</li> <li>Refer the Report of the BHRRC on pages 70 to 72 for more information.</li> </ul>	<ul> <li>Comprises</li> <li>03 Independent Non-Executive Directors</li> <li>01 Executive Director</li> <li>Executive support is provided by the Human Resources Department whenever required</li> <li>The DGM – HRM acts as the Secretary to the Committee</li> <li>The MD/CEO attends meetings by invitation</li> </ul>				

Board Committee	Areas of Oversight	Composition & Executive Support				
Voluntary Committees						
Board Credit Committee (BCC)	<ul> <li>Credit policy and Lending Guidelines</li> <li>Credit risk control measures including pricing of credit risk</li> <li>Performance of credit risk indicators</li> <li>Refer the Report of the BCC on pages 72 and 73 for more information.</li> </ul>	<ul> <li>Comprises</li> <li>02 Independent Non-Executive Directors</li> <li>02 Executive Directors</li> <li>03 meetings scheduled for the year</li> <li>The Committee is supported by the Credit Risk function of the Risk Management Division</li> <li>The Assistant Company Secretary of the Bank serves as the Secretary to the Committee</li> </ul>				
Board Technology Committee (BTC)	<ul> <li>Bank's technology strategy</li> <li>Significant procurements of technology</li> <li>Emerging trends and their potential</li> <li>Refer the Report of the BTC on page 73 for more information.</li> </ul>	<ul> <li>Comprises</li> <li>01 Independent Non-Executive Director</li> <li>02 Executive Directors</li> <li>The Committee is supported by the IT</li> <li>Department of the Bank and AGM – IT</li> <li>serves as the Secretary to the Committee</li> </ul>				
Board Investment Committee (BIC)	<ul> <li>Review of economic climate, capital markets activity and economic and monetary policy direction</li> <li>Bank's investment policy</li> <li>Review Bank's investment portfolios and their performance</li> <li>Refer the Report of the BIC on page 74 for more information.</li> </ul>	<ul> <li>Comprises</li> <li>03 Independent Non-Executive Directors</li> <li>02 Executive Directors</li> <li>The Committee is supported by the Head of Global Treasury who serves as the Secretary to the Committee</li> </ul>				
Board Related Party Transactions Review Committee (BRPTRC)	<ul> <li>Related Party Transactions Policy and processes</li> <li>Market disclosures on related party transactions</li> <li>Quarterly and annual disclosures of related party transactions</li> <li>Refer the Report of the BRPTRC on pages 74 and 75 for more information.</li> </ul>	<ul> <li>Comprises</li> <li>02 Independent Non-Executive Directors</li> <li>02 Executive Directors</li> <li>The AGM – Finance functions as the Secretary of the Committee</li> </ul>				

#### Regular Meetings (Principle A 1.1)

During 2015 the Board held 14 scheduled meetings which included one meeting devoted to strategy whilst 13 meetings were devoted to matters requiring further attention of the Board. The Board Committees also met regularly as summarised below:

#### Details of the Main Board and Board Sub-Committees as at December 31, 2015

Name of Committee	Ma	iin Board		pard Audit committee	Risk M			Board Nomination Committee		rd Human ources and nuneration ommittee	Board Credit Committee		Board Technology Committee		Board Investment Committee		Board Related Party Transactions Review Committee	
Name of Director	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA
Mr. K.G.D.D. Dheerasinghe	С	20.12.2011	M**	19.02.2015			С	30.12.2011	С	30.12.2011	С	30.12.2011			С	13.03.2013	С	26.12.2014
Mr. M.P. Jayawardena	М	28.12.2011			С	30.12.2011	М	29.08.2014	М	29.08.2014								
Mr. J. Durairatnam	М	28.04.2012		28.04.2012	М	28.04.2012	- 1	29.08.2014	1	29.08.2014	М	29.08.2014	М	18.06.2012	М	13.03.2013	М	26.12.2014
Mr. S. Swarnajothi	М	20.08.2012	С	24.08.2012	М	24.08.2012	М	29.04.2015	М	29.04.2015							М	26.12.2014
Mr. H.J. Wilson	М	03.07.2014													М	29.08.2014		
Mr. S.Renganathan	М	17.07.2014	1	17.07.2014	Т	29.08.2014					М	25.11.2014	М	29.08.2014	M	29.08.2014	М	26.12.2014
Prof. A.K.W Jayawardane	М	21.04.2015	М	21.04.2015							М	29.04.2015	С	21.04.2015				
Mr. K. Dharmasiri	М	21.07.2015	М	21.07.2015	М	21.07.2015									М	28.08.2015		
Prof. U.P. Liyanage	M*	14.12.2010			M*	01.04.2011	M*	25.11.2011	M*	30.12.2011			M*	30.12.2011				
Mr. L. Hulugalle	M*	30.03.2011	M*	27.05.2011	M*	01.04.2011												
Mr. K.M.M. Siriwardana	M***	28.08.2014	***	28.08.2014							M***	28.08.2014						

→ Table - 3

DOA - Date of Appointment

Status - C - Chairman / M - Member/ I - Participated by Invitation

\* Resigned w.e.f. date specified under Item 11.1 of the 'Annual Report of the Board of Directors' on page 81.
\*\* Resigned w.e.f. August 21, 2015
\*\*\* Caused to hold office w.e.f. February 23, 2015

#### Number of Meetings Held and Attendance

Name of Committee	Main Board		Board Audit Committee		Board Integrated Risk Management Committee		Board Nomination Committee		Board Human Resources and Remuneration Committee		Board Credit Committee		Board Technology Committee		y Board Investmen Committee		t Board Related Party Transactions Review Committee	
Name of Director	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Mr. K.G.D.D. Dheerasinghe	14	14	6	6			3	3	5	5	12	12			12	12	1	1
Mr. M.P. Jayawardena	14	14			4	4	3	3	5	5								
Mr. J. Durairatnam	14	14	10	10	4	4	3	3	5	5	12	12	3	3	12	12	1	1
Mr. S. Swarnajothi	14	14	10	10	4	4	1	1	5	3							1	1
Mr. H.J. Wilson	14	13													12	11		
Mr. S. Renganathan	14	13	10	6	4	3					12	10	3	3	12	10	1	1
Prof. A.K.W. Jayawardane	9	8	7	5							8	7	3	3				
Mr. K. Dharmasiri	6	6	3	3	2	2									4	3		
Prof. U.P. Liyanage*	5	1			1	0	2	0	5	0								
Mr. L. Hulugalle**	4	2	2	1	1	0		-		-								
Mr. K.M.M Siriwardana***	3	0	2	1														

<sup>→</sup> Table – 4

Following members of the Management attended the Board Audit Committee (BAC) meetings by Invitation:

Mr. S. Prabagar (AGM – Management Audit/Secretary of BAC) Mr. K.D.N. Buddhipala (Chief Financial Officer)

Mr. R. Rodrigo (Compliance Officer) – Until October 2015

Mr. C.J. Wijetillake (Compliance Officer) - Since November 2015

Mr. S.K.K. Hettihamu (Chief Risk Officer)

Mr. S.M.A. Jayasinghe (Consultant to BAC) attended 8 out of the 10 meetings held during the year.

<sup>\*</sup> Resigned w.e.f. April 28, 2015

<sup>\*\*</sup> Resigned w.e.f. March 31, 2015 \*\*\* Ceased to hold office w.e.f. February 23, 2015

# Composition of the Main Board and Board Sub-Committee Composition as at December 31, 2015

					Gende	r	Age Gr	oup
Name of Committee	Executive Members	Non-Executive Members	Independent Members	Non-Independent Members	Male	Female	Below 50 Years	Over 50 Years
Main Board	2	6	6	2	8	Nil	Nil	8
Board Audit Committee	2*	3	3	2	5	Nil	Nil	5
Board Integrated Risk Management Committee	2**	3	3	2	5	Nil	Nil	5
Board Nomination Committee	1*	3	3	1	4	Nil	Nil	4
Board Human Resources and Remuneration Committee	1*	3	3	1	4	Nil	Nil	4
Board Credit Committee	2	2	2	2	4	Nil	Nil	4
Board Technology Committee	2	1	1	2	3	Nil	Nil	3
Board Investment Committee	2	3	3	2	5	Nil	Nil	5
Board-Related Party Transactions Review Committee	2	2	2	2	4	Nil	Nil	4

<sup>→</sup> Table – 5

# **Major Initiatives of Board in 2015**

Approval of the Board Charter	Approval of Code of Business Conduct and Ethics for Directors
Approval of Shareholder Communication Policy, Related Party Transactions Policy, Rules Applicable on Purchase and Disposal of Bank Shares and Policy/Guidelines for Valuation of Properties	Approval of Board Procedure for removal of Directors as required by the CBSL
Approval/recommendation of interim/final dividends for 2014 amounting to Rs. 3.466 Bn. inclusive of a scrip dividend of Rs. 2/- per share	Approval of an interim dividend for 2015 amounting to Rs. 1.315 Bn.
Annual Strategy Meeting with Corporate Management Team	Recommendation of an ESOP for approval at EGM by Shareholders
Market visits to strategic business locations	Appointment of Directors to fill casual vacancies

<sup>\*</sup> Attended by invitation \*\* One member attended by invitation

#### **Management Committees**

Executive Committees also have been established by the Board to facilitate sufficient deliberation, co-operation across departments and healthy debate on matters considered as critical for the Bank's operations as described below (Table 6):

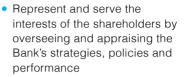
Management Committees	Purpose and tasks	Composition
Executive Integrated Risk Management Committee (EIRMC)	Monitors and reviews all risk exposures and risk related policies and procedures affecting credit, market and operational areas in line with the directives from the BIRMC	CEO, COO and key members of the Risk Management, Personal Banking, Corporate Banking, Treasury, Inspection/ Internal Audit, Compliance and Finance Departments.
Assets & Liabilities Committee (ALCO)	Optimises the Bank's financial goals whilst maintaining liquidity and managing exposure to market risk within the Bank's pre-determined risk appetite.	CEO, COO and key members of the Treasury, Corporate Banking, Personal Banking, Risk Management and Finance Departments.
Credit Policy Committee (CPC)	Reviews and approves credit policies and procedures pertaining to the effective management of all credit portfolios within the lending strategy of the Bank.	CEO, COO and key members of the Corporate Banking, Personal Banking, Risk Management, Inspection, Recoveries, and Branch Credit Monitoring Departments.
Executive Committee on Monitoring NPAs (ECMN)	Reviews and monitors the Bank's Non- Performing Advances (NPAs) to initiate timely corrective action to prevent /reduce credit losses to the Bank.	CEO, COO and key members of the Corporate Banking, Personal Banking, Recoveries and Risk Management Departments.
Business Continuity Management Steering Committee (BCMSC)	Directs, guides and oversees the activities of the Business Continuity Plan of the Bank in accordance with the Bank's strategy.	COO and key members of the Bank's Corporate Management covering all business lines.
Information Security Council (ISC)	Continuous focus on meeting the information security objectives and requirements of the Bank.	Key members of the Risk, Information Systems Audit, Operations and IT Departments.
Investment Committee	Oversees the investment activities by providing guidance to the management	CEO, COO and key members of the Treasury and Finance Departments.
Human Resources Steering Committee (HRSC)	Makes recommendations to BHRRC on policy matters covering formulation of compensation packages, changes to organisational structure, developing a talent pipeline and staff promotions.	CEO, COO and key member of the HR, Corporate Banking, Personal Banking and Finance Departments.

#### Board Responsibilities (Principle A 1.2.)

Responsibilities of the Board are set out in the Board Charter which includes a schedule of powers reserved for the Board (Figure 8).

#### Role of the Board 😯





- · Optimise performance and build sustainable value for shareholders in accordance with the regulatory framework and internal policies
- · Establishing an appropriate governance framework encompassing compliance with the Bank's values
- Ensure regulators are apprised of the Bank's performance and any major developments

#### Key Board Responsibilities 😯



### Powers Reserved for the Board 😯



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- Selection, appointment and evaluation of the performance of the Chief **Executive Officer**
- Setting strategic direction and monitoring its effective implementation
- Establishing systems of risk management, internal control and compliance
- Integrity of financial reporting process
- Developing a suitable corporate governance framework, policies and framework
- · Strengthening the safety and soundness of the Bank
- Appointment and oversight of **External Auditors**

- Approving major capital expenditure, acquisitions and divestitures and monitoring capital management
- Appointment of Board Secretary in accordance with the provisions of Section 43 of the Banking Act No. 30 of 1988
- Power to seek professional advice in appropriate circumstance at the expense of the Bank
- Review, amend and approval of governance structures and policies

→ Figure - 8

The Board provides guidance in formulating the Bank's 5 year strategic plan which is prepared and presented by the Corporate Management to the Board who reviews and approves the same at a Special Board meeting convened for the purpose. Performance vis-à-vis the strategic plan is monitored at monthly Board meetings whilst specialised areas identified for oversight by Board Sub-Committees have been monitored and progress and concerns reported to the Board.

The Board is assisted by the following Sub-Committees in fulfilling their role as set out in the Code:

 The BNC supports the Board in ensuring that the MD and other KMP have the necessary skills, experience and knowledge to implement strategy and also reviews succession plans for the Bank and for the MD and KMP.

- The BAC assists the Board in ensuring effective systems to secure integrity of information, internal controls and adopting appropriate accounting policies and fostering compliance with financial regulation.
- The BIRMC supports the Board on management of risk and ensuring compliance with laws and regulations. The BIRMC is supported by the Bank's Risk Management and Compliance functions.
- The BHRRC is tasked with review of the Bank's Code of Ethics which clearly communicates the ethical standards expected of all employees and Directors. The Code provides explicit guidance in ensuring that all stakeholder interests are considered in corporate decisions involving remuneration policy and fosters a compliance culture with respect to financial regulations and the Bank's internal policy frameworks including accounting policies and sustainability policies.

 Other Committees of the Board comprising BTC, BCC, BRPTRC and BIC assist the Board with specific aspects critical to the business operations of the Bank.

#### Act in Accordance with Laws (Principle A.1.3)



The Board has an approved Working Procedure in place to facilitate compliance with the relevant laws, CBSL directions and guidelines and international best practice with regard to the operations of the Bank. This includes provision to obtain independent professional advice as and when necessary, co-ordinated through the Company Secretary. Independent professional services were sought on matters in accordance with the above provision in 2015, on 09 occasions for which the expenses were borne by the Bank.

## Access to advice and services of Company Secretary

#### (Principle A.1.4)

All Directors are able to obtain the advice and services of the Company Secretary and the appointment and removal of the Company Secretary are matters involving the whole Board under recommendation of the BNC as it is a Key Management Position. The Company Secretary's responsibilities are summarised below:

- Matters pertaining to the conduct of Board Meetings and General Meetings;
- Conduct of proceedings in accordance with the Articles of Association and relevant legislation;
- Co-ordinating the publication and distribution of the Bank's Annual Report;
- Maintaining registers of shareholders, company charges, Directors and secretary, Directors' interests in shares and debentures, interests in voting shares, debenture holders, interests register and the seal register;
- Filing statutory returns/information with the Registrar of Companies;
- Adoption of best practice on corporate governance including facilitating and assisting the Directors with respect to their duties and responsibilities, in compliance with relevant legislation and best practice;
- Acting as a channel of communication and information for Non-Executive Directors and shareholders:
- Disclosures on related parties and related party transactions as required by laws and regulations;
- Monitoring and ensuring compliance with the listing rules and managing relations with the CSE through the Bank's brokers;
- Assisting the Board in implementing and administering Directors' and employees' share participation schemes;
- Obtaining legal advice in consultation with the Board on company law, SEC, CSE and other relevant legislations in ensuring that the Company complies with all applicable laws and regulations.

### Independent judgement

#### (Principle A.1.5)

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The Board comprises of senior professionals who are luminaries in their respective fields and collectively contribute their skills, perspectives and experience to the Board enriching the discussion and debate on matters set before them. As experienced professionals, they use their independent judgement on issues of strategy, performance, resources, key appointments and standards of business conduct. The composition of the Board ensures that there is a sufficient balance of power and contribution by all Directors and minimises the tendency for one or few members of the Board to dominate the Board processes or decision-making.

# Dedicate Adequate Time and Effort to Matters of the Board and the Company (Principle A.1.6)

Board meetings and Board Sub-Committee meetings are scheduled well in advance and the relevant papers are circulated a week prior to the meeting using electronic means to ensure that Directors have sufficient time to review the same and call for additional information or clarifications, if required. While there is provision to circulate board papers closer to the meeting, in exceptional circumstances, this is generally discouraged. Members of the Corporate Management and external experts make representations to the Board and Board Sub-Committees on the business environment, regulatory changes, operations and other developments on a regular basis to facilitate enhancing the knowledge of the Board on matters relevant to the Bank's operations.

It is estimated that Non-Executive Directors dedicate not less than 12 days per annum for the affairs of the Bank and those Directors who serve on BAC and BIRMC dedicate a further 4 days each for the affairs of the Bank.

### Training for Directors (Principle A.1.7)

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On appointment, Directors are provided with access to the electronic support system, which can archive minutes for the past 2 years and an induction pack which comprises the Articles of Association, Banking Act Directions, Directors' Handbook published by the Sri Lanka Institute of Directors, Code of Best Practice on Corporate Governance, the Bank's organisational structure, Board Charter and the most recent Annual Report. All Directors are encouraged to obtain membership of the Sri Lanka Institute of Directors which conducts a robust programme to support Directors. It is mandatory for the Directors to attend Director Forums organised by the CBSL. As stated above, Corporate Management and external experts make regular presentations with regard to the business environment in relation to the operations of the Bank.

# Division of Responsibilities between the Chairman and CEO (Principle A.2)

The positions of the Chairman and the CEO have been separated in-line with best practice in order to maintain a balance of power and authority. The Chairman is a Non-Executive Director whilst the CEO is an Executive Director appointed by the Board. The roles of the Chairman and the CEO are clearly

### The Chairman's Role (Principle A.3)

defined in the Board Charter.

The Chairman provides leadership to the Board, preserving order and facilitating the effective discharge of the duties of the Board and is responsible for ensuring the effective participation of all Directors and maintaining open lines of communication with KMP, acting as a sound Board on strategic and operational matters. The agenda for Board Meetings are determined by the Chairman in consultation with the Company Secretary and Directors wishing to include items on the agenda may request the Chairman to discuss the same.

### Financial Acumen

#### (Principle A.4)

The Chairman of the BAC and the Deputy Chairman are both Fellow members of the CASL ensuring a sufficiency of financial acumen within the Board on matters of finance. The Chairman is a former Deputy Governor of the CBSL. Additionally, other Directors on the Board are luminaries in their respective fields with sufficient financial acumen.

#### **Board Balance**

#### (Principle A.5)

The Board comprises 6 Non-Executive Directors and 2 Executive Directors facilitating an appropriate balance within the Board. All Non-Executive Directors are independent of management and free of business dealings that may be perceived to interfere with the exercise of their unfettered and independent judgement. They submit annual declarations to this effect which are evaluated to ensure compliance with the criteria for determining independence which are based on the requirements of the Code.

The Chairman holds a meeting at least once a year with only the Non-Executive Directors without the presence of the Executive Directors. Directors' concerns regarding matters which are not resolved unanimously are recorded in the minutes.

There was one Alternate Director during the year. Except for the appointment of that Alternate Director, there were no circumstances which warranted appointment of Alternate Directors or a 'Senior Director' as the roles of the Chairman and CEO are clearly segregated.

### **Supply of Relevant Information** (Principle A.6)

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Board members receive information regarding matters set before the Board. 7 days prior to the meetings and the Chairman ensures that all Directors are properly briefed on same by requiring the presence of KMP, when deemed necessary. Management also makes presentations on regular agenda items to the Board and its Sub-Committees. Additionally, the Directors have access to KMP, to seek clarifications or additional information on matters presented to the Board. Directors who are unable to attend a meeting is updated on proceedings through formally documented minutes which are also discussed at the next meeting to ensure follow up and proper recording.

## Appointments to the Board and Re-Election

#### (Principles A.7)

The BNC is responsible for setting in place a formal and transparent procedure for the appointment of new Directors and further information regarding the operations of this committee are given on pages 69 and 70. They receive resumes of the potential candidates recommended by the Board in the event of a vacancy of a Non-Executive Director and review same in order to make recommendations to the Board which may include an interview with the candidate. The process for appointment of Executive Directors is similar with the exception being that candidates are selected from amongst the KMPs, of the Bank. The BNC also assesses annually the combined knowledge and experience of the Board in relation to the Bank's strategic plans to identify additional requirements which are addressed when incumbent Directors come up for reelection. Appointments of new Directors are promptly communicated to the CSE and shareholders through press releases, subsequent to obtaining approval from the CBSL. The communications typically includes a brief resume of the Director, relevant expertise, key appointments, shareholding, directorships in other entities and whether he is independent.

### Re-Election (Principle A.8)

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Two directors will offer themselves for re-election at each Annual General Meeting (AGM). The two longest serving Non-Executive Directors offer themselves for re-election at each AGM in rotation with the period of service being considered from the last date of appointment. If there are more than two Directors who qualify for re-election. the Directors may decide amongst themselves or draw lots to determine the Directors who will offer themselves for re-election. If a Director has been appointed as a result of a casual vacancy that has arisen since the previous AGM, that Director will offer himself for reelection at the next AGM, Prof. A.K.W. Jayawardane and Mr. K. Dharmasiri were appointed during the year to fill casual vacancies and are offering themselves for re-election at the AGM to be held on March 31, 2016.

### Appraisal of Board Performance (Principle A.9)



The Board and its Sub-Committees annually appraise their own performances to ensure that they are discharging their responsibilities satisfactorily in accordance with the Board Charter, which includes the responsibilities set out in the Code and the Banking Act Direction No.11 of 2007. This process requires each Director to fill a Board Performance Evaluation Form, which incorporates all criteria specified in the Board Performance Evaluation Checklist of the Code. The responses are collated by the Company Secretary and submitted to the BNC and discussed at a Board Meeting.

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#### Disclosure of Information in Respect of Directors (Principle A.10)

Information specified in the Code with regard to Directors are disclosed in this Annual Report as follows:

- Name, qualifications, expertise, material business interests, key appointments and brief profiles on pages 28 to 30.
- Other business interests on page 92.
- Membership of committees, status of Directors attendance at Board Meetings and Board Sub-Committee meetings are on pages 33 and 34 (Table 3 - 5).
- Remunerations under Note 20 to the Financial Statements on pages 279 and 280.

### Appraisal of CEO (Principle A.11)

The Board agree the criteria for assessing performance with the CEO at the beginning of the year and assess performance based on same at the close of the financial year. The evaluation is formally approved within 4 months of the close of the financial year. This takes in to account performance vis-à-vis the targets, the operating environment and considers explanations provided for areas where performance has been below agreed targets. The Board is supported by the BHRRC in this process.

# Directors' Remuneration Directors' and Executive Remuneration (Principle B.1)

The BHRRC is responsible for making recommendations to the Board regarding the remuneration of Executive Directors. This vital committee comprises entirely of Non-Executive Directors who also meet the criteria for independence as set out in the Code. They consult the Chairman and the CEO regarding the same and also seek professional advice whenever deemed necessary. Remuneration for Non-Executive Directors is set by the Board as a whole. Remuneration for Executive Directors is set with reference to the Remuneration and Benefit Policy. The above processes ensure that no individual Director is involved in determining his or her own remuneration. The Board and the BHRRC engage the services of HR professionals on a regular basis to assist in the discharge of their duties in this regard.

### The Level and Make Up of Remuneration (Principle B2)

It is the responsibility of the BHRRC to ensure that the remuneration of both Executive and Non-Executive Directors is sufficient to attract eminent professionals to the Board and retain them as contributing members in driving the performance of the Bank. Remuneration and benefits of the Executive Directors and KMP, are determined in accordance with the remuneration policies of the Bank which are designed to be attractive, motivating and capable of retaining high performing, qualified and experienced employees in the Bank.

#### Remuneration and Benefit Policy

The Remuneration and Benefit Policy of the Bank is to articulate a distinctive value proposition for current and prospective employees that attracts and retains people with the capabilities and values that the employer needs to succeed and also to provide a framework from which the employer designs, administers and evaluates effective reward programmes with the maximum motivational impact to drive desired behaviours and results.

The key elements of the rewards strategy based on the Remuneration and Benefit Policy is given below and the rewards strategy for the Bank will address each of the above points in alignment with the Bank's overall business and people strategy.

- Pay philosophy the overarching principles on which salaries and benefits are designed.
- Pay approach the definition of various anchors of compensation and their role.
- Pay positioning the external competitiveness of an organisation's salaries and benefits programme.
- Pay parity the Bank's stance on internal equity as opposed to external competitiveness.

- Pay delivery the actual method in which salaries and benefits are communicated and delivered to employees.
- Pay mix the ratio between fixed and variable pay given to employees at various levels in the organisation.

Total remuneration of KMP, is made-up of three components, namely guaranteed remuneration and variable remuneration which comprises an annual performance bonus and Employee Share Option Plan (ESOP). The BHRRC seeks the assistance of professionals in structuring the remuneration and benchmarking with market on a regular basis to ensure that total remuneration levels remain competitive in order to attract and retain key talent whilst balancing the interests of the shareholders. It also takes into consideration the views of the Bank's two employee associations - the Executive Association and the Ceylon Bank Employees Union with whom it maintains a regular dialogue.

Guaranteed pay includes the monthly salary and allowances which are determined with reference to the qualifications, experience, levels of competencies, skills, roles and responsibilities of each employee. These are reviewed on an annual basis and adjusted for promotions, performance and inflation. The annual performance bonus is determined with reference to a multi-layered performance criteria matrix which is clearly communicated to the relevant categories of employees. The ESOP approved by the shareholders at the AGM held on March 31, 2015 is also part of the performance related remuneration for Executive Officers in Grade 1A or above.

Refer Note 52 to the Financial Statements on 'Share-based payment' on pages 352 and 353.

There are no compensation commitments in employment contracts for early terminations and there were no instances of early termination during the year that required compensation.

The remuneration for Non-Executive Directors is fixed by the Board as a whole based on the recommendations of the BHRRC at a level in line with rates prevailing in the market, taking into account the time, commitments and responsibilities of their roles. Non-Executive Directors are not eligible for share ownership plans of the Bank.

### Disclosure of Remuneration (Principle B.3)

The remuneration policy is disclosed on page 39 and the Report of the BHRRC appearing on pages 70 to 72 conforms to Schedule D – Specimen Remuneration Committee Report. The names of the BHRRC members are set out on page 70 and the aggregate remuneration paid to Executive and Non-Executive Directors is given in Note 20 to the Financial Statements on pages 279 and 280.

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#### **Relations with Shareholders**

### Constructive use of the AGM (Principle C.1)

The Bank had over 8,000 voting shareholders of whom approximately 73% exercised their rights to vote by attending the AGM or by proxy. The AGM provides a forum for all shareholders to participate in decision-making matters reserved for the shareholders which typically include proposals to adopt the Annual Report and Accounts, Appointment of Directors and Auditors and other matters requiring special resolutions as defined in the Articles of Association or the Companies Act No. 07 of 2007. The Chairman ensures the presence of the Chairman of the BAC, BHRRC and BNC to respond to any questions that may be directed to them by the Chairman. Notice of the AGM is circulated 15 working days in advance together with the Annual Report and Accounts which includes information relating to any other resolutions that may be set before the shareholders at the AGM.

### Communication with Shareholders (Principle C.2.)

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A Shareholder Communication Policy was approved during the year to clearly define how the Bank will engage with shareholders and the investment community at large codifying its current practices which are in compliance with the Companies Act, SEC and CSE requirements and the Code of Best Practice on Corporate Governance.

The Bank has multiple channels of communication with its shareholders which include a dedicated investor relations website at http://www.combank.lk/newweb/ investor-relations, press releases and notices in English, Sinhala and Tamil newspapers and required disclosures to the CSE which are published on the CSE website. The Interim Financial Statements are published in the English, Sinhala and Tamil newspapers within 45 days except in the fourth quarter in which it is done within two months as required by the Directions of the CBSL. It is also the intention of the Board to ensure that the Annual Report provides a balanced review of the Bank's performance which is comprehensive but concise.

### Major & Material Transactions (Principle C.3)

There were no transactions which would materially alter the Bank's or Group's net asset base nor any major related party transactions apart from those disclosed in the Directors' Report on pages 76 to 85 and Note 62 to the Financial Statements on pages 367 to 372.

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#### **Accountability and Audit**

#### **Financial Reporting**

#### (Principles D.1)

The Annual Report presents a balanced review of the Bank's financial position, performance and prospects which have been presented combining both narrative and visual elements to ensure that the content is understandable. Care has been exercised to ensure that all statutory requirements are complied with in the Annual Report and in the issue of interim communications on financial performance which are reviewed by the Audit Committee and approved prior to publication. The following disclosures as required by the Code are included in this Report:

- Annual Report of the Board of Directors presented on pages 76 to 85 includes the disclosures required as per Principle 1.3 of the Code
- Statement of Directors' Responsibility on pages 86 and 87 contains a statement setting out the responsibilities of the Board for the preparation and presentation of Financial Statements
- Independent Auditors' Report on page 237 includes a statement of their responsibilities
- Directors' Statement on Internal Control on pages 88 and 89.
- 'Focus on Value Creation' which discusses the reviews traditionally included under 'Management Discussion and Analysis'
- Statement of going concern of the Company is set out in item (m) on page 87 in the Statement of Directors' Responsibility and Item 19 of the Annual Report of the Board of Directors on page 84.
- Related Party Transactions are disclosed in Item 14 on pages 83 of the Directors' Report and in Note 62 in the Financial Statements on pages 367 to 372 and the process in place is described in the Report of the BRPTRC on pages 74 and 75.

In the unlikely event of the net assets of the Company falling below 50% of Shareholders Funds the Board will summon an Extraordinary General Meeting to notify the shareholders of the position and to explain the remedial action being taken. The Financial Statements clearly explain the movement of net assets during the year. Refer pages 246 and 247 for details.

### **Internal Control and Audit Committee** (Principle D.2 & 3)

The Board is responsible for formulating and implementing appropriate processes for risk management and internal control systems to safeguard shareholder interests and assets of the Bank, BIRMC assists the Board in discharge of its duties with regard to risk management and the BAC assists the Board in discharge of its duties in relation to internal controls. Their responsibilities are summarised in the respective Committee reports appearing on pages 66 to 69 and have been formulated with reference to the requirements of the Code, the Banking Act Direction No.11 of 2007 on Corporate Governance and the Bank's business needs. The BIRMC is supported by the Integrated Risk Management Department of the Bank and a comprehensive report of how the Bank manages risk is included on pages 112 to 144 and the Committees' report on pages 68 and 69.

The BAC comprises 3 Independent Non-Executive Directors and a summary of its responsibilities and activities are given in the Report of the BAC on page 66 It is supported by the Internal Audit function of the Bank who report directly to the Audit Committee. The Chairman of the BAC is Mr. S. Swarnajothi, a Fellow member of CASL and a former Auditor General of Sri Lanka. The Committee has also appointed Mr. Manil Jayesinghe FCA, FCMA, Partner of Ernst & Young as a Consultant to the BAC and is invited to the meetings. The Board also obtains assurance from its External Auditors on the effectiveness of internal controls on financial reporting which is reproduced on page 90 of this Report.

## Code of Business Conduct & Ethics and Corporate Governance Report

#### (Principles D.4 & D.5.)

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The Bank has an internally developed Code of Conduct and Business Ethics which is applicable to all employees. The Bank also has Board adopted rules applicable on Commercial Bank Share Purchases/Disposals by the Board of Directors of the Bank in terms of CSE Listing Rules.

The Code of Business Conduct and Ethics is in compliance with the requirements of the Schedule I of the Code of Best Practice on Corporate Governance. The BHRRC reviews the Code of Business conduct and Ethics to ensure that it is sufficient and relevant with reference to the current operations of the Bank.

This Section on 'How We Govern' from page 26 to 58 complies with the requirement to disclose the extent of compliance with the Code of Best Practice on Corporate Governance as specified in Principle D5.

# Shareholders Shareholder Relations (Principles E & F)

The Bank has 9,412 voting ordinary shareholders of which 6% are institutional shareholders. We have a regular structured dialogue with the large institutional shareholders and any concerns of these institutional shareholders expressed at the meetings is communicated to the Board as a whole. All shareholders are encouraged to exercise their voting powers at the AGM. We also facilitate the analysis of the securities of the Bank by encouraging both foreign and local analysts covering the Bank with structured meetings where they are able to obtain information and explanations required for evaluating the current and future performance of the Company, sector and country. Additionally, the Investor Relations page on the Bank's website has key information required by shareholders and analysts.

#### Sustainability

#### **Sustainability Reporting**

(Principle G)

The Bank is an early champion of sustainability and sustainability reporting based on GR2 Guidelines commenced in 2009, Sustainability principles are embedded in our business operations through the SEMS Policy, considered in formulating our business strategy and reported in a holistic manner throughout this Report.

The Bank takes in to account 'The Rio Declaration on Environment and Development', 1992. 'Principle 15: in operationalising its SEMS policy which states that 'In order to protect the environment, the precautionary approach shall be widely applied by States according to their capabilities. Where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as a reason for postponing cost-effective measures to prevent environmental degradation.' Accordingly, the Bank has a list of prohibited industries to which financial accommodation or investments are not considered.

Information required by the Code is located as follows:

 $\checkmark$ 

**Principle 1** – Reporting of Economic Sustainability – Financial Capita on pages 154 to 159.

**Principle 2** – Reporting on the Environment – Impact on Environment on page 214 to 217.

**Principle 3** – Reporting on Labour Practices – Human Capital on page 194 to 205.

**Principle 4** – Reporting on Society – Social Impact on page 208 to 213.

**Principle 5** – Reporting on Product Responsibility – Social and Network Capital: on Page 182 to 189.

**Principle 6** – Reporting on Stakeholder Identification, Engagement and Effective Communication – Stakeholder Engagement on page 23.

**Principle 7** – Sustainable Reporting to be formalised as part of the reporting process and to take place regularly – About this Report on page 10.

#### Bank's Social & Environmental Management System

All investments are reviewed for compliance with the applicable requirements of the International Finance Corporation for Social and Environmental Compliance and is implemented through a designated Social and Environmental Coordinator and his team. Operationalisation of the policy is graphically depicted below: **Initial Project Approval** Post Financing Review Initial Check Against IFC Annual Review of Social and **Exclusions List Environment Performance** Social & Environmental Screening Performance Reports to Management Ensure Compliance with Social & Assessment of Environment Risk **Environmental Requirements** Site Visit and Social & Performance Reports to IFC Environmental Due Diligence Review Compliance with SEMS & Approval Financing the Project

# The Banking Act Direction No.11 of 2007 and subsequent amendments thereto on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the CBSL

Section	Principle	Compliance and Implementation	Complied
3 (1)	Responsibilities of the Board		
	The Board has strengthened the	safety and the soundness of the Bank in the following manner:	
a.	Setting strategic objectives and corporate values	The Bank's strategic objectives and corporate values are determined by the Board and are given on page 22 (Figure 1). These are communicated to all levels of staff through budgets, structured meetings and reinforced through quarterly review meetings which review performance vis-à-vis strategic goals. Corporate values are included in the Code of Conduct and Business Ethics which is provided in a booklet to all employees and also available on the intranet.	✓
b.	Approving overall Business Strategy including Risk Management Policy	The Board provided direction and guidance for preparation of the 5 year Corporate Plan from 2015 – 2019 which was approved by the Board at the beginning of the year after discussing related issues in detail with the Corporate Management. The Corporate Plan has been aligned to the overall Risk Strategy of the Bank through the involvement of BIRMC. The risk appetite of the Bank is embedded throughout the Corporate Plan in allocation of capital, adoption of risk matrix to measure the risk levels and in defining key performance indicators which include both quantitative and qualitative criteria. Additionally, governance and compliance embedded into Bank wide Risk Management Policy Framework and are included in the strategic goals. The Bank's Corporate Plan for 2016-2020 was approved on January 29, 2016 by the Board.	<b>√</b>
C.	Risk management	The BIRMC is tasked with making recommendations to the Board on the Bank's 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 Section on 'Managing Risk at Commercial Bank' on pages 112 to 144 and the BIRMC Report on pages 68 and 69 provide further insights on Risk Management Policies and processes of the Bank.	<b>√</b>

Section	Principle	Compliance and Implementation	Complied
d.	Communication with all stakeholders	The Board has approved and implemented the following communication policies:	✓
		• Shareholders – The shareholders receive Interim Financial Statements in a timely manner and a press release is issued providing a review of the Bank's performance on a quarterly basis. The Annual Report provides a comprehensive and balanced review of the Bank's performance for the year and is circulated to shareholders 15 working days prior to the AGM. The AGM is the key forum for contact with shareholders and the Bank has a history of well attended AGMs where shareholders take an active role in exercising their rights. Additionally, the Investor Relations page on the Bank's website contains the Interim Financial Statements and Annual Reports for ease of access to shareholders and analysts. The Bank also provides information to equity analysts to facilitate high quality information in research reports which are made available to investors by the stockbrokers.	
		<ul> <li>Customers – Customers include depositors and borrowers. The Bank's Customer Complaint Handling Policy has been printed in all three languages and disseminated to all customer contact points of the Bank. This document outlines the complaints handling procedure of the Bank, provides contact numbers of the Bank for this purpose and also of the Financial Ombudsman. There is a 24 hour trilingual customer hotline set up for this purpose and reports are reviewed by the BIRMC.</li> <li>Staff – Employees and representatives of the employee associations are given unrestricted access to the management to discuss their</li> </ul>	
		concerns. The DGM-HRM co-ordinates communication between the Board and the employees.	
e.	Internal Control System and Management Information Systems	The Board is assisted in this regard by the BAC who review the adequacy and the integrity of the Bank's Internal Control System and Management Information System. The BAC has reviewed reports from the Internal Audit Department and the External Auditors in carrying out this function and reviewed management responses on the same during the year.	<b>✓</b>
		Internal Audit Department also carries out Information Systems Audits to assess the effectiveness of the Management Information System.	
f.	Key Management Personnel (KMP)	KMP are defined in the Sri Lanka Accounting Standards, who significantly influence policy, direct activities and exercise control over business activities, operations and risk management. In addition, the officers with designation identified in the guidelines are included as KMP for Corporate Governance reporting purpose. All appointments of designated KMP are recommended by the BNC and approved by the Board.	<b>√</b>
		Further, for Corporate Governance reporting and monitoring purposes, the Bank has included selected members of the Corporate Management in addition to the KMP identified for financial reporting purposes.	
g.	Define areas of authority and key responsibilities for Directors and KMP	The Board Charter sets out the matters specifically reserved for Board, defining the areas of authority and key responsibilities of the Board of Directors. Areas of authority and key responsibilities for members of the Corporate Management are stated in the Job Descriptions of each member.	<b>√</b>

Section	Principle	Compliance and Implementation	Complied
h.	Oversight of affairs of the Bank by KMP	The Board reviews the performance of the Bank vis-à-vis the Strategic Plan and receives reports from its Sub-Committees on financial reporting, internal control, risk management, changes in KMP and other relevant matters delegated to them. Additionally, KMP make regular presentations to the Board on matters under their purview and are also called in by the Board to explain matters relating to their areas.	✓
i.	Assess effectiveness of own Governance Practices	Completed Board Evaluation Forms were received from all Board members for 2015 and the responses were discussed at a BNC Meeting and a subsequent Board meeting. Matters of concern noted are followed-up and improved upon during the year to uphold the good governance practices of the Bank.	✓
j.	Succession plan for KMP	There is a formal succession plan in place with named successors for KMP together with development plans to ensure their readiness. The succession plan for the CEO and KMP was reviewed by the BNC and approved by the Board during 2015.	<b>√</b>
k.	Regular meetings with KMP	Progress towards corporate objectives is a regular agenda item for the Board and KMP are regularly involved in the Board level discussions on same. Additionally, they make presentations on key agenda items or are called in for discussions at the meetings of the Board and its Sub-Committees on policy and other matters relating to their areas on a regular basis.	<b>√</b>
l.	Regulatory environment and maintaining an effective relationship with regulator	Directors are briefed about regulatory developments at Board meetings by the KMP to facilitate effective discharge of their responsibilities. Members of BAC and the BIRMC are also briefed on regulatory developments at their meetings by the Heads of Internal Audit, Risk and Compliance. All Board members attend the Director forums arranged by the CBSL as well.	<b>√</b>
m.	Hiring External Auditors	The Board has adopted a Policy of Rotation of Auditors, once in every 5 years, in keeping with the principles of Good Corporate Governance. At the end of the 5-year period, quotations are called from suitable audit firms, prior to the recommendation of new Auditors as per the rotation policy. In addition to this, External Auditors submit a statement annually confirming their independence as required by Section 163 (3) of the Companies Act No. 07 of 2007 in connection with external audit.	1
3 (1) (ii)	Appointment of Chairman and CEO and defining and approving their functions and responsibilities	Positions of the Chairman and the CEO are separated in the Board Charter to maintain a balance of power. Further, functions and responsibilities of the Chairman and the CEO are properly defined and approved in line with Direction 3 (5) of these Directions as given on pages 48 and 49.	<b>√</b>
3 (1) (iii)	Regular Board Meetings	Regular monthly Board meetings are held on the last Friday of each month and special meetings are scheduled as and when the need arises at which Directors present actively participate in deliberating matters set before the Board. Attendance at Board meetings is given on page 33 (Table 4). together with the number of meetings of the Board and its Sub-Committees. We have minimised obtaining approval via circular resolutions and it is done only on an exceptional basis and such resolutions are tabled at the next Board meeting for record purpose.	<b>√</b>

Section	Principle	Compliance and Implementation	Complie
3 (1) (iv)	Arrangements for Directors to include proposals in the agenda	Notice of Meeting is circulated one week prior to the meeting and Directors may submit proposals for inclusion in the agenda on discussion with the Chairman on matters relating to the business of the Bank.	✓
3 (1) (v)	Notice of Meetings	Notice of Meetings, agenda and Board Papers for the Board meetings are circulated to the Directors 07 days prior to the meeting giving Directors time to attend and submit any urgent proposals.	<b>√</b>
3 (1) (vi)	Directors attendance	The Directors are apprised of their attendance in accordance with the Articles of the Company and the Corporate Governance Code. Detail of the Directors attendance is set out on page 33 (Table). No Director has been absent from 3 consecutive meetings and all Directors have attended at least 93% or 13 out 14 of the meetings.	<b>√</b>
3 (1) (vii)	Appointment and setting responsibilities of the Company Secretary	An Attorney-at-Law functions as the Secretary of the Board and she has taken steps to duly comply with the requirements under the Banking Act No. 30 of 1988. She has also ensured that proper Board procedures are followed and that applicable rules and regulations are adhered to.	✓
3 (1) (viii)	Directors access to advice and services of Company Secretary	All Board members have full access, to the advice and services of the Company Secretary to ensure that proper Board procedures are followed and all applicable rules and regulations are complied with.	✓
3 (1) (ix)	Maintenance of Board minutes	Company Secretary maintains the minutes of the Board meetings and circulates same to all Board members after review by the CEO and Chairman. The minutes are reviewed and approved at the next Board meeting after incorporating any amendments/inclusions proposed by other Directors. Additionally, the Directors have access to the past Board Papers and minutes through a secure electronic link.	<b>√</b>
3 (1) (x)	Minutes to be of sufficient detail and serve as a reference for regulators and supervisory authorities	<ul> <li>The minutes of the meetings include:</li> <li>(a) a summary of data and information used by the Board in its deliberations;</li> <li>(b) the matters considered by the Board;</li> <li>(c) the fact-finding discussions and the issues of contention or dissent</li> <li>(d) the testimonies and confirmations of relevant executives with regard to the Board's strategies and policies and adherence to relevant laws and regulations;</li> <li>(e) matters regarding the risks to which the Bank is exposed to and an overview of the risk management measures including reports of the BIRMC; and</li> <li>(f) the details of decisions and Board resolutions including reports of all Board Sub-Committees.</li> </ul>	<b>*</b>
3 (1) (xi)	Directors ability to seek independent professional advice	Directors are able to obtain independent professional advice, as and when necessary, in discharging their responsibilities according to a procedure approved by the Board. This function is co-ordinated by the Company Secretary.	✓

Section	Principle	Compliance and Implementation	Complied
3 (1) (xii)	Dealing with Conflicts of Interest	The Directors make declarations of their interests at appointment, annually and whenever there is a change in the same and a quarterly report is sent to the Board on possible areas of conflict (if any). Directors abstain from participating in the discussions, voicing their opinion or approving in situations where there is a conflict of interest. Additionally such Director's presence is disregarded in counting the quorum in such instances. Key appointments of the Directors are included in their profiles on pages 28 to 30.	<b>√</b>
3 (1) (xiii)	Formal schedule of matters reserved for Board decision	The Board has put in place systems and controls to facilitate the effective discharge of Board functions.  Pre-set agenda of meetings ensures the direction and control of the Bank is firmly under Board's control and authority in line with regulatory codes, guidelines and international best practice.	<b>√</b>
3 (1) (xiv)	Informing Central Bank on solvency issues	The Bank is solvent and no situation arisen where its solvency has been in doubt. A Board approved procedures is in place to inform the Director of Banking Supervision prior to taking any decision or action if the Bank is about to become insolvent or about to suspend payments to its depositors and other creditors.	<b>√</b>
3 (1) (xv)	Maintaining a sound Capital Adequacy	The Board monitors capital adequacy and other prudential measures to ensure compliance with regulatory requirements, and the Bank's defined risk appetite. The Bank is in compliance with the minimum capital requirements.	✓
3 (1) (xvi)	Publish Corporate Governance Report in Annual Report	This Report forms part of the Corporate Governance Report of the Bank which is set out from pages 26 to 58.	✓
3 (1) (xvii)	Self-assessment of Directors	The Bank has adopted a system of self-assessment, to be undertaken by each Director, annually. Each member of the Board carried out a self-assessment of his/her own effectiveness as an individual as well as the effectiveness of the Board as a whole. Further, each Director carries out an assessment of 'fitness and propriety' to serve as a Director.	<b>✓</b>
3 (2)	The Board's Composition		
3 (2) (i)	Number of Directors	As per CBSL Governance Direction, the number of Directors should not be less than 07 nor more than 13. The Bank's Board comprised 8 Directors as at December 31, 2015.	<b>✓</b>
3 (2) (ii)	Period of service of a Director	The period of service of a Director is limited to 9 years excluding the Chief Executive Officer as per the Corporate Governance Code for Licensed Commercial Banks. Details of their tenures of service are given on pages 28 to 30.	<b>√</b>
3 (2) (iii)	Board balance	There are 02 Executive Directors and 6 Non-Executive Directors which is compliant with the requirement to limit the number of Executive Directors to 1/3 of the total number of Directors.	<b>√</b>
3 (2) (iv)	Independent Non-Executive Directors	The Board has 6 Independent Non-Executive Directors which is well above the regulatory requirement who satisfy the criteria for determining independence.	<b>√</b>
3 (2) (v)	Alternate Independent Directors	There was one appointment of an Alternate Director during the year.  However, there are no Alternate Directors as at the Reporting date.	<b>√</b>

Section	Principle	Compliance and Implementation	Complied
3 (2) (vi)	Criteria for Non-Executive Directors	Non-Executive Directors are persons with proven track records and necessary skills and experience to bring independent judgment to bear on issues of strategy, performance and resources.	✓
		Directors nominate names of eminent professionals or academics from various disciplines to the BNC who peruse the profiles and recommend suitable candidates to the Board.	
3 (2) (vii)	Composition of Non-Executive Directors	The requirement to have more than half the quorum as Non-Executive Directors is strictly observed throughout the year and it is noteworthy that 6 out of the 8 Board members as at the Reporting date are Non-Executive Directors.	<b>√</b>
3 (2) (viii)	Identify Independent Non-Executive Directors and disclosures required in the Annual Report	The Independent Non-Executive Directors are expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. 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 are given in Item 11.1 on page 81.	<b>√</b>
3 (2) (ix)	Formal and transparent procedure for appointments to the Board	The Board has established a Nomination Committee (BNC) whose Terms of Reference comply with the specimen given in the Code of Best Practice on Corporate Governance. Accordingly, new Directors including the CEO and COO are appointed by the Board upon consideration of recommendations by the BNC. The Board has also developed a succession plan together with the BNC to ensure the orderly succession of appointments to the Board.	<b>√</b>
3 (2) (x)	Re-election of Directors filling casual vacancies	All Directors appointed to the Board are subject to re-election by shareholders at the first AGM after their appointment.	<b>√</b>
3 (2) (xi)	Communication of reasons for removal or resignation of a Director	Resignations of Directors and the reasons are promptly informed to the regulatory authorities and shareholders as per CSE requirements together with a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	<b>√</b>
3 (2) (xii)	Prohibition of Directors/ Employees to be appointed as Directors of another bank	The Board and the BNC take into account this requirement in their deliberations when considering appointments of Directors. None of the Directors are Directors or employees at any other bank.	✓
3 (3)	Criteria to Assess Fitness and Pro	opriety of Directors	
3 (3) (i)	Age of Directors should not exceed 70 years	There are no Directors who are over 70 years of age.	✓
3 (3) (ii)	Restriction on Directors holding positions in other entities	No Director holds directorships of more than 20 companies/entities/institutions inclusive of Subsidiaries or Associate Companies of the Bank.	✓
3 (4)	Management Functions Delegate	d by the Board	
3 (4) (i)	Understand and study delegation arrangements	The Board reviews and approves the delegation arrangements of the Bank	<b>✓</b>
3 (4) (ii)	Extent of delegation within appropriate limits	annually and ensures that the extent of delegation addresses the business needs of the Bank whilst enabling the Board to discharge their functions effectively. Consequently, the Board takes time to study and understand the	<b>√</b>
3 (4) (iii)	Review delegation arrangements periodically	delegation arrangements. In terms of Articles of Association of the Bank the Board is empowered to delegate its powers.	✓

Section	Principle	Compliance and Implementation	Complie
3 (5)	The Chairman and CEO		
3 (5) (i)	Separation of roles	There is a clear separation of duties between the roles of the Chairman and the CEO, thereby preventing unfettered powers for decision-making being vested with one person.	✓
3 (5) (ii)	Non-Executive Chairman and appointment of a Senior Independent Director	The Chairman is an Independent Non-Executive Director.	✓
3 (5) (iii)	Disclosure of identity of Chairman and CEO and any relationships with the Board members	The identity of the Chairman and CEO are disclosed in the Annual Report on page 28.  The Board is aware that there are no relationships whatsoever, including financial, business, family, any other material/relevant relationship between the Chairman and the CEO. Similarly, no relationships prevail among the other members of the Board.	<b>√</b>
3 (5) (iv)	Chairman to provide leadership to the Board	Board approved List of Functions and Responsibilities of Chairman include, 'Providing Leadership to the Board' as a responsibility of the Chairman. The Board's Annual Assessment Form includes an area to measure the 'Effectiveness of the Chairman in facilitating the effective discharge of Board functions'.  All key and appropriate issues are discussed by the Board on a timely basis.	<b>√</b>
3 (5) (v)	Responsibility for agenda lies with Chairman but may be delegated to Company Secretary	The Company Secretary draws up the agenda for the meetings in consultation with the Chairman.	<b>√</b>
3 (5) (vi)	Ensure that Directors are properly briefed and provided adequate information	The Chairman ensures that the Board is sufficiently briefed and informed regarding the matters arising at Board. The following procedures ensure this:  Circulation of Board papers 7 days prior to meeting  Clarification of matters by KMP when required	<b>✓</b>
3 (5) (vii)	Encourage active participation by all Directors and lead when acting in the interests of the Bank	This requirement is addressed in the Chairman's List of Functions and Responsibilities of the Chairman approved by the Board.  Self evaluation is carried out by the Board annually.	<b>√</b>
3 (5) (viii)	Encourage participation of Non-Executive Directors and relationships between Non-Executive and Executive Directors	Six members of the Board are Non-Executive Directors which creates a conducive environment for active participation by the Non-Executive Directors. Additionally, Non-Executive Directors chair the Sub-Committees of the Board providing further opportunity for active participation.	<b>✓</b>
3 (5) (ix)	Refrain from direct supervision of KMP and executive duties	The Chairman does not get involved in the supervision of KMP or any other executive duties.	✓
3 (5) (x)	Ensure effective communication with shareholders	The Bank historically has active shareholder participation at the AGM. At the AGM the shareholders are given the opportunity to take up matters for which clarification is needed. These matters are adequately clarified by the Chairman and/or CEO and/or any other officer.	<b>√</b>

Section	Principle	Compliance and Implementation	Complie
3 (5) (xi)	CEO functions as the apex executive in charge of the day to day operations	The day-to-day operations of the Bank has been delegated to the CEO.	✓
3 (6)	Board Appointed Committees		
3 (6) (i)	Establishing Board committees, their functions and reporting	The Board has established 8 committees with written terms of reference for each of which 4 are mandatory with the remainder appointed to meet the business needs of the Bank. Each committee has a Secretary to arrange the meetings and maintain minutes, records, etc., under the supervision of the Chairman of the committee. The Reports of the sub-committees are included under;  BAC Report on pages 66 to 68  BIRMC Report on pages 68 and 69  BNC Report on pages 69 and 70  BHRRC Report on pages 70 to 72  BCC Report on pages 72 and 73  BTC Report on page 73  BIC Report on page 74  BRPTRC Report on pages 74 and 75  The Chairpersons of the sub-committees are available at the AGM to clarify any matters that may be referred to them by the Chairman.	~
3 (6) (ii)	BAC		
a.	Chairman to be an Independent Non-Executive Director with qualifications and experience in accountancy and/or audit	Chairman of the Committee Mr. S. Swarnajothi is an Independent Non-Executive Director. He is a Fellow of CASL and CMA Sri Lanka a member of CMA of Australia. A former Auditor General of Sri Lanka, he has the required skills and experience to function effectively in this capacity.	✓
b.	Committee to comprise solely of Non-Executive Directors	All members of the BAC are Independent Non-Executive Directors.	<b>✓</b>
C.	Audit Committee functions	<ul> <li>In accordance with the Terms of Reference, BAC has made the following recommendations:</li> <li>(i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;</li> <li>(ii) the implementation of the CBSL guidelines issued to Auditors from time to time;</li> <li>(iii) the application of the relevant accounting standards; and</li> <li>(iv) the service period, audit fee and any resignation or dismissal of the Auditor.</li> <li>BAC ensures that the service period of the engagement of the external Audit partner shall not exceed five years, and that the particular Audit partner is</li> </ul>	<b>~</b>
d.	Review and monitor External Auditor's independence and objectivity and the effectiveness of the audit processes	not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.  The Board has adopted a policy of rotation of Auditors, once in every 5 years, in keeping with the principles of Good Corporate Governance.	<b>√</b>

Section	Principle	Compliance and Implementation	Complied
e.	Provision of non-audit services by External Auditor	Following action is taken prior to the assignment of non-audit services to External Auditors by the Bank:	✓
		<ul> <li>(i) If the management is of the view that the independence is likely to be impaired with the assignment of any non-audit services to External Auditors, no assignment will be made to obtain such services.</li> </ul>	
		(ii) Further, relevant information is obtained from External Auditors to ensure that their independence is not impaired, as a result of providing any non-audit services.	
		(iii) Assigning such non-audit services to External Auditors is discussed at BAC meeting/s and required approval is obtained to that effect.	
f.	Determines scope of audit	The committee discussed the Audit Plan and scope of the audit with External Auditors to ensure that it includes:	✓
		<ul> <li>(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;</li> </ul>	
		<ul> <li>(ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations;</li> </ul>	
		As all audits within the Group are carried out by the same External Auditor, there was no requirement to discuss arrangements for co-ordinating activities with other Auditors.	
g.	Review financial information of the Bank	BAC reviews the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, Interim Financial Statements prepared for disclosure, and the significant financial reporting judgements contained therein. The review focuses on the following:	<b>√</b>
		(i) major judgemental areas;	
		(ii) any changes in accounting policies and practices;	
		(iii) significant adjustments arising from the audit;	
		(iv) the going concern assumption;	
		<ul><li>(v) compliance with relevant accounting standards and other legal requirements.</li></ul>	
		The BAC makes their recommendations to the Board on the above on a quarterly basis.	
h.	Discussions with External Auditor on interim and final audits	BAC discusses issues, problems and reservations arising from the interim and final audits with the External Auditor. The committee met on 2 occasions with the External Auditors without the Executive Staff of the Bank being present	<b>√</b>
i.	Review of Management Letter and Bank's response	BAC has reviewed the External Auditor's Management Letter and the management's response thereto.	<b>√</b>

Section	Principle	Compliance and Implementation	Complied
j.	Review of internal audit function	The Annual Audit Plan prepared by the Internal Audit Department is submitted to the BAC for approval. This plan covers the scope and resource requirement relating to the Audit Plan.	✓
		The services of five audit firms have been obtained to assist the Internal Audit Department to carry out the audit function. Prior approval of the BAC has been obtained in this regard.	
		The committee reviewed the reports submitted by internal audit and ensures that appropriate action is taken on the recommendations of the Internal Audit Department.	
	The Assistant General Manager – Management Audit who leads the Internal Audit Department, reports directly to the BAC and his performance appraisal is reviewed by the Audit Committee.		
		BAC is kept apprised of terminations/resignations of senior internal audit staff members and recommend their appointment.	
		The above processes ensure that audits are performed with impartiality, proficiency and due professional care.	
k.	Internal investigations	Major findings of internal investigations and management's responses thereto are reviewed by the BAC. It has also ensured that the recommendations of such investigations are implemented.	<b>√</b>
1.	Attendees at Audit Committee meetings	The CEO, CFO, Assistant General Manager – Management Audit and a representative of the External Auditors normally attend meetings. Other Board members may also attend meetings upon the invitation of the committee. The committee met with the External Auditors without the Executive Directors being present on 2 occasions during the year.	<b>√</b>
m.	Explicit authority, resources and access to information	The Terms of Reference for the BAC includes:  (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.  Refer BAC Report on pages 66 to 68.	✓
n.	Regular meetings	The BAC has scheduled regular quarterly meetings and additional meetings are scheduled when required. Accordingly, the committee met 10 times during the year. Members of the BAC 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 Company Secretary.	<b>√</b>
O.	Disclosure in Annual Report	The Report of the BAC on pages 66 to 68 includes the following:  (i) details of the activities of the BAC;  (ii) the number of BAC meetings held in the year; and  (iii) details of attendance of each individual Director at such meetings.	<b>✓</b>
p.	Maintain minutes of meetings	Assistant General Manager – Management Audit serves as the Secretary of the BAC and maintains minutes of the committee meetings.	✓

Section	Principle	Compliance and Implementation	Complied
q.	Whistle-blowing policy and arrangements available for employees to raise concerns in confidence	The Bank has a Whistle-blowing Policy which has been reviewed and approved by the BAC and the Board of Directors. Board's responsibility towards encouraging communication on any non-compliance and unethical practices were addressed in the Board Charter.	<b>√</b>
		A process is in place and proper arrangements are in effect to conduct fair and independent investigation and appropriate follow up action regarding any concerns raised by the employees of the Bank, in relation to possible inappropriate financial reporting, internal controls or other matters.	
3 (6) (iii)	BHRRC		
	Charter of the Committee	The Committee is responsible for:	<b>√</b>
		• determining the remuneration policy relating to Directors, CEO and KMP;	
		• setting goals and targets for the Directors, CEO and KMP;	
		<ul> <li>evaluating performance of the CEO and KMP against agreed targets and goals and determining the basis for revising remuneration, benefits and other payments of performance-based incentives.</li> </ul>	
		The CEO attends all meetings of the committee, except when matters relating to the CEO are being discussed.	
3 (6) (iv)	BNC		
a.	Appointment of Directors, CEO and KMP	The committee has developed and implemented a procedure to appoint new Directors, CEO and KMP.	✓
		The committee is chaired by the Chairman of the Bank and two other Independent Directors. The CEO may be present at meetings by invitation. Refer the BNC Report on pages 69 and 70.	
b.	Re-election of Directors	The committee makes recommendations regarding 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.	<b>√</b>
C.	Eligibility criteria for appointments to key managerial positions including CEO	The committee sets the eligibility criteria to be considered, including qualifications, experience and key attributes, for appointment or promotion to key managerial positions including the position of the CEO. The committee considers the applicable statutes and guidelines in setting the criteria.	✓
d.	Fit and proper persons	The committee obtains annual declarations from Directors and CEO to ensure 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 the Statutes.	<b>√</b>
		Further, the BHRRC obtains annual declaration from KMP to ensure that they too are fit and proper persons to hold office as specified in the said Direction.	
e.	Succession Plan and new expertise	The committee has developed a succession plan for the Directors whilst succession planning for KMP is carried out by the BHRRC. The BNC calls for few suitable CVs, check suitability with independent organisations and recommends to the Board.	<b>√</b>
		The need for new expertise may be identified by the Board or its committees and brought to the attention of the BNC who will take appropriate action.	

Section	Principle Compliance and Implementation		Complied
f.	Committee to be chaired by an Independent Director	The Committee was chaired by an Independent Non-Executive Director and the CEO was present at the meeting by invitation.	
3 (6) (v)	BIRMC		
a.	Composition	The committee comprises 3 Non-Executive Directors, CEO, CRO and CFO who serves as the Secretary to the committee. Other KMP supervising credit, market, liquidity, operational and strategic risk are invited to attend the meeting on a regular basis.	
b.	Risk Assessment	The committee has approved the policies on Credit Risk Management, Market Risk Management and Operational Risk Management which provides a framework for management and assessment of risks. Accordingly, monthly information on pre-established risk indicators are reviewed by the committee in discharging its responsibilities as per the Terms of Reference.	
C.	Review of management level committees on risk	The committee reviews the reports of the management level CPC and the ALCO to assess their adequacy and effectiveness in addressing specific risks and managing the same within the quantitative and qualitative risk limits set in the Risk Appetite Statement approved by the Board on a regular basis.  Further, adequacy and effectiveness of all management level risk-related committees such as EIRMC, ALCO, CPC and ECMNs are reviewed by the	1
	_	BIRMC annually.	
d.	Corrective action to mitigate risks exceeding prudential levels	Actual exposure levels under each risk category are monitored against the tolerance levels when preparation of 'Risk Profile Dashboard' of the Bank which is circulated among members of the BIRMC on a monthly basis and discussed in detail at quarterly meetings.	✓
		The committee takes prompt corrective action to mitigate the effects of specific risks in the event 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.	
е.	Frequency of meetings	The committee has regular quarterly meetings and schedules additional meetings when required. The agenda covers matters assessing all aspects of risk management including updated business continuity plans. The committee met 4 times during 2015.	
f.	Actions against officers responsible for failure to identify specific risks or implement corrective action	Committee refers such matters, if any, to the Human Resources Department for necessary action.	
g.	Risk Assessment Report to Board	A Comprehensive Report of the meeting is submitted to the Board after each committee meeting by the Secretary of the Committee for their information, views, concurrence or specific directions.	<b>√</b>

Section	Principle	Compliance and Implementation	Complied
h.	Compliance function	A compliance function has been established 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 who reports to the BAC and the BIRMC. The Compliance Officer submits a Positive Assurance Certificate on Compliance with Mandatory Banking and Other Statutory Requirements on quarterly basis to the BAC and the BIRMC.	✓
3 (7)	Related Party Transactions (RPT)		
3 (7) (i)	Avoid conflict of interest	The BRPTRC is tasked with oversight of the processes relating to this subject and their Report is given on pages 74 and 75.	✓
		All members of the Board are required to make declarations of the positions held with related parties at the time of appointment and annually thereafter. This information is provided to the Finance Division enabling them to capture relevant transactions. In the event of any change (during the year) the Directors are required to make a further declaration to the Company Secretary.	
		Directors refrain from participating at meetings in which lending to related entities are discussed to avoid any kind of influence.	
		Transactions carried out with related parties (RP) as defined by the Sri Lanka Accounting Standard – LKAS 24 on 'Related Party Disclosures' in the normal course of business are disclosed in Note 62 to the Financial Statements on pages 367 to 372.	
		Directors interest in contracts with the Bank which do not fall into the definition of Related Party Transactions (RPT) as per LKAS 24 are reported separately in the Annual Report, outside the Financial Statements on page 92.	
3 (7) (ii)	RPT covered by direction	A comprehensive RPT Policy was formulated during the year, which was reviewed and recommended by the BRPTRC and was approved by the Board. This Policy was later circulated among the relevant staff for adherence.	<b>√</b>
		The RPT Policy approved by the Board covers the following transactions:  • The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation.	
		<ul> <li>The creation of any liabilities of the Bank in the form of deposits, borrowings and investments.</li> </ul>	
		<ul> <li>The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank.</li> </ul>	
		<ul> <li>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.</li> </ul>	

Section	Principle	Compliance and Implementation	Complied	
3 (7) (iii)	Prohibited transactions	The Bank's RPT Policy prohibits transactions which would grant RPs more favourable treatment than that accorded to other customers. These include the following:		
		<ul> <li>Granting of 'total net accommodation' to related parties, exceeding a prudent percentage of the Bank's regulatory capital.</li> </ul>		
		<ul> <li>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.</li> </ul>		
		<ul> <li>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.</li> </ul>		
		<ul> <li>Providing services to or receiving services from RP without an evaluation procedure.</li> </ul>		
		<ul> <li>Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with RP, except as required for the performance of legitimate duties and functions.</li> </ul>		
3 (7) (iv)	Granting accommodation to a Director or a close relation of Director	A procedure is in place for granting accommodation to Directors or to close relations of Directors. Such accommodation requires approval at a meeting of the Board of Directors, by not less than 2/3rds of the number of Directors other than the Director concerned, voting in favour of such accommodation or through circulation of papers which requires approval by all. The terms and conditions of the facility include a proviso that it will be secured by such security as may from time to time be determined by the Monetary Board as well.		
3 (7) (v)	Accommodations granted to persons, or concerns of persons, or close relations of persons, who subsequently are appointed as Directors of the Bank	The Company Secretary obtains declarations/affidavits from all Directors prior to their appointment and they are requested to declare any further transactions.	✓	
		Employees of the Bank are aware of the requirement to obtain necessary security as defined by the Monetary Board if the need arises.		
		Processes for compliance with this regulation is also monitored by the Compliance Unit.		
		This situation has not arisen in the Bank to date.		
3 (7) (vi)	Favourable treatment or accommodation to the Bank employees or their close relations	No favourable treatment/accommodation is provided to the Bank employees other than only under staff benefit schemes uniformly applicable. Employees of the Bank are informed through operational circulars to refrain from granting favourable treatment to other employees or their close relations or to any concern in which an employee or close relation has a substantial interest.		
3 (7) (vii)	Remittance of accommodations subject to Monetary Board approval	ns No such situation has arisen during the year.		

Section	Principle	Compliance and Implementation	Complied	
3 (8)	Disclosures			
3 (8) (i)	Publish annual and quarterly Financial Statements  Annual Audited Financial Statements and Interim Financial Statements  of the Bank were prepared and published during 2015 in the newspapers  (in Sinhala, Tamil and English) in accordance with the formats  prescribed by the Supervisory and Regulatory Authorities and applicable accounting standards.		<b>√</b>	
3 (8) (ii)	Disclosures in 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.	Disclosures on the compliance with the applicable accounting standards and regulatory requirements in preparation of the Annual Audited Financial Statements have been made in the 'Statement of Directors' Responsibility', 'MD's and CFO's Statement of Responsibility'. Refer page 86 & 87 and 91 respectively.	<b>✓</b>	
b.	Report by the Board on the Bank's internal control mechanism	The Annual Report includes the reports where the Board 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:		
		<ul> <li>Directors' Statement on Internal Control on pages 88 and 89.</li> </ul>		
		<ul> <li>Statement of Directors' Responsibility on pages 86 and 87.</li> </ul>		
		<ul> <li>Annual Report of the Board of Directors on pages 76 to 85.</li> </ul>		
C.	External Auditor's Certification on the effectiveness of the internal control mechanism	The Bank has obtained a certificate on the Effectiveness of Internal Controls over Financial Reporting which is published on page 90.		
d.	Details of Directors, including names, fitness and propriety,	<ul> <li>Profiles of Directors are given on pages 28 to 30.</li> </ul>		
		<ul> <li>Directors' interests in contracts with the Bank on page 92.</li> </ul>		
	transactions with the Bank and the total of fees/remuneration paid by the Bank	<ul> <li>Remunerations paid by the Bank are given in Note 20 to the Financial Statements on pages 279 and 280.</li> </ul>		

Section	Principle — — — — — — — — — — — — — — — — — — —	Compliance and Implementation			Complie
е.	Total accommodations granted to each category of RPs and same as a percentage of the Bank's regulatory capital	Total net accommodations granted to each category of RP are given in Note 62 to the Financial Statements on pages 367 to 372 The net accommodations granted to each category of RP as a percentage of the Bank's regulatory capital are given below:  Direct and indirect accommodation to RP:			✓
		Category of RP	% of the Regulatory Capital		
		<u>                                   </u>	2015	2014	
		KMP & CFM*	0.02	0.02	
		KMP & CFM**	0.24	0.16	
		Subsidiaries	1.28	1.00	
		Associates	0.00	0.00	
		* As defined in LKAS 24 on 'Related Party Disclosures' for Financial Reporting  ** The Board and selected members of the Corporate Management as required by  Section 3 (7) of the Banking Act Direction No.11 of 2007			
f.	Aggregate values of remuneration to, and transactions with KMP	remuneration to, and Bank by KMP as defined by the LKAS 24 on 'Related Party Disclosures'			
	Further, in addition to the above, total deposits and repurchase agr held and total direct and indirect facilities obtained as at December by the KMP (Board and selected members of Corporate Managem amounted to Rs. 135.3 Mn. and Rs. 183.2 Mn., respectively.				
g.	External Auditor's certification of compliance	The factual findings report has been issued by the External Auditors on the level of compliance with the requirements of these regulations.			✓
		The findings presented in their report addressed to the Board did not identify any inconsistencies to those reported above.			
h.	Report confirming compliance with prudential requirements, regulations, laws and internal controls	The 'Statement of Directors' Responsibility' on pages 86 and 87 clearly sets out details regarding compliance with prudential requirements, regulations, laws and internal controls. There were no instances of non-compliance during the year.			✓
i.	Non-compliance Report	There were no supervisory concerns on lapses in the Bank's Risk Management Systems or non-compliance with these directions that have been pointed out by the Director of the Bank Supervision Department of the CBSL and therefore there is no disclosure made in this regard.			✓
3 (9)	Transitional and Other General Provisions	The Bank has complied with the transitional provisions.			✓

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#### Governance - Corporate Management ←

#### Jegan Durairatnam

Managing Director / CEO BSc.(University of Peradeniya)

34 years in Banking

#### S. Renganathan

Chief Operating Officer FCMA (UK) / CGMA / Fellow of the IFS School of Finance (UK) / FIB (SL)/ Associate of the Financial Services Institute of Australia 35 years in Banking

#### Nandika Buddhipala

Chief Financial Officer FCA/FCCA (UK) / FCMA / CMA (Australia) / MCISI (UK) / MBA / M.A. in Financial Economics / BSc. B.Ad (Special) (University of Sri Jayewardenepura) / PG Dip. in Management/MSc. in Financial Mathematics 25 years post qualifying experience including 8 years in Banking

#### Isuru Tillakawardana

Page - 136 Deputy General Manager -

Human Resource Management LLB / MBA / Diploma in International Affairs / Fellow of the Association of HR Professionals and Graduate Sri Lanka Institute of Directors

25 years of experience including 6 years in Banking.

#### Hasrath Munasinghe

Deputy General Manager - Marketing MSc. in IT (University of Moratuwa) / MBA (USQ Aus) / Dip in Mktg / CIM UK/ CMA (Aus) / AIB (SL)/

PGDBFA - CA Sri Lanka / CPM (APMF Sing)/ Certificate in Risk (CISI UK) / FCIM / FSLIM

21 years in Marketing, Sales and Communication including 4 years in Banking

#### Sanath Manatunge

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Deputy General Manager - Corporate Banking FIB (SL) / FCMA (UK) / CGMA / MBA (University of Sri Jayewardenepura) Merit / FCMA (SL)

26 years in Banking

#### Felician Perera

Deputy General Manager -Credit Supervision & Recoveries Bachelor of Philosophy (Rome) / FIB (SL) / Diploma in Bank Management (IBSL)

35 years in Banking

#### Mrs. Sandra Walgama

Page – 156 Deputy General Manager -Personal Banking AIB(SL) / Associate of the Institute of Administrative Accounting (UK) / Level 3 Certificate in Wealth Management (Chartered Institute for Securities and Investment - London)

36 years in Banking

#### 🐴 Page – 117 Prins Perera

斗 Page – 125

🖺 Page – 132

Head of Global Markets AIB (SL) 26 years in Banking

#### Krishan Gamage

Assistant General Manager -Information Technology BSc. (Eng.) in Electronics & Telecommunication (University of Moratuwa) 17 years experience in Information Technology including 9 years in Banking

#### Palitha Perera

🖺 Page – 164 Assistant General Manager - Operations CIB London - Intermediate Level 42 years in Banking

#### Prasanna Indrajith

Assistant General Manager - Finance BSc. B.Ad. (Special) (University of Jayewardenepura) / FCA / FCCA (UK) / FCMA (SL) / AIB(SL) / Diploma in Corporate & Strategic Finance - CA Sri Lanka

20 years post qualifying experience including 18 years in Banking

#### Chinthaka Dharmasena

Assistant General Manager - Services BSc. (Eng.) Hons in Mechanical Engineering (University of Moratuwa) / MBA (USJ)/ISO Lead Auditor Certificate / Visiting Lecturer at University of Moratuwa

15 years of Experience in Manufacturing and supply chain Management and 4 years in Banking.

#### Naveen Sooriyarachchi

Assistant General Manager -Corporate & Investment Banking MBA / AIB (SL) / Humphrey Fellow (Boston University) 34 years in Banking

#### Selva Rajasooriyar

Assistant General Manager -Personal Banking I FCMA (UK) / CGMA / AIB (SL) / ACMA (SL)

35 years in Banking

#### S. Prabagar

Assistant General Manager -Management Audit BCom. (Bharathidasan University India) / AIB (SL) / MBA in Banking (University of London) / DISSCA (Diploma in System Security and Control Audit - CA Sri Lanka)

19 years in Banking

#### Asela Wijesiriwardane

Head of Global Treasury BSc. (University of Colombo) / MA-Econ / ACMA 19 years in Banking

#### Risijava Srikantha

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🖺 Page – 184

👇 Page – 188

🖺 Page – 191

Page - 192 Assistant General Manager – International AIB (SL) Intermediate

#### Niran De Costa

Personal Banking II BCom. (Hons) (University of Peradeniya) 34 years in Banking

Assistant General Manager -Credit Supervision & Recoveries AIB (SL) / CIMA-Finalist 35 years in Banking

#### B.A.H.S Preena

Assistant General Manager -Corporate Banking MBA (University of Colombo) / AIB (SL) 28 years in Banking

#### Delakshan Hettiararchchi

32 vears in Banking

#### Chanura Wijetillake

Assistant General Manager -Compliance AIB (SL) / Diploma in Business Management ICFAI (India) 36 years in Banking

#### Kapila Hettihamu

Chief Risk Officer BSc. (University of Colombo) / MBA / ACI 20 years in Banking

## 37 years in Banking

Assistant General Manager -

#### Privantha De Silva

Assistant General Manager -Personal Banking III / SME MBA (University of Colombo)/AIB (SL)





#### → Governance – Senior Management

### **Personal Banking**

Roshan Perera Senior Regional Manager - Colombo Metro



Leel Rodrigo Senior Regional Manager - Colombo South



03 Ivan Fernando Senior Regional Manager – Greater Colombo



Darshanie Perera Senior Regional Manager - Colombo North

Mithila Shamini Senior Regional Manager - Colombo Inner









**Amal Alles** Regional Manager - Central





K.P. Nandasiri Chief Manager Retail Credit Approval Unit









Saman Kalansuriya Head of Leasing, Factoring & Personal Loans



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Thusitha Suraweera Head of Card Centre



Yasmin Weerasuriya Senior Regional Manager – Greater Colombo



Nirmalanie Wijegoonawardena Chief Manager - City Office



Palitha Jagoda Chief Manager – Super Market Banking



Saneth Jayasundara Regional Manager – North Central





S.B. Wasala Regional Manager - Southern



Sanath Perera Regional Manager – Uva-Sabaragamuwa





**Corporate Banking** 

Eric Bastian Head of Exports



Sidath Pananwala Chief Manager - Corporate Banking



Kelum Amarasinghe Chief Manager - Travels and NRFC



Dilan Rajapakse Chief Manager designate Maldivian Operation



Anura Wickramarachchi



Mahinda Wijeratne Chief Manager - Off-shore Banking Centre



09

03



Chief Manager - Foreign Operations



Dilrukshi Nanayakkara



Feroza Ameen Chief Manager - Islamic Banking



07

10

C.P. Fernando Chief Manager - Treasury Processing



Chief Manager - Corporate Banking



Sushara Vidyasagara Chief Manager - Investment Banking



Tamara Bernard Chief Manager - Corporate Banking



Prasad Fernando Chief Manager - Imports



01

07

D. Das Gupta

Senior General Manager

### Bangladesh Operation

Ajith Naranpanawe Country Manager



A.K. Nandy
Senior Deputy General Manager – Chittagong



02

08

Najith Meewanage

Binoy Gopal Roy
Deputy General Manager – Finance & Accounts



Mahmood Rashid Senior Assistant General Manager – International Trade



Mostafa Anowar Sohel Senior Assistant General Manager – Human Resources

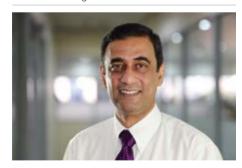


Shakir Khusru Assistant General Manager – Personal Banking



Shakeel Imdadul Islam Assistant General Manager – Corporate Banking







### Support Services

Vajira Thotagammana Head of Information Technology Operations



S. Yoganandasivam Head of Information Technology – Research and Development



Amitha Munasinghe Head of Information System Audit



John Premanath Head of Inspection







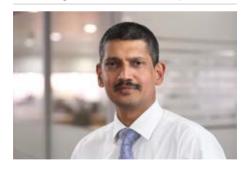
Certifal Administration and Stall Advances

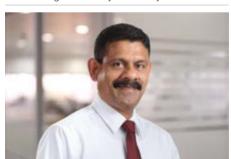


Dr. Shanthikumar Fernando Chief Manager – Research and Development

Sampath Weerasuriya Chief Manager – Security and Safety









S. Shunmugarajah Head of ICBS



Esala Silva Head of Central Clearing

10



M.P. Dharmasiri Head of Finance



Priyanthi Perera Chief Manager – Operations



Udayakanth Fernando Chief Manager – Staff Development Centre



Namal Gamage Chief Manager – Legal



#### → Governance - Board Sub-Committee Reports

#### **Board Audit Committee Report**

#### Composition of the Committee

The Board Audit Committee (the Committee) is appointed by the Board of Directors (the Board) and as at the end of the year, comprised of following Independent, Non-Executive Directors of the Bank.

Mr. S. Swarnajothi *(Chairman)* Prof. A.K.W. Jayawardane Mr. K. Dharmasiri

Managing Director, Chief Operating Officer, Chief Financial Officer, Chief Risk Officer, Compliance Officer and Assistant General Manager – Management Audit, attended the Committee meetings by invitation. Assistant General Manager – Management Audit, functions as the Secretary of the Committee.

Mr. Manil Jayesinghe, serves the Committee in the capacity of a Consultant and is invited to attend its meetings. He is a practicing senior Chartered Accountant with long years of experience in Auditing, Accounting Standards and Financial Reporting.

Brief profiles of the member of the Board are given on pages 28 to 30.

#### Charter of the Committee

The Charter of the Audit Committee approved by the Board, clearly defines the Terms of Reference of the Committee and is annually reviewed to ensure that new developments relating to the Committee's functions are addressed. The Committee assists the Board in discharge of its responsibilities and exercises oversight over financial reporting, internal audit, internal controls and external audit.

The Banking Act Direction No. 11 of 2007, (hereinafter referred as the Direction), on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' and its subsequent amendments, 'Rules on Corporate Governance under Listing Rules of the CSE' and 'Code of Best Practice on Corporate Governance', issued jointly by CA Sri Lanka and the

SEC of Sri Lanka, further regulate the composition, roles and functions of the BAC.

The Committee is empowered by Board of Directors to:

- Ensure that financial reporting systems in place are effective and well-managed in order to provide accurate, appropriate and timely information to the Board of Directors, Regulatory Authorities, the Management and other Stakeholders.
- Review the appropriateness of accounting policies and ensure adherence to statutory and regulatory compliance requirements and applicable Accounting Standards.
- Ensure that the Bank adopts and adheres to high standards of Corporate Governance practices, conforming to the highest ethical standards and good industry practices in the best interests of all stakeholders.
- Evaluate the adequacy, efficiency and effectiveness of Risk Management measures, Internal Controls and Governance Processes in place to avoid, mitigate or transfer current and evolving risks.
- Monitor all aspects of Internal and External Audit and Inspection programmes of the Bank. Review Internal and External Audit Reports for follow up with the Management on their findings and recommendations.
- Review the Interim Financial
   Statements and Annual Financial
   Statements of the Bank in order to monitor the integrity of such statements prepared for publication prior to submission to the Board of Directors.

#### Activities in 2015

The Committee held 10 meetings during the financial year ended December 31, 2015. The proceedings of these meetings, with adequate details of matters discussed, were regularly reported to the Board of Directors. Representatives of the Bank's External Auditors M/s KPMG, also participated in 3 meetings during the year by invitation.

The Committee also invited members of the Senior Management of the Bank to participate in the meetings from time to time, based on necessity.

The attendance of Committee members is stated in the table 4 appearing on page 33.

### Reporting of Financial Position and Performance

The Committee supports the Board in its oversight on the preparation of Financial Statements, that evidences a true and fair view on financial position and performance. This process is based on the Bank's accounting records and in accordance with the stipulated requirements of the Sri Lanka Accounting Standards.

The prevailing Internal Controls, Systems and Procedures were assessed by the Committee and it expressed the view that adequate controls and procedures were in place to provide reasonable assurance to the effect that the Bank's assets are safeguarded and the financial position of the Bank is well monitored and accurately reported.

#### **Oversight on Regulatory Compliance**

The Committee closely scrutinises compliance with mandatory banking and other statutory requirements and the systems and procedures that are in place to ensure compliance with such requirements. The quarterly reports submitted by the Compliance Officer, are being used by the Committee to monitor compliance with all such legal and statutory requirements. The Bank's Inspection Function has been mandated to conduct independent test checks, covering all regulatory compliance requirements, as a further monitoring measure.

### Identification of Risks and Control Measures

In view of the fact that the Bank has adopted a risk based audit approach, the effectiveness of the internal control procedures in place, to identify and manage all significant risks, are being reviewed by the Committee. A Risk Grading Matrix has been adopted for assessing and measuring the risks identified during inspections. The Committee seeks and obtains required assurances from Business Units, on the remedial actions in respect of the identified risks, in order to maintain the effectiveness of internal control procedures.

#### **Internal Audit and Inspection**

The Committee ensures that the Internal Audit function is independent of the activities it audited and that it was performed with impartiality, proficiency and due professional care.

The Bank's Inspection Function, carries out online and onsite inspections of business units, including subsidiaries and Bangladesh operations. With the concurrence of the Board, the Bank continues to engage the services of 5 firms of Chartered Accountants, approved by the Central Bank of Sri Lanka, in order to supplement, the Bank's Inspection Function in carrying out inspection assignments.

The Committee approves the Programme of Inspection, formulated by Inspection Department and reviews its implementation regularly. Five hundred and sixty (560) inspection reports on Business Units and Departments received the attention of the Committee and the operational deficiencies, risks highlighted and the recommendations were given due attention.

Major findings of internal investigations with recommendations of the Management, were considered and appropriate instructions issued. The Committee also invited representatives from the Audit Firms assisting in inspections, to make presentations on their observations and findings.

Members of the Committee visited some of the branches to get a better understanding of their operations.

#### **External Audit**

With regard to the External Audit function of the Bank, the role played by the Committee is as follows:

- Assisting the Board of Directors in engaging External Auditors for audit services, in compliance with the provisions of the Direction and agree on their remuneration with the approval of the Shareholders.
- Monitoring and evaluating the independence and objectivity of the External Auditor.
- Reviewing non-audit services provided by the Auditors, with a view to ensuring that such functions do not fall within the restricted services and provision of such services will not impair the External Auditors' independence and objectivity.
- Discussing the audit plan, scope and the methodology proposed to be adopted in conducting the audit with the Auditors, prior to commencement of the Annual Audit.
- Discussing all relevant matters arising from the interim and final audits and any matters the Auditor may wish to discuss, including matters that may need to be discussed in the absence of KMP.
- Reviewing the External Auditors' Management Letter and the management's responses thereto.

The Auditors were provided with the opportunity of meeting Non-Executive Directors separately, without any Executive being present, to ensure that the Auditors had the independence to discuss and express their opinions on any matter. It provided the assurance to the Committee, that the Management has fully provided all information and explanations requested by the Auditors.

At the conclusion of the audit, the Committee also met the Auditors to review the Auditors' Management Letter before it is submitted to the Board of Directors and the CBSL.

#### Mechanism of Internal Controls

Sections 3(8)(ii) (b) and (c) of the Banking Act Direction No .11 of 2007, stipulates the requirements to be complied with by the Bank, to ensure reliability of the financial reporting system in place at the Bank. The Committee is assisted by the External Auditor and Inspection Department, to closely monitor the procedures designed to maintain an effective internal control mechanism, to provide reasonable assurance that this requirement is being complied with.

In addition, the Committee regularly monitors all exceptional items charged to the Income Statement, long outstanding items in the Bank's Chart of Accounts, Credit Quality, Risk Management procedures and adherence to classification of non-performing loans and provisioning requirements specified by the CBSL. The Committee also reviews the credit monitoring and follow up procedures and the Internal Control Procedures in place, to ensure that necessary control and mitigating measures are available in respect of newly identified risks.

#### **Ethics and Good Governance**

The Committee continuously emphasized on upholding ethical values of the staff members. In this regard, a Code of Ethics and Whistle-Blowers Charter was put in place and followed for educating and encouraging all members of staff to resort to whistle-blowing, if they suspect wrong doings or other improprieties. The highest standards of Corporate Governance and adherence to the Bank's Code of Ethics were ensured. All appropriate procedures were in place to conduct independent investigations into incidents reported through whistle-blowing or identified through other means. The Whistle-Blowers Charter guarantees the maintenance of strict confidentiality of the identity of the whistle-blowers.

#### Sri Lanka Accounting Standards

The Committee reviewed the revised policy decisions relating to adoption of new and revised Sri Lanka Accounting Standards (SLFRS/LKAS) applicable to the Bank and made recommendation to the Board of Directors.

The committee would continue to monitor the compliance with relevant Accounting Standards and keep the Board of Directors informed at regular intervals.

#### **Evaluation of the Committee**

An independent evaluation of the effectiveness of the Committee, was carried out by the other Members of the Board during the year. Considering the overall conduct of the Committee and its contribution on the overall performance of the Bank, the Committee has been rated as highly effective.

Andrew

S. Swarnajothi
Chairman – Board Audit Committee

Colombo February 24, 2016

### **Board Integrated Risk Management Committee Report**

#### Composition of the Committee

The Board appointed Integrated Risk Management Committee (BIRMC), as at the end of the year, comprised of the following members:

Mr. M.P. Jayawardena\* (Chairman)

Mr. S. Swarnajothi\* (Director)

Mr. K. Dharmasiri\* (Director)

Mr. J. Durairatnam – (Managing Director/CEO)

Mr. S.K.K. Hettihamu (Chief Risk Officer)

\*Independent Non-Executive Director

Please refer pages 28 to 30 for the profiles of the Board members.

Chief Financial Officer functions as the Secretary of the Committee.

#### Charter of the Committee

The BIRMC was established by the Board of Directors, in compliance with the Section 3 (6) of the Direction No. 11 of 2007, on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka', issued by the Monetary Board of the CBSL under powers vested in the Monetary Board, in terms of the Banking Act No. 30 of 1988. The composition and the scope of work of the Committee, conform to the same as set out in the BIRMC Charter, which clearly sets out the membership, source of authority, duties and responsibilities of the BIRMC. as described in the Section on 'Managing Risk at Commercial Bank' on pages 112 to 144.

BIRMC assists the Board of Directors in performing its oversight function, in relation to different types of risks faced by the Bank in its business operations and ensures adequacy and effectiveness of the risk management framework of the Bank. The Committee submits a risk assessment report within a week of each meeting to the Board of Directors. Duties of the BIRMC include determining the

adequacy and effectiveness of such measures and to ensure that the actual overall risk profile of the Bank conforms to the desirable risk profile of the Bank, as defined by the Board.

#### Activities in 2015

BIRMC held 4 Meetings on a quarterly basis, during the year under review and the attendance of Committee Members at meetings is stated in the table 4 on page 33. The Committee assessed all key risks such as Credit, Operational, Market, Liquidity etc., which are tracked on a monthly basis through a set of risk indicators. It worked very closely with the KMP and the Board, in fulfilling its statutory, fiduciary and regulatory responsibilities for Risk Management.

The Charter of the BIRMC was reviewed by the Board of Directors in December 2015.

In order to discharge the above duties and responsibilities, the Committee carried out the following activities:

- Reviewed and revised the Terms
   of Reference of all Management
   Committees dealing with specific risks
   or some aspects of risk, such as the
   Executive Integrated Risk Management
   Committee, the Executive Committee
   on Monitoring NPLs, the Credit Policy
   Committee and the Assets and
   Liabilities Committee.
- Monitored actions initiated by Senior Management, to test the effectiveness of the measures taken by the respective Committees referred to above.
- Reviewed the annual work plans, related strategies, policies and frameworks of the above Committees, to ensure that these Committees have a good understanding of their mandates and adequate mechanisms to identify, measure, avoid, mitigate, transfer or manage risks within the qualitative and quantitative parameters set by the BIRMC.

- Maintained a continuous dialogue with Management Committees, directly or indirectly dealing with specific risks, so that BIRMC is immediately informed of any hindrance, obstacle, discouragement or constraint in the performance of their functions and/or the implementation of their decisions.
- Periodically reviewed and approved the Internal Capital Adequacy Assessment Process (ICAAP) framework and ensured that ICAAP is subject to comprehensive internal audit oversight.
- Reviewed and improved the effectiveness of risk related policy framework of the Bank.
- Considered proposed material changes to the Bank's risk profile or Risk Appetite arising from planned, new or increased business.
- Reviewed risk profiles of subsidiaries of the Bank.
- Took appropriate actions to implement software solutions to support the risk management function of the Bank, in order to migrate into advance approaches in Basel guidelines in the future.
- Reviewed the risk indicators designed to monitor the level of specific risks at any given time, with a view of determining the adequacy of such indicators, to serve the intended risk management objectives and take proactive measures to control risk exposures.
- Reviewed the actual results computed monthly against each risk indicator and take prompt corrective action/s to mitigate the effects of specific risks, in case such risks are exceeding the prudent thresholds defined by the Board of Directors.
- Reviewed and approved the parameters and limits set by the Management, against various categories of risk and ascertain whether they are in accordance with the relevant laws and regulations as well as the desired policy levels stipulated by the Board of Directors.

- Took appropriate actions against the failures of the officers responsible for risk management functionality to improve the overall effectiveness of risk management at the Bank.
- Monitored the effectiveness and the independence of the risk management function within the Bank and ensured that adequate resources were deployed for this purpose.
- Reviewed the effectiveness of the Compliance function, to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies in all areas of business operations.
- Reviewed the updated Business continuity and Disaster Recovery Plan annually.

During the year 2015, the BIRMC supported execution of the overall business strategy, within a set of prudent risk parameters that were reinforced by an effective risk management framework.

M.P. Jayawardena Chairman – Board Integrated Risk

Colombo February 24, 2016

Management Committee

#### **Board Nomination Committee Report**

#### Composition of the Committee

The Board Nomination Committee (BNC), as at the end of the year, comprised of the following Independent Non-Executive Directors of the Bank:

Mr. K.G.D.D. Dheerasinghe *(Chairman)* Mr. M.P. Jayawardena Mr. S. Swarnajothi

Mr. J. Durairatnam, Managing Director/ CEO, attended meetings of the Committee by invitation. The Company Secretary of the Bank, functions as the Secretary of the Committee.

Brief profiles of the members of the Committee are given on pages 28 to 30.

#### Terms of Reference of the Committee

The Terms of Reference clearly states the purpose of establishing the Committee, its composition, authority and conduct and scheduling of meetings. The BNC was established by the Board in compliance, with sub direction 3(6)(iv) of Banking Act Direction No. 11 of 2007 (subsequently amended), on Corporate Governance for Licensed Commercial Banks in Sri Lanka, issued by the Monetary Board of the CBSL under Section 46(1) of the Banking Act No. 30 of 1988, as amended, to ensure Board's oversight and control over 'Selection of Directors, CEO and KMP'. It also states that matters relating to KMPs may be dealt with by the BHRRC.

#### (a) Composition of Committee

- The Committee shall be chaired by an Independent Director who has adequate experience in the relevant subject and be constituted with a majority of Independent Directors from the Board to ensure that the responsibilities of the Committee are discharged effectively.
- Managing Director/CEO may be present at meetings by invitation.

#### (b) Authority of Committee

- The Committee has the authority to discuss issues under its purview and report back to the Board with recommendations, enabling the Board to take a final decision on the matter.
- If a need arises, professionals from outside may be invited for advice on specific issues.
- Bank staff may be present at Committee meetings for advice or special assignments, by invitation.

#### (c) Meetings of Committee

- There shall be a quorum of two third of the members of the Committee to hold a meeting.
- The Committee shall meet as and when a need arises.

#### Charter of the Committee

The mandate of the Committee includes *inter-alia* the following:

- To implement a procedure to select/ appoint new Directors, CEO and KMP.
- To consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by them towards the overall discharge of the Board's responsibilities.
- To 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 key management positions.
- To ensure that Directors, CEO and KMP are fit and proper persons, to hold office as per the criteria set out in the Direction issued by the CBSL and relevant statutes.
- To consider and recommend from time to time, the requirements of additional/ new expertise and the succession arrangements for retiring Directors and KMP.
- To make recommendations on any other matter/s referred to it by the Board of Directors.

#### **Activities in 2015**

3 Committee meetings were held during the year under review. Attendance of the Committee members at the meetings is given on page 33 (Table 4) Proceedings of the Committee meetings are regularly reported to the Board of Directors.

During the year, the Committee selected and recommended to the Board, few candidates considering their skills and diverse experience, to fill casual vacancies on the Board.

The Committee also recommended the re-election of Directors, taking into account the performance and contribution made by them towards the overall discharge of the Board's responsibilities.

The Committee continued to work closely with the Board of Directors, on matters assigned to the Committee and reported back to the Board of Directors with its recommendations.



K.G.D.D. Dheerasinghe
Chairman – Board Nomination Committee

Colombo February 24, 2016

### Board Human Resources and Remuneration Committee Report

#### **Composition of the Committee**

The Board appointed Human Resources and Remuneration Committee comprises 3 Non-Executive Directors. The Managing Director of the Bank is present by invitation.

Mr. K.G.D.D. Dheerasinghe (Chairman)

Prof. U.P. Liyanage

(Director) - until April 28, 2015

Mr. M.P. Jayawardena (Director)

Mr. S. Swarnajothi

(Director) - Since April 29, 2015

Mr. J. Durairatnam

(Managing Director/CEO) – By invitation

Brief profiles of each member are given on pages 28 to 30.

The Managing Director who is responsible for the overall management of the Bank, provides information to the Committee and participates in all deliberations, except in relation to those matters where the outcome had an impact on him.

Deputy General Manager – Human Resource Management functions as the Secretary of the Committee.

#### Charter of the Committee

The Committee is vested with power to evaluate, assess, decide and recommend to the Board of Directors, on any matter that may affect the Human Resource Management of the Bank and shall specifically include –

- Determining the compensation of the Chairman, Deputy Chairman, Managing Director and other members of the Board of Directors of the Bank, while ensuring that no Director is involved in setting his or her own remuneration.
- Determining the compensation and benefits of the KMP and establishing performance parameters in setting their individual goals and targets.

- Formulate guidelines, policies and parameters for the compensation structures for all Executive staff of the Bank and oversee the implementation thereof.
- Review information related to executive pay from time to time, to ensure same is in par with the market/industry rates or as per the strategy of the Bank.
- Evaluate the performance of the Managing Director and KMP against the pre-agreed targets and goals.
- Make recommendations to the Board of Directors from time to time, of the additional/new expertise required by the Bank.
- Assess and recommend to the Board of Directors, of the promotions of KMP, address succession planning and issues connected to the Organisational Structure.
- Evaluate, assess and make recommendations and provide directions pertaining to the Board of Trustees and the management of the Private Provident Fund of the Bank.
- Make recommendations/decisions/ directions pertaining to the statutory payments made by the Bank on behalf of its employees (EPF, ETF, Terminal Benefits, etc.), ensuring the effective fulfilment of all commitments arising as a result of the employer-employee relationship.
- Recommend/decide/give directions on disciplinary matters resulting in a significant financial loss to the Bank caused by KMP of the Bank.
- Formulating formal and transparent procedures for developing policy on remuneration for Executives and Directors.
- Approving annual increments, bonuses, changes in perquisites and incentives.

#### **Guiding Principles**

The Overall focus of the Committee:

- Setting guidelines and policies t
   o formulate compensation packages,
   which are attractive, motivating and
   capable of retaining qualified and
   experienced employees in the Bank.
   In this regard, the Committee sets
   the criteria such as qualifications,
   experience and the skills and
   competencies required, to be
   considered for appointment
   or promotion to the post of
   Managing Director and to Key
   Management positions.
- Setting guidelines and policies to ensure that the Bank upholds and adheres to the provisions of the Laws of the Land, particularly those provisions of the Banking Act No. 30 of 1988, including the Directions issued by the Monetary Board/Director of Bank Supervision in accordance with the provisions of such Act.
- Providing guidance and policy direction for relevant matters connected to general areas of Human Resource Management of the Bank.
- Ensuring that the performance related element of remuneration is designed and tailored to align employee interests with those of the Bank and its main stakeholders and supporting sustainable growth.
- Structuring remuneration packages to ensure that a significant portion of the remuneration is linked to performance, to promote a pay for performance culture.
- Promoting a culture of regular performance reviews, to enable staff to obtain feedback from their superiors, in furtherance of achieving their objectives and development goals.
- Developing a robust pipeline of raising talent capable and available to fill key positions in the Bank.

#### Methodology used by the Committee

The Committee recognised rewards as one of the key drivers influencing employee behaviour, thereby impacting business results. Therefore, the reward programmes are designed to attract and retain and to motivate employees to perform by linking performance to demonstrable performance based criteria. In this regard, the Committee evaluates the performance of the Managing Director and KMP against the pre-agreed targets and goals that balance short term and long term financial and strategic objectives.

The Bank's variable (bonus) pay plan is determined according to the overall achievements of the pre-agreed targets of the Bank and individuals, which are based on various performance parameters. The level of variable pay is set to ensure that individual rewards reflect the performance of the Bank overall, the particular business unit and individual performance. The Committee makes appropriate adjustments to the bonus pool in the event of over or under achievement against pre determined targets. In this regard, the Committee can seek external independent professional advice on matters falling within its purview.

Further, the Committee may seek external agencies to carry out salary surveys to determine the salaries paid to staff vis-à-vis the market position, enabling the Committee to make informed decisions regarding the salaries in the Bank.

#### Activities in 2015

The Committee held 5 meetings during the year under review, as stated in the table 4 on page 33. The Chairman of the Committee can convene a special meeting in the event a requirement arises, provided all members are given sufficient notice of such special meeting. The quorum for a meeting is 2 members. Members of the Corporate Management were invited to participate

at the sittings of the Committee meetings, as and when required by the Chairman, considering the topics for deliberation at such meetings. The proceedings of the Committee meetings were regularly reported to the Board of Directors.

During the year, the Committee interviewed - based on the succession plan, suitable candidates to fill the vacancies in the Corporate Management and such recommendations were accordingly approved by the Board of Directors and appointments were effected. The recent changes in the Key Management Positions and the ability of the Bank to ensure a smooth transition in each of these cases, signify the importance of and the attention paid to the talent management process of the Bank. In all promotions to the Corporate Management grade, the Committee applied leadership competencies to judge the suitability of the candidates.

During the year, the Committee reviewed and recommended for the approval of the Board, Employee Share Ownership Plan (ESOP). This plan will help to align the interest of all Executive staff of the Bank, with the interest of the shareholders. Top 20% of the Bank's employees will benefit under this scheme, which will help to retain the key talent with the Bank.

The Committee reviewed and approved the proposed changes to the organisational structure and reporting lines, which will facilitate current business initiatives.

During the year, the Committee reviewed and approved Compensation & Benefits and Reward Policy of the Bank, which will cover all aspects in the above-mentioned areas for the employees of the Bank.

The Committee also designed a Self Assessment system to evaluate the performance of the Committee.

During the year, The Committee reviewed the Outsourcing Policy of the Bank and ensured the inclusion of changes suggested by the CBSL. The Committee reviewed and recommended for the approval of the Board, all salary revisions of the Executive carder of the Bank, which was necessary in view of the Collective Agreement signed with the Ceylon Bank Employees' Union at the end of 2014, covering a period of 3 years, for Non-Executive grades.

The Committee also reviewed and approved the revision of pensions for the retired staff members of the Bank, who are entitled to pensions under the system which prevailed before year 2000.

The Committee reviewed and approved the Terms of Reference of the Human Resource Steering Committee of the Management.

The Committee reviewed and gave their advice and suggestions to the management about the succession plan of the Bank.



K.G.D.D. Dheerasinghe
Chairman – Board Human Resources and
Remuneration Committee

Colombo February 24, 2016

#### **Board Credit Committee Report**

#### Composition of the Committee

Board Credit Committee (BCC) consists of the following Members:

Mr. K.G.D.D. Dheerasinghe *(Chairman)*Prof. A.K.W. Jayawardane *(appointed w.e.f. April 29, 2015)*Mr. J. Durairatnam
Mr. S. Renganathan

The Assistant Company Secretary of the Bank, functions as the Secretary of the Committee.

A brief profile of each member of the Committee is given on pages 28 to 30.

#### Charter of the Committee

The BCC assists the Board of Directors in effectively fulfilling its responsibilities relating to the Credit Direction, Credit Policy and Lending Guidelines of the Bank, in order to inculcate healthy lending standards and practices and ensure relevant regulations are complied with.

The Committee is empowered to:

- Review and consider changes proposed from time to time, to the Credit Policy and the Lending Guidelines of the Bank.
- Analyse and review the credit risk control measures in lending areas, pricing of lending proposals and also ensure that credit proposals are within relevant regulatory frameworks.
- Evaluate, assess and make recommendations on credit propositions submitted to the Board of Directors.
- Evaluate and recommend sector exposures and cross-border exposures.
- Monitor and evaluate special reports called for by the Board of Directors.
- Set lending directions based on the current economic climate.

#### Activities in 2015

12 BCC meetings were held during the year under review. Attendance of the Committee members at meetings of BCC is given on page 33 (Table 4). Proceedings of the Committee meetings were regularly reported to the Board of Directors. The Committee approved credit proposals above a predetermined limit, scrutinised and/or recommended Credit proposals and other Credit reports intended for approval/perusal by the Board of Directors. These tasks were carried out by the Committee in-line with the Bank's lending policies and credit risk appetite, to ensure that the lending portfolios were managed as per the stipulated credit risk parameters.



K.G.D.D. Dheerasinghe
Chairman – Board Credit Committee

Colombo February 24, 2016

#### **Board Technology Committee Report**

#### Composition of the Committee

The Committee, as at the end of the year, comprised of the following members:

Prof. A.K.W. Jayawardane (Chairman)

Mr. J. Durairatnam (Managing Director/CEO)

Mr. S. Renganathan
(Executive Director/
Chief Operating Officer)

Mr. L.H. Munasinghe
(Deputy General Manager – Marketing)

Mr. Krishan Gamage (Assistant General Manager – Information Technology)

Mr. D.B. Saparamadu (Consultant)

Please refer pages 28 to 30 for profiles of the Board Members.

Assistant General Manager - Information Technology functions as the Secretary of the Committee.

#### Charter of the Committee

The Committee was established by the Board of Directors, in recognition of the degree of reliance of the Bank on technology and the growing demands of IT Governance.

The Committee has been empowered to:

- Set the overall technology strategy and track progress of the objectives to meet this strategy.
- Review significant technology procurements, prior to them being sent to the Board of Directors for approval.
- Analyse emerging technology and its potential use.

There were 3 committee meetings during the year, with attendance of members listed on page 33 (Table 4). Periodic updates are given to the Board of Directors on the progress of BTC objectives.

#### **Activities in 2015**

The Committee reviewed progress of strategic objectives. The Committee also reviewed significant items for procurement and recommends them for approval by the Board of Directors.

Prof. A.K.W. Jayawardane
Chairman – Board Technology Committee

Colombo February 24, 2016

#### **Board Investment Committee Report**

#### Composition of the Committee

The Committee as at the end of the year comprised of the following members.

Mr. K.G.D.D. Dheerasinghe (Chairman)

Mr. J. Durairatnam (Managing Director/CEO)

Mr. S. Renganathan (Executive Director/COO)

Mr. H.J. Wilson (Director)

Mr. K. Dharmasiri (Director)

Mr. K.D.N. Buddhipala (Chief Financial officer)

Mr. K.A.P. Perera (Head of Global Markets)

Mr. A.N.P. Sooriyarachchi (Assistant General Manager – Corporate and Investment Banking)

Mr. A. Wijesiriwardane (Head of Global Treasury)

Mr. S.K.K. Hettihamu (Chief Risk Officer)

Please refer pages 28 to 30 for profiles of the Board Members.

Head of Global Treasury functions as the Secretary of the Committee.

#### Charter of the Committee

The Committee is responsible for the investment related decisions of the Bank. Hence, the Committee will oversee investment activities by providing assistance and guidance, evaluate strategic relevance and financial viability of various investment proposals, monitoring the Bank's various investment activities, in accordance with the various investment policies of the Bank.

Within this framework, the Committee performs following duties:

- Approve investment proposals, borrowings and related execution of agreements.
- Review existing investment portfolio performance, monitor adherence to investment policies and decisions of the Investment Committee.

- Review and recommend significant investment decisions, to be undertaken by the Bank to the Board of Directors.
- Review, introduce and approve investment policies and operational parameters relating to investments of the Bank.

The Committee meets once a month on a regular basis and may also schedule additional meetings if required. Refer page 33 (Table 4).

### Methodology Adopted by the Committee

The Committee meets monthly and reviews progress of strategic and significant investments, liquidity situation of the Bank and the country's economic outlook. The Committee also reviews the monthly performance of Treasury and Investment Banking Division, where the interest rate risk, repricing risk and other market risks are discussed.

#### **Activities in 2015**

The Committee also from time to time, issued instructions to Executive Officers of the Bank on investment related activities.



K.G.D.D. Dheerasinghe

Chairman - Board Investment Committee

Colombo February 24, 2016

### **Board Related Party Transactions Review Committee Report**

#### **Composition of the Committee**

The Board appointed Related Party Transactions Review Committee (BRPTRC), with a combination of Executive and Independent Non-Executive Directors, as stipulated by the Code of Best Practices on Related Party Transactions, issued by the Colombo Stock Exchange (CSE).

The BRPTRC as at the end of the year was comprised of the following members:

Mr. K.G.D.D. Dheerasinghe (Chairman)

Mr. S Swarnajothi (Director)

Mr. J Durairatnam (Managing Director/CEO)

Mr. S Renganathan (Executive Director/COO)

Mr. K.G.D.D. Dheerasinghe, the Chairman of the Bank and Mr. S. Swarnajothi, the Chairman of the BAC, are independent Non-Executive Directors.

Mr. L.W.P. Indrajith, the Assistant General Manager - Finance of the Bank, functions as the Secretary of the Committee.

Brief profiles of each member of the Committee are given on pages 28 to 30.

#### **Terms of Reference of the Committee**

The BRPTRC was formed by the Board at the end of 2014, to assist the Board in reviewing all Related Party Transactions (RPT) carried out by the Bank and its listed companies in the Group, by early adopting the Code of Best Practice on Related Party Transactions, as issued by the CSE, which is mandatory from January 01, 2016.

The mandate of the Committee includes *inter-alia* the following:

 Developing and recommending for adoption by the Board of Directors of the Bank and its listed subsidiaries, a RPT Policy consistent with that proposed by the CSE.

- Updating the Board of Directors on the RPT of each of the listed companies of the Group.
- Making immediate market disclosures on applicable RPT, as required by Section 9 of the Continuing Listing Requirements of the CSE.
- Making appropriate disclosures on RPT in the Annual Report, as required by Section 9 of the Continuing Listing Requirements of the CSE.

The Committee will schedule quarterly meetings to review and report to the Board, on matters involving RPT falling under its Terms of Reference.

#### **Activities in 2015**

A Committee meeting was held during the year, to review and to recommend the RPT Policy to the Board. The attendance of the Committee members at the meeting is given on page 33 (Table 4). Proceedings of the Committee meetings were regularly reported to the Board of Directors. In addition, the Board of Directors were updated on the RPT of each of the listed companies of the Group, on a quarterly basis.

During 2015, a comprehensive RPT Policy was developed and disseminated among relevant stakeholders, after obtaining the approval of the Board of Directors.

The following types of related party transactions are brought to the attention of the Board for approval:

- Requests for any credit facility or any other form of accommodations for Directors or their Close Family Members, as recommended by the BRPTRC.
- Requests for any credit facility or any other form of accommodations for entities, in which a Director of the Bank, holding more than 10% of its paid up capital, as recommended by the BRPTRC.

Any member of the Committee, who has an interest in a RPT under discussion, shall abstain from voting on the approval of such transaction, but may, if so requested by the Chairman of the Committee, participates in some or all Committee's discussions on such transactions. Upon completion of its review of the transaction, the Committee may determine to permit or to prohibit the RPT.

A RPT entered into without pre-approval of the Committee, shall not be deemed to violate this Policy, or be invalid or unenforceable, so long as the transaction is brought to the Committee as promptly as reasonably practical, after it is entered into or after it becomes reasonably apparent that the transaction is covered by this Policy. As such, all RPT, other than the exempted transactions, will be reviewed either prior to the transaction being entered into or if the transaction is expressed to be conditional on such review, prior to the completion of the transaction.



K.G.D.D. Dheerasinghe Chairman – Related Party Transactions Review Committee

Colombo February 24, 2016

#### → Governance – Annual Report of the Board of Directors

Annual Report of the Board of Directors on the Affairs of the Company and Statement of Compliance of the Contents of the Annual Report as Required by Section 168 of the Companies Act No. 07 of 2007

#### 1. General

The Directors have pleasure in presenting to the shareholders the 47th Annual Report of your Company together with the Audited Financial Statements of the Group and the Bank for the year ended December 31, 2015 and the Auditors' Report on those Financial Statements conforming to all relevant statutory requirements. This Report provides the information as required by the Companies Act No. 07 of 2007, Banking Act No. 30 of 1988 and amendments thereto and the Directions issued

thereunder including the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' and subsequent amendments thereto, the Listing Rules of the Colombo Stock Exchange (the CSE) and the recommended best practices.

This Report was approved by the Board of Directors on February 24, 2016. The appropriate number of copies of the Annual Report will be submitted to the CSE and to the Sri Lanka Accounting and Auditing Standards Monitoring Board within the statutory deadlines.

Commercial Bank of Ceylon PLC (the Bank) is a Licensed Commercial Bank registered under the Banking Act No. 30 of 1988 and was incorporated as a public limited liability Company in Sri Lanka on June 25, 1969 under

the Companies Ordinance No. 51 of 1938 and was re-registered as per the requirements of the Companies Act No. 07 of 2007 on January 23, 2008, under the Registration No. PQ 116. The registered office of the Bank is at No. 21, 'Commercial House', Sir Razik Fareed Mawatha, Colombo 01, Sri Lanka where the Bank's Head Office too is situated.

The ordinary shares (both voting and non-voting) of the Bank are quoted on the Main Board of the CSE since March 1970. The unsecured subordinated redeemable debentures issued by the Bank are also listed on the Colombo Stock Exchange. Fitch Ratings Lanka Ltd. has re-affirmed the Bank's National long term rating at 'AA(lka)' with a stable outlook and subordinated debentures at 'AA-(lka)' in 2015.

As required by the Section 168 of the Companies Act No. 07 of 2007, the following information is disclosed in this Report prepared for the year ended December 31, 2015:

	mation Required to be Disclosed as per the Companies lo. 07 of 2007	Reference to the Companies Act	Annual Report page Reference for Compliance
(i)	The nature of the business of the Group and the Bank together with any change thereof during the accounting period	Section 168 (1) (a)	Refer Section 1.3 on 'Principal Business Activities, Nature of Operations and Ownership by the Bank in its Subsidiaries and Associates' on page 249.
(ii)	Signed Financial Statements of the Group and the Bank for the accounting period completed	Section 168 (1) (b)	The Financial Statements of the Group and the Bank for the year ended December 31, 2015 which were duly certified by the Assistant General Manager – Finance and were approved by three members of the Board and the Company Secretary as appearing on pages 241 to 404 form an integral part of this Report.
(iii)	Auditors' Report on the Financial Statements of the Group and the Bank	Section 168 (1) (c)	Refer page 237 for the "Independent Auditors' Report"

	nation Required to be Disclosed as per the Companies o. 07 of 2007	Reference to the Companies Act	Annual Report page Reference for Compliance
(iv)	Accounting Policies of the Group and the Bank and any changes therein	Section 168 (1) (d)	Significant Accounting Policies adopted in the preparation of the Financial Statements of the Group and the Bank are given on pages 249 to 269.  There were no changes to the Accounting Policies used by the Group and the Bank during the year.
(v)	Particulars of the entries made in the Interests Registers of the Bank and its Subsidiaries during	Section 168 (1) (e)	The Bank and all its Subsidiaries maintain Interests Registers.
	the accounting period		All Directors have made declarations as required by the Sections 192 (1) and (2) of the Companies Act aforesaid and all related entries were made in the Interests Registers during the year under review.
			The Interests Registers are available for inspection by shareholders or their authorised representatives as required by the Section 119 (1) (d) of the Companies Act No. 07 of 2007.
(vi)	Remuneration and other benefits paid to Directors of the Bank and its Subsidiaries	Section 168 (1) (f)	Refer Note 20 to the Financial Statements on pages 279 and 280.
	during the accounting period		Refer BHRRC Report on pages 70 to 72.
(vii)	Total amount of donations made by the Bank and its Subsidiaries during the accounting period	Section 168 (1) (g)	Refer Note 20 to the Financial Statements on pages 279 and 280.
(viii)	Information on Directorate of the Bank and its Subsidiaries during and at the end of the accounting period	Section 168 (1) (h)	Refer Items 11.1 to 11.3 on pages 81 and 82.
(ix)	Separate disclosure on amounts payable to the Auditors as Audit Fees and Fees for other services rendered during the accounting period by the Bank and its Subsidiaries	Section 168 (1) (i)	Refer Note 20 to the Financial Statements on pages 279 and 280.
(x)	Auditors' relationship or any interest with the Bank and its Subsidiaries	Section 168 (1) (j)	Auditors do not have any other relationship or interest in contracts with the Bank, or any of its Subsidiaries or Associates other than being the Auditors for the Bank, Subsidiaries and Associates.
			Refer Item 21 on page 84.
(xi)	Acknowledgement of the contents of this Report/Signatures on behalf of the Board	Section 168 (1) (k)	Refer Item 30 on page 85.

#### 2. Review of Business

### 2.1 Vision, Mission and Corporate Conduct

The Bank's Vision and Mission Statements are exhibited on page 5 of the Annual Report.

The business activities of the Group and the Bank are conducted maintaining the highest level of ethical standards in achieving its Vision and Mission, which reflects our commitment to high standards of business conduct and ethics.

The Bank issues a copy of its Code of Ethics to each and every staff member and all employees are required to abide by the Bank's Code of Conduct.

# 2.2 Review of Operations of the Group and the Bank

The Bank has established delivery points across all districts of the country. During the year, 7 new delivery points were added (4 in 2014), bringing the total number of delivery points in Sri Lanka to 246 at the end of 2015 (239 at the end of 2014).

The Bank's ATM network is the single largest ATM network in the country. During 2015, the Bank installed 15 new ATMs (21 in 2014) bringing the total number of ATMs in Sri Lanka to 621 by the end of 2015 (606 at the end of 2014). The Bank also has 18 delivery points and 19 ATMs at the end of 2015 (18 and 19 in 2014) in Bangladesh.

During the year, the Bank received a license from Maldives Monetary Authority and the approval from the Central Bank of Sri Lanka (the CBSL) to setup a fully-fledged Tier I Bank in Maldives. Proposed Bank will be named as Commercial Bank of Maldives and the Bank will invest in a 55% stake in the entity subject to Exchange Control and other regulatory approvals. A leading Maldivian group of companies will own the remaining stake of 45%.

The "Chairman's Message" on pages 13 to 16 the "Managing Director's Review" on pages 17 to 20, and the 'Focus on Value Creation' on pages 145 to 234, together with the Audited Financial Statements provide an overall review of business performance and the state of affairs of the Group and the Bank together with important events that took place during the year as required by the Section 168 of the Companies Act No. 07 of 2007 and the recommended best accounting practices.

Segment wise contribution to Group revenue, results, assets and liabilities is disclosed in Note 61 to the Financial Statements on pages 364 to 366.

## 2.3 Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Group and the Bank, which reflect a true and fair view of the financial position and performance of the Group and the Bank. The Directors are of the view that the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, Significant Accounting Policies and Notes thereto appearing on pages 241 to 404 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards (SLFRSs and LKASs) as mandated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Companies Act No. 07 of 2007. Further, these Financial Statements also comply with the requirements of the Banking Act No. 30 of 1988 and amendments thereto and the Listing Rules of the Colombo Stock Exchange. The "Statement of Directors' Responsibility" appearing on pages 86 and 87 forms an integral part of this Report.

#### 3. Future Developments

The Bank having realised both financial and non-financial benefits of Online and Mobile banking facilities, it will continue to capitalise the potential in this area enabling customers' easy access to most banking services 24/7.

In addition, the Bank intends expanding its network of delivery channels both in Sri Lanka and in overseas by employing client-focused strategy with effective management of capital, liquidity and risks. The Bank will continue to develop its customer-centric model for doing business with the objective of delighting its customers. Please refer Sections on "Chairman's Message", "Managing Director's Review" on pages 13 to 16 and pages 17 to 20 'Focus on Value Creation' on pages 145 to 234 for initiatives taken in this regard.

#### 4. Gross Income

The gross income of the Group for 2015 was Rs. 78.319 Bn. (Rs. 72.848 Bn. in 2014) while the Bank's gross income was Rs. 77.963 Bn. (Rs. 72.752 Bn. in 2014).

The sources of external operating income, net operating profit and asset allocation of the Group among different business segments together with their proportions are given in Note 61 to the Financial Statements on pages 364 to 366.

#### 5. Results and Appropriations

### 5.1 Performance of the Group and the Bank and Transfers to Reserves

The net profit before tax of the Group and the Bank amounted to Rs. 17.136 Bn. and Rs. 17.144 Bn., respectively in 2015 (Rs. 15.860 Bn. and Rs. 15.736 Bn. in 2014) and this was an increase of 8.05% and 8.94% (7.96% and 8.45% in 2014). Further, the net profit after tax of the Group and the Bank amounted to Rs. 11.859 Bn. and Rs. 11.903 Bn., respectively in 2015 (Rs. 11.243 Bn., and Rs. 11.180 Bn. in 2014) and this was an increase of 5.48% and 6.47% (6.33% and 7.03% in 2014).

Details of appropriation of Profit of the Bank are given below:

	2015	2014
	Rs. '000	Rs. '000
Profit for the year after payment of all expenses of management, provision for depreciation,		
impairment on loans and advances, VAT on Financial Services and contingencies	17,143,609	15,736,215
Less: Provision for taxation	(5,240,386)	(4,556,036)
Net profit after taxation	11,903,223	11,180,179
Balance brought forward from previous year	7,459	5,053
Net Actuarial losses on Defined Benefit Plans	(150,048)	_
Super Gains Tax paid on Profit after tax of 2013	(2,576,355)	_
Profit available for appropriation	9,184,280	11,185,232
Transfer to the Statutory Reserve Fund  Transfer to the Investment Fund Account	(595,161)	(559,009)
Transfer to the Investment Fund Account		(388,446)
Transfer to General Reserve	(2,885,000)	(4,600,000)
Dividends on Ordinary Shares  1st Interim Dividend paid – Rs. 1.50 per share in cash (Rs. 1.50 in 2014)	(1,315,251)	(1,298,154)
1st Interim Dividend paid – Rs. 1.50 per share in cash (Rs. 1.50 in 2014)	(1,315,251)	(1,298,154)
1st Interim Dividend paid – Rs. 1.50 per share in cash (Rs. 1.50 in 2014) 2nd Interim Dividend paid – Rs. 1.00 per share in cash (Paid in February 2015)	(1,315,251) - (2,630,600)	
•		(865,943)

On this basis, the cash dividend payout ratio amounts to 33.15% of the profit after tax of 2015, compared to 34.86% for 2014, while total dividend payout ratio amounts to 47.88% for 2015 compared to 50.36% for 2014. This is well above the minimum dividend payout ratio of 10%, (10% in 2014) stipulated in the Deemed Dividend Tax Rule.

#### 5.2 Dividends on Ordinary Shares

Details of Information on dividends are given in Note 23 to the Financial Statements on page 284. The interim dividends of Rs. 1.50 per share was paid out of the profits of the Bank, hence, were subjected to a 10% withholding tax.

The Directors recommend to pay a final dividend of Rs. 5/- per share of which Rs. 3/- is to be paid in cash which will be paid partly out of dividends received and partly out of exempt/taxable profits of the Bank. The dividends paid out of taxable profits of the Bank will be subject to a 10% withholding tax. The balance dividend of Rs. 2/- per share is proposed to be satisfied by issue and allotment of new shares, subject to a 10% withholding tax.

The Board of Directors provided the Statement of Solvency to the Auditors and obtained Certificates of Solvency from the Auditors in respect of each dividend payment in terms of Section 56 (2) of the Companies Act No. 07 of 2007.

The Board of Directors also fulfilled the requirement of the Solvency Test in terms of Section 56 (3) of the Companies Act No. 07 of 2007 immediately after the payment of interim dividends and will ensure the compliance of Solvency Test after the payment of aforesaid final dividend proposed to be paid in April 2016.

#### 5.3 Reserves

A summary of the Group's reserves is given below:

	2015	2014
	Rs. '000	Rs. '000
Statutory Reserve Fund	4,922,265	4,327,103
Revaluation Reserve	5,722,859	6,246,960
General Reserve	35,359,475	32,474,478
Foreign Currency Translation Reserve	424,768	(454,188)
Available-for-Sale Reserve	(3,955,368)	2,711,085
Employee Share Option Reserve	223,330	-
Retained Earnings	4,388,867	4,442,884
Total	47,086,196	49,748,322

Information on the movement of reserves is given in the Statement of Changes in Equity on pages 246 and 247 and in Notes 53 to 55 to the Financial Statements on pages 353 to 357.

# 6. Property, Plant & Equipment, Intangible Assets and Leasehold Property

Information on Property, Plant & Equipment, Intangible Assets and Leasehold Property of the Group and the Bank are given in Notes 37, 38 and 39 to the Financial Statements on pages 320 to 335 respectively.

Investment properties of any Group Companies when significantly occupied by the other Companies in the Group are classified under Property, Plant & Equipment in the Consolidated Financial Statements in accordance with the Sri Lanka Accounting Standard – LKAS 40 on 'Investment Property'.

Specific information on extent, location, valuations of the land and buildings held by the Bank are given in Notes 37.5 (a) and (b) to the Financial Statements on pages 325 to 330.

The details of capital expenditure approved and contracted for are given in Note 57.3 to the Financial Statements on page 360.

#### 7. Market Value of Properties

The Bank carried out a revaluation of all its freehold land and buildings as at December 31, 2014 as required by Section 7.1 (b) of the Central Bank Direction No. 1 of 2014 on 'Valuation of Immovable Property of Licensed Commercial Banks' and recognised the surplus on revaluation in the Financial Statements.

The revaluation process for the land and buildings of the Bank was carried out by professionally qualified independent valuers as per the aforesaid Direction and the Board of Directors of the Bank are of the opinion that the revalued amounts are not in excess of the current market values of such properties.

Details of market value (revalued amounts) of freehold properties of the Bank are given in Note 37.5 (a) to the Financial Statements on page 325.

The next revaluation exercise on the freehold land and buildings of the Bank will be carried out as at December 31, 2017.

#### 8. Issue of Shares and Debentures

#### 8.1 Issue of Shares and Debentures by the Bank

Details of the shares issued by the Bank are given in the table below:

	2015		15	2014		
Reason for the Issue	Details of the Share Issue	Voting Ordinary Shares	Non-Voting Ordinary Shares	Voting Ordinary Shares	Non-Voting Ordinary Shares	
Part of final dividend amounting to Rs. 2/- per share (Rs. 2/- per share in 2014) satisfied in the form of	Number of Shares issued	8,118,773	719,740	12,504,344	1,036,724	
issue and allotment of new shares	Consideration (Rs. '000)	1,459,666	100,134	1,431,747	98,178	
Exercise of options by employees under the Employee	Number of Shares issued					
Share Option Plans		2,170,613	N/A	3,237,566	N/A	
	Consideration Received (Rs. '000)	237,304	N/A	340,763	N/A	

The Bank did not issue any debentures during the year 2015 or in 2014.

### 8.2 Issue of Shares and Debentures by the Subsidiaries and Associates

The Subsidiaries and Associates of the Bank did not make any share or debenture issues during the year.

#### 8.3 Stated Capital and Debentures

The details of the Stated Capital are given in Note 51 to the Financial Statements on pages 350 to 352 and the details of debentures including the redemptions during the year are given in Note 50 to the Financial Statements on pages 349 and 350.

#### 9. Share Information

# 9.1 Distribution Schedule of Shareholdings

Information on the distribution of shareholding and the respective percentages are given in the Section on 'Investor Relations Supplement' on pages 98 to 111.

#### 9.2 Information on Earnings, Dividend, Net Assets and Market Value

Information relating to earnings, dividend, net assets and market value per share is given in 'Financial Highlights' on page 6 Information on the trading of the shares and movement in the number of shares represented by the Stated Capital of the Bank is given in the Section on 'Investor Relations Supplement' on page 103, 106 and 107.

#### 9.3 Substantial Shareholdings

Names of the top twenty shareholders for both voting and non-voting ordinary shares, percentages of their respective holdings and percentage holding of the public, etc. are given in the Section on 'Investor Relations Supplement' on pages 104 and 105.

#### 10. Equitable Treatment to Shareholders

The Company has at all times ensured that all shareholders are treated equitably.

#### 11. Information on the Directors of the Group and the Bank

#### 11.1 Information on Directors as at December 31, 2015

The Board of Directors of the Bank as at December 31, 2015 consisted of Eight Directors (nine Directors as at December 31, 2014) with wide financial and commercial knowledge and experience as detailed in the 'Board of Directors Profiles' on pages 28 to 30.

Names of the Directors of the Bank during and as at the end of 2015, as required by the Section 168 (1) (h) of the Companies Act No. 07 of 2007, are given below:

Name of the Director	Executive/ Non-Executive Status	Independence/ Non-Independence Status
Mr. K.G.D.D. Dheerasinghe – Chairman	Non-Executive	Independent
Mr. M.P. Jayawardena – Deputy Chairman	Non-Executive	Independent
Mr. J. Durairatnam – Managing Director/ CEO	Executive	Non-Independent
Mr. S. Swarnajothi	Non-Executive	Independent
Mr. H.J. Wilson	Non-Executive	Independent
Mr. S. Renganathan	Executive	Non-Independent
New Appointments during 2015		
Prof. A.K.W. Jayawardane (Appointed w.e.f. April 21, 2015)	Non-Executive	Independent
Mr. K. Dharmasiri (Appointed w.e.f. July 21, 2015)	Non-Executive	Independent
Resignations/Cessations during 2015		
Prof. U.P. Liyanage (Resigned w.e.f. April 28, 2015)	Non-Executive	Independent
Mr. L. Hulugalle (Resigned w.e.f. March 31, 2015)	Non-Executive	Independent
Mr. K.M.M. Siriwardana (Ceased to hold office w.e.f.		
February 23, 2015)	Non-Executive	Independent

Names of the Directors of all Subsidiaries and Associates are given in 'Group Structure' on page 406.

### 11.2 Recommendations for Re-election

- (i) In terms of Article 85 of the Articles of Association, 2 Directors are required to retire by rotation at each AGM. Article 86 provides that the Directors to retire by rotation at an AGM shall be those who (being subject to retirement by rotation), have been longest in office, since their last election or appointment.
- (ii) The Board recommended the reelection of the following Directors, after considering the contents of the Affidavits and Declarations submitted by them and all other related issues:
  - (a) Directors to retire by rotation: Mr. K.G.D.D. Dheerasinghe Mr. S. Swarnajothi
  - (b) Directors appointed to fill casual vacancies:
    - Prof. A.K.W. Jayawardane Mr. K. Dharmasiri
- (iii) Directors who served on the Board for over 9 years:

(In terms of the Banking Act Direction No. 11 of 2007 (Corporate Governance for Licensed Commercial Banks in Sri Lanka), the total period of service of a Director (other than a Director who holds the position of Chief Executive Officer) shall not exceed 9 years).

None

#### 11.3 Directors' Meetings

Details of the meetings of the Board of Directors are presented on page 33 (Table 4).

#### 11.4 Board Sub-Committees

The Board of Directors of the Bank formed four mandatory Board Sub-Committees (namely, Nomination Committee, Remuneration Committee, Integrated Risk Management Committee and Audit Committee) as required by the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' issued by the CBSL. The Board of Directors also has formed four other voluntary Board Sub-Committees to assist the Board.

These Committees play a critical role in order to ensure that the activities of the Bank at all times are conducted with the highest ethical standards and in the best interest of all its stakeholders. The Terms of Reference of these Sub-Committees conform to the recommendations made by various regulatory bodies, such as the Central Bank of Sri Lanka, The Institute of Chartered Accountants of Sri Lanka, the Securities and Exchange Commission of Sri Lanka, and the Colombo Stock Exchange.

The composition of the four mandatory Board Sub-Committees and four voluntary Board Sub-Committees, as at December 31, 2015 and the details of the attendance by Directors at meetings are found on pages 33 and 34 (Tables 3-5) while the Reports of these Sub-Committees are found on pages 66 to 75.

#### 12. Disclosure of Directors' Dealing in Shares and Debentures

### 12.1 Directors' Interests in Ordinary Voting and Non-Voting Shares of the Bank

Individual ordinary voting and non-voting shareholdings of persons who were Directors of the Bank at any time during the financial year are as follows:

	Ordinary Voti	ng Shares	Ordinary Non-Vo	oting Share
As at December 31,	2015	2014	2015	2014
Mr. K.G.D.D. Dheerasinghe (Chairman)	20,859	20,653	Nil	Nil
Mr. M.P. Jayawardena (Deputy Chairman)	Nil	Nil	Nil	Nil
Mr. J. Durairatnam (Managing Director/CEO)	412,056	379,087	Nil	Nil
Mr. S. Swarnajothi	Nil	Nil	8,599	8,490
Mr. H.J. Wilson	Nil	Nil	Nil	Nil
Mr. S. Renganathan	191,936	190,034	10,321	10,190
Prof. A.K.W. Jayawardane (Appointed w.e.f. April 21, 2015)	Nil	N/A	Nil	N/A
Mr. K. Dharmasiri (Appointed w.e.f. July 21, 2015)	Nil	N/A	Nil	N/A
Prof. U.P. Liyanage (Resigned w.e.f. April 28, 2015)	N/A	Nil	N/A	Nil
Mr. L. Hulugalle (Resigned w.e.f. March 31, 2015)	N/A	Nil	N/A	Nil
Mr. K.M.M. Siriwardana (Ceased to hold office w.e.f. February 23, 2015)	N/A	Nil	N/A	Nil

Directors' shareholdings in Ordinary Voting Shares and Ordinary Non-Voting Shares have not changed subsequently to the date of the Statement of Financial Position up to February 04, 2016, the date being one month prior to the date of Notice of the Annual General Meeting.

### 12.2 Directors' Interests in Debentures

There were no debentures registered in the name of any Director as at the beginning and at the end of the year.

# 13. Employee Share Option Plans and Profit Sharing Plans

The Bank implemented an Employee Share Option Plan (ESOP) for the Corporate Management and the Executive Officers in Grade III and above in 2008, based on the Bank achieving certain pre-determined performance criteria. The approval of the shareholders was obtained for this scheme to offer share options up to 3% of the ordinary voting shares of the Bank.

The Bank also obtained the approval of the shareholders to introduce a new ESOP for all Executive Officers in Grade IA and above at the Extraordinary General Meeting held on March 31, 2015 and the details of the scheme have been formally announced to employees.

The details of the ESOPs are given in Notes 51.2 and 52 to the Financial Statements on pages 351 and 35.

The Group and the Bank do not have any employee profit sharing plan, except the Variable Bonus Scheme.

# **14.** Directors' Interests in Contracts or Proposed Contracts

Directors' interests in contracts or proposed contracts with the Bank, both direct and indirect are disclosed on page 92. The Directors have also disclosed transactions if any, that could be classified as Related Party Transactions in terms of the Sri Lanka Accounting Standard – LKAS 24 on 'Related Party Disclosures'. Please refer Note 62 to the Financial Statements on pages 367 to 372 for those transactions disclosed by the Directors. These interests have been declared quarterly at Directors' meetings.

As a practice, Directors have refrained from voting on matters in which they were materially interested. Directors have no direct or indirect interest in any other contract or proposed contract with the Bank.

There are no arrangements enabling the Non-Executive Directors of the Group and the Bank to acquire shares or debentures of the Bank or its Subsidiaries, other than via the market.

Tabulated below are the details of Options Available/Exercised by the Executive Directors under the ESOPs:

#### 15. Directors' and Officers' Insurance

The Bank has, during the financial year, paid an insurance premium in respect of an insurance policy for the benefit of the Bank and the Directors, Secretaries, officers and certain employees of the Bank and related body corporates as defined in the insurance policy. In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy, including the nature of the liability insured against and the amount of the premium.

#### 16. Environmental Protection

The Group and the Bank have not, to the best of their knowledge, engaged in any activity, which was detrimental to the environment. Specific measures taken to protect the environment are given on pages 214 to 217.

	2015		2014 Mr. J. Durairatnam Mr.	
	Mr. J. Durairatnam Mr.	3. Heriyariatilari	Wii. O. Durairatriam Wii.	o. Heriyariatriari
Total options available to exercise as at January 01,	164,247	116,389	138,645	69,668
Options vested during the year	28,095	23,773	54,486	46,721
Options exercised during the year	28,885	Nil	(28,884)	Nil
Options expired during the year	Nil	Nil	Nil	Nil
Total options available to exercise as at December 31.	163,457	140,162	164,247	116,389

Directors' remuneration and other benefits in respect of the Group and the Bank for the financial year ended December 31, 2015 are given in Note 20 to the Financial Statements on page 279 and 280.

As per Section 217 of the Companies Act No. 07 of 2007, there are no restrictions on the approval of loans to Directors in the Bank's ordinary course of business, subject to compliance with all applicable regulations.

#### 17. Statutory Payments

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments (including all taxes, duties and levies payable by the Bank and its subsidiaries) due to the Government, other regulatory institutions and related to the employees have been made on time or where relevant provided for.

### 18. Events After the Reporting Period

No event of material significance that require adjustments to the Financial Statements, has occurred subsequent to the Reporting period, other than those disclosed in Note 68 to the Financial Statements on page 404.

#### 19. Going Concern

The Directors have made an assessment of the Bank'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, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern, such as restrictions or plans to curtail operations.

### 20. Appointment of Auditors and their Remuneration

The Board of Directors of the Bank decided to adopt a Policy of Rotation of Auditors, once in every five years, in keeping with the principles of good Corporate Governance. Accordingly, the present Auditors, Messrs KPMG were appointed as Auditors of the Bank at the Annual General Meeting held in March 2012 to carry out the audit of the Bank for the year ended December 31, 2012. Thereafter, they were reappointed as Auditors of the Bank at the Annual General Meetings held in March 2013, 2014 and 2015 to carry out the audits of the Bank for the years ended December 31, 2013, 2014 and 2015.

The retiring Auditors, Messrs KPMG have signified their willingness to continue to function as the Auditor to the Bank.

A resolution to reappoint KPMG as Auditors and granting authority to the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting to be held on March 31, 2016.

Expenses incurred in respect of Audit Fees and Fees for other services rendered during the accounting period are given in Note 20 to the Financial Statements on pages 279 and 280.

### 21. Lead Auditors' Independence Declaration

Independence Confirmation has been provided by Messrs KPMG as required by the Section 163 (3) of the Companies Act No 07 of 2007, in connection with the audit for the year ended December 31, 2015 confirming that KPMG is not aware of any relationship with or interest in the Bank or any subsidiaries audited by KPMG that in their judgement, may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by The Institute of Chartered Accountants of Sri Lanka, applicable as at the Reporting date.

## 22. Information on Ratios, Market Prices of Shares and Credit Ratings

Information that requires disclosures as per Rule 7.6 (xi) of the Listing Rule of the CSE are given in the Section on 'Investor Relations Supplement' on pages 108 to 110.

# 23. Risk Management and System of Internal Controls

The Bank has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Bank. The Directors continuously review this process through the Board Integrated Risk Management Committee. Specific steps taken by the Bank in managing both banking and non–banking risks are detailed in the Section on 'Managing Risk at Commercial Bank' on pages 112 to 144 in the 'Board Integrated Risk

Management Committee Report' on pages 68 to 69 and in Note 67 to the Financial Statements on 'Financial Risk Review' on pages 374 to 404.

An effective and comprehensive system of internal controls is in place in the Bank comprising of internal checks, internal audit and financial and other controls required to carry out the business of banking in an orderly manner and to safeguard the assets. The Directors' Statement on Internal Control and the Auditors' Report thereon are given on pages 88 to 90.

#### 24. Corporate Governance

#### Directors' Declarations

The Directors declare that -

- (a) the Bank complied with all applicable laws and regulations in conducting its business and have not engaged in any activity contravening the relevant laws and regulations. Officers responsible for ensuring compliance with the provisions in various laws and regulations, confirm compliance in each quarter to the Board Integrated Risk Management Committee;
- (b) the Directors have declared all material interests in contracts involving the Bank and refrained from voting on matters in which they were materially interested;
- (c) all endeavours have been made to ensure that shareholders in each category have been treated equitably in accordance with the original Terms of Issue;
- (d) the business is a Going Concern with supporting assumptions or qualifications as necessary, and that the Board of Directors has reviewed the Bank's Corporate/Business plans and is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Bank, its Subsidiaries and Associates are prepared based on the Going Concern assumption; and

(e) they have conducted a review of internal controls covering financial, operational and compliance controls, risk management and have obtained a reasonable assurance of their effectiveness and proper adherence.

The measures taken and the extent to which the Bank has complied with the Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka, the CSE and the Central Bank of Sri Lanka are given in the Section on 'How We Govern' on pages 26 to 58.

#### 25. Human Resources

The Bank continues to invest in Human Capital Development and implement effective Human Resource Practices and Policies to improve workforce efficiency, effectiveness and productivity and also to foster collaborative partnerships that enrich the work and learning environment for our staff.

Specific measures taken in this regard are detailed in the 'Board Human Resources and Remuneration Committee Report' appearing on pages 70 to 72.

#### 26. Technology

As encapsulated in the Vision and the Mission, our business processes are underpinned by technology. All of our processes involve information technology, and we use technology to deliver superior products and services to our customers. Correspondingly, the nature of the business is more heavily intertwined with technology than ever before.

Key achievements for the year are detailed in the 'Board Technology Committee Report' appearing on page 73.

#### 27. Operational Excellence

To increase efficiency and reduce operating cost the Bank has ongoing initiatives to drive policy and process standardisation and to optimise the use of existing technology platforms.

#### 28. Outstanding Litigation

In the opinion of the Directors and in consultation with the Bank's lawyers, litigation currently pending against the Group and the Bank will not have a material impact on the reported financial results or future operations. Details of Litigation Pending against the Group and the Bank are given in Note 59 to the Financial Statements on pages 360 and 361.

### 29. Annual General Meeting and the Notice of Meeting

The 47th Annual General Meeting of the Bank will be held at Galadari Hotel, 'Grand Ballroom', No. 64, Lotus Road, Colombo 01, on Thursday, March 31, 2016 at 2.00 p.m.

Notice relating to the 47th Annual General Meeting of the Bank is enclosed at the end of the Annual Report.

# 30. Acknowledgement of the Contents of the Report

As required by the Section 168 (1) (k) of the Companies Act No. 07 of 2007, the Board of Directors does hereby acknowledge the contents of this Annual Report.

Signed in accordance with a resolution adopted by the Directors.

Froling.

K.G.D.D. Dheerasinghe *Chairman* 

A Andrew

S. Swarnajothi
Director

Prof. A. K. W. Jayawardane Director

Colombo February 24, 2016 M.P. Jayawardena
Deputy Chairman

S. Renganathan Director

of Ann

K. Dharmasiri
Director

J. Durairatnam

Managing Director/CEO

H.J. Wilson Director

Ms. J.R. Gamage
Company Secretary

#### → Governance – Statement of Directors' Responsibility

The Statement sets out the responsibility of the Directors, in relation to the Financial Statements of the Commercial Bank of Ceylon PLC (Bank) and the Consolidated Financial Statements of the Bank and its Subsidiaries (Group). The responsibilities of the External Auditors in relation to the Financial Statements are set out in the 'Auditors' Report' given on page 237.

In terms of Sections 150 (1), 151, 152 and 153 (1) & (2) of the Companies Act No. 07 of 2007, the Directors of the Bank are responsible for ensuring that the Bank and the Group keep proper books of account of all the transactions and prepare Financial Statements that give a true and fair view of the financial position of the Bank and the Group as at end of each financial year and of the financial performance of the Bank and the Group for each financial year and place them before a general meeting. The Financial Statements comprise of the Statement of Financial Position as at December 31, 2015, Income Statement and Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows for the year then ended and Notes thereto.

Accordingly, the Directors confirm that the Financial Statements of the Bank and the Group give a true and fair view of the

- financial position of the Group and the Bank as at December 31, 2015; and
- financial performance of the Group and the Bank for the financial year then ended.

#### **Compliance Report**

The Board of Directors also wishes to confirm that:

(a) appropriate Accounting Policies have been selected and applied in preparing the Financial Statements exhibited on pages 241 to 404 based on the latest financial reporting framework on a consistent basis, while reasonable and prudent judgements have been made so that the form and substance of

- transactions are properly reflected and material departures, if any, have been disclosed and explained;
- (b) the Financial Statements for the year 2015, prepared and presented in this Annual Report have been prepared based on the Sri Lanka Accounting Standards (SLFRSs and LKASs) are in agreement with the underlying books of account and are in conformity with the requirements of the following:
  - Sri Lanka Accounting Standards,;
  - Companies Act No. 07 of 2007;
  - Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995:
  - Banking Act No. 30 of 1988 and amendments thereto:
  - Listing Rules of the Colombo Stock Exchange (CSE); and
  - Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (CASL) and the Securities and Exchange Commission of Sri Lanka (SEC);
- (c) these Financial Statements comply with the prescribed format issued by the Central Bank of Sri Lanka for the preparation of Annual Financial Statements of licensed commercial banks;
- (d) proper accounting records which correctly record and explain the Bank's transactions have been maintained as required by the Section 148 (1) of the Companies Act to determine at any point of time the Bank's financial position, with reasonable accuracy, enabling preparation of the Financial Statements, in accordance with the Act to facilitate proper audit of the Financial Statements;
- (e) the Directors have taken appropriate steps to ensure that the Group and the Bank maintain proper books of account and review the financial reporting system directly by them at their regular meetings and also through the Board Audit Committee, the Report of the said Committee

- is given on pages 66 to 68 The Board of Directors also approves the Interim Financial Statements prior to their release, following a review and recommendation by the Board Audit Committee:
- (f) the Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report;
- (g) the Directors also have taken reasonable measures to safeguard the assets of the Group and the Bank and to prevent and detect frauds and other irregularities. In this regard, the Directors have instituted an effective and comprehensive system of internal controls comprising of internal checks, internal audit and financial and other controls required to carry on the business of banking in an orderly manner and safeguard its assets and secure as far as practicable, the accuracy and reliability of the records. The "Directors' Statement on Internal Control" is given on pages 88 and 89 of this Annual Report;
- (h) to the best of their knowledge, all taxes, duties and levies payable by the Bank and its Subsidiaries, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank and its Subsidiaries, and all other known statutory dues as were due and payable by the Bank and its Subsidiaries as at the Reporting date have been paid or, where relevant, provided for, except as specified in Note 59 to the Financial Statements on 'Litigation against the Bank' on page 360 and 361.
- (i) as required by the Section 56 (2) of the Companies Act No. 07 of 2007, they have authorised distribution of the dividends paid and proposed upon being satisfied that the Bank and all its Subsidiaries would satisfy the solvency test after such distributions are made in accordance with the Section 57 of the Companies Act No. 07 of 2007 and have

- obtained in respect of dividends paid and proposed, and also for which approval is now sought, necessary certificates of solvency from the External Auditors;
- (j) as required by the Sections 166 (1) and 167 (1) of the Companies Act, they have prepared this Annual Report in time and ensured that a copy thereof is sent to every shareholder of the Bank, who have expressed desire to receive a hard copy or to other shareholders a soft copy each in a CD containing the Annual Report within the stipulated period of time as required by the Rule No. 7.5 (a) and (b) on Continuing Listing Requirements of the Listing Rules of the CSE;
- (k) that all shareholders in each category have been treated equitably in accordance with the original terms of issue;
- (I) that the Bank and its quoted Subsidiary have met all the requirements under the Section 07 on Continuing Listing Requirements of the Listing Rules of the CSE, where applicable;
- (m) that after considering the financial position, operating conditions, regulatory and other factors and such matters required to be addressed in the 'Code on Corporate Governance' issued jointly by the CASL and the SEC, the Directors have a reasonable expectation that the Bank and its Subsidiaries possess adequate resources to continue in operation for the foreseeable future. For this reason, we continue to adopt the going concern basis in preparing the Financial Statements:
- (n) the Financial Statements of the Group and the Bank have been certified by the Bank's Assistant General Manager – Finance, the officer responsible for their preparation, as required by the Sections 150 (1) (b) and 152 (1) (b) of the Companies Act and also have

- been signed by three Directors and the Company Secretary of the Bank on February 24, 2016 as required by the Sections 150 (1) (c) and 152 (1) (c) of the Companies Act and other regulatory requirements; and
- (o) the Bank's External Auditors, Messrs KPMG who were appointed in terms of the Section 158 of the Companies Act and in accordance with a resolution passed at the last Annual General Meeting, were provided with every opportunity to undertake the inspections they considered appropriate. They carried out reviews and sample checks on the system of internal controls as they considered appropriate and necessary for expressing their opinion on the Financial Statements and maintaining accounting records. They have examined the Financial Statements made available to them by the Board of Directors of the Bank together with all the financial records, related data and minutes of shareholders' and Directors' meetings and expressed their opinion which appears as reported by them on page 90.

Accordingly, the Directors are of the view that they have discharged their responsibilities as set out in this Statement.

By Order of the Board,



Ms. J.R. Gamage
Company Secretary

Colombo February 24, 2016

#### → Governance – Directors' Statement on Internal Control

#### Responsibility

In line with the Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007 the Board of Directors presents this Report on Internal Control.

The Board of Directors (Board) is responsible for the adequacy and effectiveness of the Commercial Bank of Ceylon PLC's ('the Bank') system of internal controls. However, such a system is designed to manage the Bank's key areas of risk within an acceptable risk profile, rather than to eliminate the risk of failure to achieve the policies and business objectives of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and 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 controls as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and accords with the Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by The Institute of Chartered Accountants of Sri Lanka (CASL). The Board has assessed the internal control system 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 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 Applying and Reviewing the Design and Effectiveness of the Internal Control System on 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 appointed committees are established by the Board to assist the Board in ensuring the effectiveness of the 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 Inspection/Internal Audit Department of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control system on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all departments and branches. in accordance with the annual audit plan approved by the Board Audit Committee (BAC). The frequency of audits of branches 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 BAC. Findings of the internal audit are submitted to the BAC for review at their periodic meetings.

- The BAC of the Bank reviews internal control issues identified by the Internal Audit Department, regulatory authorities and 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 internal audits. The Minutes of the BAC meetings are tabled at the meetings of the Board of Directors of the Bank on a periodic basis. Details of the activities undertaken by the BAC of the Bank are set out in the 'Board Audit Committee Report' which appears on pages 66 to 68.
- In assessing the internal control system, identified officers of the Bank continued to review and update all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. The Internal Audit Department of the Bank continued to verify the suitability of design and effectiveness of these procedures and controls on an ongoing basis. The assessment included subsidiaries of the Bank as well.

Since the adoption of new Sri Lanka Accounting Standards comprising SLFRSs and LKASs in 2012, processes that are required to comply with new requirements of recognition, measurement, presentation and disclosures were introduced and implemented in 2013. Continuous monitoring is in progress and steps are being taken to make improvements to the processes where required, to enhance effectiveness and efficiency. The Banks' Internal Audit Department commenced testing these processes since first guarter 2013 and continued to do so in 2015 as well. The Board is in the process of automating the processes referred to above and completion is expected by end 2016.

The Board also has taken into consideration the requirements of the Accounting Standard – SLFRS 9 on 'Financial Instruments' that has been issued with effective date being January 01, 2018, as it is expected to have a significant impact on the calculation of impairment of financial instruments on an expected credit loss basis compared to the incurred credit loss basis that is currently being applied under LKAS 39 on 'Financial Instruments – Recognition and Measurement'.

- The comments made by the External Auditors in connection with the internal control system during the financial year 2014 were taken into consideration and appropriate steps have been taken to incorporate them where appropriate.
- The Assurance Report of the External Auditors in connection with internal control over financial reporting is appearing on page 90.

#### Confirmation

Based on the above processes, the Board of Directors confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with the Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

### Review of the Statement by External Auditors

The External Auditors have reviewed the above Directors' Statement on Internal Control included in this Annual Report of the Bank for the year ended December 31, 2015 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system over financial reporting of the Bank.

By order of the Board,

grale for

K.G.D.D. Dheerasinghe *Chairman* 

Alum .

M.P. Jayawardena Deputy Chairman

J. Durairatnam

Managing Director/CEO

Colombo February 24, 2016

#### → Governance – Assurance Report on Internal Control



 KPMG
 Tel
 : +94 - 11 542 6426

 (Chartered Accountants)
 Fax
 : +94 - 11 244 5872

 32A, Sir Mohamed Macan Markar Mawatha,
 +94 - 11 244 6058

 P. O. Box 186,
 +94 - 11 254 1249

 Colombo 00300,
 +94 - 11 230 7345

 Sri Lanka.
 Internet
 : www.lk.kpmg.com

### To the Board of Directors of Commercial Bank of Ceylon PLC

We were engaged by the Board of Directors of Commercial Bank of Ceylon PLC ("Company") to provide assurance on the Directors' Statement on Internal Control ("Statement") for the year ended December 31, 2015 included in this Annual Report.

### Management's Responsibility for the Statement on Internal Control

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.

### Scope of the Engagement in Compliance with SLSAE 3050

Our responsibility is to issue a report to the Board on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by The Institute of Chartered Accountants of Sri Lanka.

#### **Summary of Work Performed**

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for the Directors and appropriately reflects the process the Directors have adopted in reviewing the system of internal control for the Company.

To achieve this objective, appropriate evidence has been obtained by performing the following procedures:

- (a) Enquired the Directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the accompanying Statement made by the Directors in the Annual Report.
- (b) Reviewed the documentation prepared by the Directors to support their Statement made.
- (c) Related the Statement made by the Directors to our knowledge of the Company obtained during the audit of the financial statements.
- (d) Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.
- (e) Attend meetings of the audit committee at which the Annual Report, which including the Statement on Internal Control is considered and approved for submission to the Board of Directors.
- (f) Considered whether the Directors'
  Statement on Internal Control covers
  the year under review and that
  adequate processes are in place to
  identify any significant matters arising.

(g) Obtained written representations from Directors on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3050 also does not require us 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.

#### Our Conclusion

Based on the procedures performed, nothing has come to our attention, which causes us to believe that the Statement included in this Annual Report on pages 88 and 89 is inconsistent with our 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 Company.

Chartered Accountants

Colombo

February 24, 2016

# Governance – Managing Director's and ← Chief Financial Officer's Statement of Responsibility

The Financial Statements of the Commercial Bank of Ceylon PLC (Bank) and the Consolidated Financial Statements of the Bank and its Subsidiaries (Group) as at December 31, 2015 are prepared and presented in conformity with the requirements of the following:

- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka);
- Companies Act No. 07 of 2007;
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995;
- Banking Act No. 30 of 1988 and amendments thereto and the Directions, Determinations and Guidelines issued by the Central Bank of Sri Lanka (CBSL);
- Listing Rules of the Colombo Stock Exchange (CSE); and
- Code of Best Practice on Corporate Governance issued jointly by CA Sri Lanka and the Securities and Exchange Commission of Sri Lanka (SEC).

The formats used in the preparation of the Financial Statements and disclosures made comply with the specified formats prescribed by the CBSL. The Group presents the financial results to its shareholders on a quarterly basis.

The significant accounting policies have been consistently applied by the Group. Application of Significant Accounting Policies and Estimates that involve a high degree of judgment and complexity were discussed with the Board Audit Committee (BAC) and Bank's External Auditors. Comparative information has been restated to comply with the current presentation, where applicable. We confirm that to the best of our knowledge, the Financial Statements, Significant Accounting Policies and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of the operations and the Cash Flows of the Group during the year under review. We also confirm that the Group has adequate resources to continue in operation and have applied the Going Concern basis in preparing these Financial Statements.

We are responsible for establishing, implementing and maintaining Internal Controls and Procedures within the Bank and all of its Subsidiaries. We ensure that effective Internal Controls and Procedures are in place, ensuring material information relating to the Group are made known to us for safeguarding assets, preventing and detecting fraud and/or error as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. We have evaluated the Internal Controls and Procedures of the Group for the financial period under review and are satisfied that there were no significant deficiencies and weaknesses in the design or operation of the Internal Controls and Procedures, to the best of our knowledge. We confirm, based on our evaluations that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and fraud that involves management or other employees. The Bank's Internal Audit Department also conducts periodic reviews to ensure that the Internal Controls and Procedures are consistently followed.

The Financial Statements of the Group were audited by Messrs KPMG, Chartered Accountants and their Report is given on page 237. The BAC pre-approves the audit and non-audit services provided by Messrs KPMG, in order to ensure that the provision of such services does not contravene with the guidelines issued by the CBSL on permitted non-audit services or impair KPMG's independence and objectivity.

The BAC, inter alia, reviewed all the Internal and External Audit and Inspection Programmes, the efficiency of Internal Control Systems and procedures and also reviewed the quality of Significant Accounting Policies and their adherence to Statutory and Regulatory Requirements, the details of which are given in the 'Board Audit Committee Report' appearing on pages 66 to 68 The Bank engaged the services of five firms of Chartered Accountants approved by the CBSL to strengthen the audit and inspection functions. The continuous inspection and audit functions, engagement of firms of Chartered

Accountants and effective functioning of BAC, ensure that the Internal Controls and Procedures are followed consistently. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the BAC to discuss any matter of substance. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal control and accounting.

It is also declared and confirmed that the Bank and the Group have complied with and ensured compliance with the guidelines for the audit of listed companies where mandatory compliance is required.

We confirm that to the best of our knowledge:

- The Group has complied with all applicable laws and regulations and guidelines and there is no material litigation against the Group other than those disclosed in Note 59 on pages 360 and 361 of the Financial Statements.
- All taxes, duties, levies and all statutory payments by the Group and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Group as at December 31, 2015 have been paid, or where relevant provided for.

J. Durairatnam

Managing Director/CEO

Prasanna Indrajith
Assistant General Manager
Finance

Colombo February 24, 2016

#### → Governance - Directors' Interest in Contracts with the Bank

Related party disclosures as per the Sri Lanka Accounting Standard – LKRS 24 on 'Related Party Disclosures' is disclosed in Note 62 to the Financial Statements on pages 367 to 372 of this Annual Report. In addition, the Bank carries out transactions in the ordinary course of business on an arm's length basis with entities where the Chairman or a Director of the Bank is the Chairman or a Director of such entities.

The results of such transactions at the Reporting date is given below:

	Director/Company	Accommodation Granted/Deposits		Current Limit	Balance/O	utstanding
				31.12.2015	31.12.2015	31.12.2014
		. <u> </u>		Rs '000	Rs '000	Rs'000
(a)	Mr M.P. Jayawardena					
	Cal Exports Lanka (Pvt) Ltd.	Loans & Advances		9,370	_	235
		Off-Balance Sheet Accommodations		86,490	_	5,374
		Deposits		_	11,187	9,022
	Yasui Lanka (Pvt) Ltd.	Loans & Advances		2,883	Rs '000	_
		Off-Balance Sheet Accommodations		14,415	_	4,365
		Deposits		_	49	926
	Chemanex Exports (Pvt) Ltd.	Loans & Advances		10,000	_	_
		Off-Balance Sheet Accommodations		29,000	5,000	8,206
		Deposits		_	777	4,044
	CIC Holdings PLC	Loans & Advances	Combined	907,890	640,601	682,450
		Off-Balance Sheet Accommodations		900,000	82,505	161,408
		Deposits		_	11,541	1,901
	CIC Vetcare (Pvt) Ltd.	Loans & Advances		100,000	46,159	78,650
		Off-Balance Sheet Accommodations		152,000	30,268	27,825
(a) M C C C C C C C C C C C C C C C C C C		Deposits		_	217	50
	CIC Poultry Farms Ltd.	Loans & Advances		841,145	820,019	972,658
		Off-Balance Sheet Accommodations		50,000	7,202	35,072
		Deposits		_	524	24
	EAP Films & Theatres (Pvt) Ltd.	Deposits			1,065	11,490
	EAP Broadcasting Co. Ltd.	Deposits				126,727
(b)	Prof. A.K.W. Jayawardane	(Appointed to the Board w.e.f. April 21,2015)				
	Cal Exports Lanka (Pvt) Ltd.  Yasui Lanka (Pvt) Ltd.  Chemanex Exports (Pvt) Ltd.  CIC Holdings PLC  CIC Vetcare (Pvt) Ltd.  CIC Poultry Farms Ltd.  EAP Films & Theatres (Pvt) Ltd.  EAP Broadcasting Co. Ltd.	Loans & Advances	Combined	1,174,000	824,039	N/A
		Off-Balance Sheet Accommodations	Limits	650,000	312,988	N/A
		Deposits			18,754	N/A

# Governance – Other Disclosure Requirements Under the Prescribed Format ← Issued by the Central Bank of Sri Lanka for Preparation of Annual Financial Statements of Licensed Commercial Banks

Disclosu	ure requirements	Description	Page No/s
	formation about the Significance of Financial Instru rmance	ments for Financial Position and	
1.1	Statement of Financial Position		
1.1.1	Disclosures on categories of financial assets and financial liabilities.	Notes to the Financial Statements:  Note 24 – Classification of Financial Assets and Financial Liabilities	285 to 28
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	Significant Accounting Policies:  Note 6.1.3.1.2 – Financial Assets Designated Fair Value Through Profit or Loss	259 & 26
	values attributable to these risks and the methods of measurement.	Note 6.1.4.1.2 - Financial Liabilities Designated at Fair Value Through Profit or Loss	26
	(ii) Reclassifications of financial instruments from one category to another.	Significant Accounting Policies:  Note No. 6.1.5 - Reclassification of Financial Assets and Liabilities	26
	(iii) Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Notes to the Financial Statements:  Note 67.1.3 – Collateral Held	38
	(iv) Reconciliation of the allowance account for credit losses by class of financial assets.	Notes to the Financial Statements:  Note 32.2 – Movement in Provision for Individual and Collective Impairment During the Year	30
	(v) Information about compound financial instruments with multiple embedded derivatives.	The Bank does not have compound financial instruments with multiple embedded derivatives.	
	(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.	Notes to the Financial Statements:  Notes 11 – 21 to the Financial Statements.	270 to 28
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.	Notes to the Financial Statements:  Note 12 – Net Interest Income	270 to 27
	(ii) Fee income and expense.	Notes to the Financial Statements:  Note 13 – Net Fees and Commission Income	272 & 27
	(iii) Amount of impairment losses by class of financial assets.	Notes to the Financial Statements:  Note 17 – Impairment Charges for Loans and Other Losses	276 & 27
	(iv) Interest income on impaired financial assets.	Notes to the Financial Statements:  Note 12.1 – Interest Income from Impaired Loans and Receivables to Other Customers	27

#### **STEWARDSHIP**

**Governance** – Other Disclosure Requirements Under the Prescribed Format Issued by the Central Bank of Sri Lanka for Preparation of Annual Financial Statements of Licensed Commercial Banks

Disclosu	ire requirements	Description	Page No/s.
1.3	Other Disclosures		
1.3.1	Accounting Policies for financial instruments.	Significant Accounting Policies:  Note 6.1 – Financial Instruments – Initial Recognition, Classification and Subsequent Measurement	259
1.3.2	Information on hedge accounting.	The Bank did not elect to follow hedge accounting.	
1.3.3	Information about the fair values of each class of financia	I asset and financial liability, along with:	
	(i) Comparable carrying amounts.	Notes to the Financial Statements:  Note 25.1 – Assets and Liabilities Measured at Fair Value and Fair Value Hierarchy	290 & 291
		Note 25.3 – Financial Instrument Not Measured at Fair Value and Fair Value Hierarchy	292 & 293
	(ii) Description of how fair value was determined.	Significant Accounting Policies:  Note 4 – Fair Value Measurement	256
	(iii) The level of inputs used in determining fair value.	Notes to the Financial Statements:  Note 25.3 – Financial Instruments Not Measured at Fair Value and Fair Value Hierarchy	292 & 293
		Note 25.4 – Valuation Techniques and Inputs in Measuring the Fair Values	293
		Note 37.5 (b) – Information on Valuations of Freehold Land and Buildings of the Bank	326 to 330
	(iv) (a) Reconciliations of movements between levels of fair value measurement hierarchy.	There were no movements between levels of fair value hierarchy during the period under review.	
	(b) Additional disclosures for financial instruments that fair value is determined using level 3 inputs.	Notes to the Financial Statements:  Note 25.2 – Significant Unobservable Inputs Used as at December 31, 2015 in Measuring Fair Value of Land and Buildings Categorised as Level 3	291
	(v) Information if fair value cannot be reliably measured.	Notes to the Financial Statements:  Note 33 – Financial Investments – Available-for-Sale	307 to 312
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.	Significant Accounting Policies:  Note 3 – Financial Risk Management	253 to 256
		Notes to the Financial Statements: Note 67 – Financial Risk Review	374 to 404
2.1.2	Management's objectives, policies and processes for managing those risks.	Significant Accounting Policies:  Note 3 – Financial Risk Management	253 to 256
		Refer the Section on 'Managing Risk at Commercial Bank' for comprehensive disclosure of management's objectives, policies and processes	112 to 144
2.1.3	Changes from the prior period.	There was no major policy changes during the period under review	

Governance – Other Disclosure Requirements Under the Prescribed Format Issued by the Central Bank of Sri Lanka for Preparation of Annual Financial Statements of Licensed Commercial Banks

Disclosu	rre requirements	Description	Page No/s
2.2	Quantitative Disclosures		
2.2.1	Summary of quantitative data about exposure to each risk at the Reporting date.	Notes to the Financial Statements:  Note 67 – Financial Risk Review	374 to 40
2.2.2	Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed.		
	(i) Credit Risk		
	(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.	Notes to the Financial Statements:  Note 67.1.1 – Credit Quality Analysis  Note 67.1.3 – Collateral Held	376 to 38
	(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.	Notes to the Financial Statements:  Note 67.1.1 (b) – Age Analysis by Class of Financial Assets	37
		Note 17 – Impairment Charges for Loans and Other Losses - Collateral Valuation for description of collaterals	276 & 27
		Significant Accounting Policies:  Note 6.1.10 – Identification and Measurement of Impairment of Financial Assets for factors considered in determining the Financial Assets as Impaired	26
	(c) Information about collateral or other credit enhancements obtained or called.	Notes to the Financial Statements:  Note 67.1.3 – Collateral Held	38
	(d) Other disclosures (As required by the Section H of the Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework for Licensed Banks).	Refer the Section on 'Managing Risk at Commercial Bank'	112 to 14
	(ii) Liquidity Risk		
	(a) A maturity analysis of financial liabilities.	Notes to the Financial Statements:  Note 60 – Maturity Analysis – Group	362 & 36
		Note 67.2.2 – Maturity Analysis of Financial Assets and Financial Liabilities – Bank	391 to 39
	(b) Description of approach to risk management.	Significant Accounting Policies:  Note 03 – Financial Risk Management	253 to 25
		Refer the Section on 'Managing Risk at Commercial Bank'	112 to 14
	(c) Other disclosures (As per Section H of the Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework for Licensed Banks).	Refer the Section on 'Managing Risk at Commercial Bank'	112 to 14
	(iii) Market Risk		
	(a) A sensitivity analysis of each type of market risk to which the Bank is exposed.	Notes to the Financial Statements:  Note 67.3.2 – Exposure to Interest Rate Risk – Sensitivity Analysis	397 to 40

#### **STEWARDSHIP**

**Governance** – Other Disclosure Requirements Under the Prescribed Format Issued by the Central Bank of Sri Lanka for Preparation of Annual Financial Statements of Licensed Commercial Banks

Disclosure	e requirements	Description	Page No/s.
	(b) Additional information, if the sensitivity analysis is not representative of the Bank's risk exposure.	None	
	(c) Other disclosures (As required by the Section H of the Banking Act Direction No. 7 of 2011 on Integrated	Notes to the Financial Statements:  Note 67.4 – Operational Risk	403
/	Risk Management Framework for Licensed Banks).	Refer the Section on 'Managing Risk at Commercial Bank'	112 to 144
	(iv) Operational Risk		
	Disclosures as required by the Section H of the Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks.	Refer the Section on 'Managing Risk at Commercial Bank'	112 to 144
	(v) Equity Risk in the Banking Book		
	(a) Qualitative Disclosures		
	Differentiation between holdings on which capital gains	Significant Accounting Policies:	
	are expected and those taken under other objectives including for relationship and strategic reasons.	Note 6.1.3.1.1 – Financial Assets – Held-for-Trading	259
		Significant Accounting Policies:	260
		Note 6.1.3.4 – Financial Investments – Available- for-Sale	260
	Discussion of important policies covering the	Significant Accounting Policies:	
	valuation and accounting of equity holdings in the banking book.	Note 4 - Fair Value Measurement	256
	(b) Quantitative Disclosures		
	<ul> <li>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</li> </ul>	Notes to the Financial Statements:  Note 30 – Other Financial Instruments – Held-for-Trading	296 to 299
	publicly quoted share values where the share price is materially different from fair value.	Note 33 – Financial Investments – Available-for-Sale	307 to 312
	•	Note 34 Financial Investments – Loans and Receivables	312 to 314
		Note 35 – Investments in Subsidiaries	314 to 317
		Note 36 – Investments in Associates	317 to 319
	The types and nature of investments		
	The cumulative realised gains/(losses) arising from	Notes to the Financial Statements:	07.4
	sales and liquidations in the reporting period.	Note 14 - Net Gains/(Losses) from Trading	274 274 & 275
		Note 15 - Net Gains/(Losses) from Financial Investments	
	(vi) Interest Rate Risk in the Banking Book		
	(a) Qualitative Disclosures		
	<ul> <li>Nature of interest rate risk in the banking book (IRRBB) and key assumptions.</li> </ul>	Notes to the Financial Statements:  Note 67.3.1 – Exposure to Market Risk – Trading and Non-Trading Portfolios	360 to 397
		Refer the Section on 'Managing Risk at Commercial Bank'	112 to 144

Governance – Other Disclosure Requirements Under the Prescribed Format Issued by the Central Bank of Sri Lanka for Preparation of Annual Financial Statements of Licensed Commercial Banks

Disclosu	ure requirements	Description	Page No/s.
	(b) Quantitative Disclosures		
	<ul> <li>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).</li> </ul>	Notes to the Financial Statements:  Note 67.3.2 – Exposure to Interest Rate Risk – Sensitivity Analysis  Refer the Section on 'Managing Risk at Commercial Bank'	397 to 400
2.2.3	Information on Concentrations of Risk.	Notes to the Financial Statements:  Note 67.1.4 – Concentrations of Credit Risk	384 to 388
3.	Other Disclosures		
3.1	Capital		
3.1.1	Capital Structure		
	(i) 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.	Notes to the Financial Statements:  Note 67.5 – Capital Management	403 & 404
	(ii) Quantitative Disclosure		
	<ul> <li>(a) The amount of Tier 1 capital, with separate disclosure of:</li> <li>Paid-up share capital/common stock</li> <li>Reserves</li> <li>Non-controlling interests in the equity of subsidiaries</li> <li>Innovative instruments</li> <li>Other capital instruments</li> </ul>	Notes to the Financial Statements:  Note 67.5 – Capital Management	403 & 404
	Deductions from Tier 1 capital     (b) The total amount of Tier 2 and Tier 3 capital     (c) Other deductions from applies.		
	<ul><li>(c) Other deductions from capital</li><li>(d) Total eligible capital</li></ul>		
3.1.2	Capital Adequacy		
0.1.0	(i) Qualitative Disclosures		
	A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current	Notes to the Financial Statements:  Note 67.5 – Capital Management	403 & 404
	and future activities.	Refer the Section on 'Managing Risk at Commercial Bank'	112 to 144
	(ii) Quantitative Disclosures		
	<ul><li>(a) Capital requirements for credit risk, market risk and operational risk</li><li>(b) Total and Tier 1 capital ratio</li></ul>	Refer the Section on 'Managing Risk at Commercial Bank'	112 to 144

#### → Governance - Investor Relations Supplement

#### Dear Investor,

An effective dialogue with our valued investors is an important part of our stakeholder engagement in recognition of your vital support to the success of the Bank. We believe that you will actively seek to influence the behaviour of your Bank to improve the performance of areas such as environmental, social and governance using the stakeholder engagement structures in place.

Consequently, we provide timely, transparent, accurate and consistent information to the investing public to

create a productive dialogue to address their concerns and thereby, improve long term corporate performance. Information provided in this section provides useful insights as to the performance of your investment in the Bank not captured elsewhere in the report.

The full Annual Report together with Audited Financial Statements and the interim Financial Statements are available on the Bank's website (http://www.combank.lk/newweb/investor-relations). Alternatively, shareholders are

able to elect to receive a mailed hard copy of the Annual Report on request. The Company Secretary of the Bank will respond to individual letters received from shareholders.

# Compliance Report on the Contents of Annual Report in Terms of the Listing Rules of the CSE

We are pleased to inform you that your Bank has duly complied with all the requirements of the Section 7.6 of the Listing Rules of the CSE on the contents of the Annual Report and Accounts of a listed entity.

The table below provides reference to the relevant sections of this Annual Report where specified information is disclosed together with page references for the convenience of the readers.

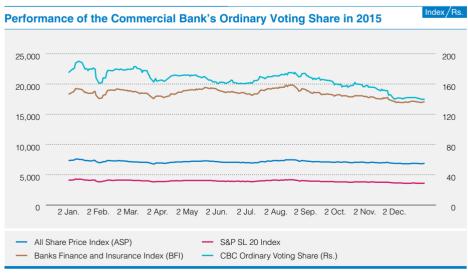
Rule No.	Disclosure Requirement	Section/Reference	Page/s
7.6 (i)	Names of persons who held the position of Directors during the financial year	Annual Report of the Board of Directors	76 to 85
7.6 (ii)	Principal activities of the Bank and its Subsidiaries during the year and any changes therein	<ul><li>Note 1.3 of the Accounting Policies</li><li>Group Structure</li></ul>	249 & 250
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 as at the end of the year	• Item 5 of the Investor Relations Supplement	104 & 105
7.6 (iv)	The public holding percentage	• Item 5 of the Investor Relations Supplement	104 & 105
7.6 (v)	Directors' and Chief Executive Officer's holding in shares at the beginning and at the end of the financial year	<ul> <li>Item 6 of the Investor Relations Supplement</li> <li>Annual Report of the Board of Directors</li> </ul>	105
7.6 (vi)	Information pertaining to material foreseeable risk factors	• Item 7 of the Investor Relations Supplement	106
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	Item 8 of the Investor Relations Supplement	106
7.6 (viii)	Extents, locations, valuations and the number of buildings of the land holdings and investment properties as at the end of the year	Note 37 to the Financial Statements on 'Property, Plant & Equipment'	320 to 322
7.6 (ix)	Number of shares representing the stated capital as at the end of the year	Note 51 to the Financial Statements on 'Stated Capital'	350 to 352
		• Item 9 of the Investor Relations Supplement	106 & 107
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities and the percentage of their total holdings as at the end of the year	Item 10 of the Investor Relations     Supplement	108

Rule No.	Disclosure Requirement	Section/Reference	Page/s
7.6 (xi)	Ratios and market price information:		
	<ul> <li>Equity – Dividend per share, dividend payout ratio, net asset value per share, market value per share</li> </ul>	<ul> <li>Items 11 (a) and 11 (b) of the Investor Relations Supplement</li> </ul>	108 & 109
	<ul> <li>Debt – Interest rate of comparable Government security, debt/equity ratio, interest cover and quick asset ratio, market prices and yields during the year</li> </ul>	<ul> <li>Items 11 (c) and 1 (d) of the Investor Relations Supplement</li> </ul>	109
	Any changes in credit rating	<ul> <li>Items 11 (e) and 11 (f) of the Investor Relations Supplement</li> </ul>	110
7.6 (xii)	Significant changes in the Bank or its Subsidiaries fixed assets and the market value of land, if the value differs substantially from the book value as at the end of the year	Note 37 to the Financial Statements on 'Property, Plant & Equipment'	320 to 332
7.6 (xiii)	Details of funds raised through Public Issues, Rights Issues and Private Placements during the year	Note 51 to the Financial Statements on 'Stated Capital'	350 to 352
7.6 (xiv)	Information in respect of Employee Share Option Schemes		
	<ul> <li>Total number of shares allotted during the financial year, price at which shares were allotted and the details of funding granted to employees (if any)</li> </ul>	<ul> <li>Notes 51.2 and 52 to the Financial Statements on 'Employee Share Option Plans'</li> </ul>	351 to 353
	Highest, lowest and closing price of the share recorded during the financial year	• Item 11 (b) of the Investor Relations Supplement	109
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 Listing Rules	<ul> <li>Not applicable since the Bank received an exemption in terms of Section 7.10 (c) of the Listing Rules</li> </ul>	_
7.6 (xvi)	Disclosures on 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	<ul> <li>The Bank did not have any related party transaction exceeding this threshold as at end 2015</li> </ul>	-

#### **Our Stock**

The shares of the Commercial Bank of Ceylon are listed on the Main Board of the Colombo Stock Exchange (CSE) under the ticker symbol 'COMB'. Summary of trading activity and daily share prices (Graph 1) are published in most daily newspapers, including the Daily FT, Daily News, The Island and Daily Mirror generally under the abbreviation of Commercial Bank or COMB.

Further, graphical presentation on information on share trading is given on page 103 (Graphs 2 – 7).



#### 1. Quarterly Performance - 2015 Compared to 2014

#### **Summary of the Income Statement**

			2015					2014		
	1st Quarter Mar. 31	2nd Quarter Jun. 30	3rd Quarter Sep. 30	4th Quarter Dec. 31	Total	1st Quarter Mar. 31	2nd Quarter Jun. 30	3rd Quarter Sep. 30	4th Quarter Dec. 31	1
	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs.
Group										
Net Interest Income	7,286.0	7,588.9	7,681.0	8,011.5	30,567.4	6,575.9	7,118.2	6,914.2	6,711.5	27,31
Net Fees and Commission		<u> </u>								
Income	1,258.1	1,219.5	1,335.4	1,597.3	5,410.3	1,075.2	1,171.0	1,248.0	1,355.2	4,849
Other Operating Income (Net)	1,213.2	527.1	1,889.4	1,926.5	5,556.2	1,267.8	330.3	2,093.7	1,609.9	5,30
Less: Impairment Charges for Loans and Other Losses	1,334.2	753.7	1,097.0	914.9	4,099.8	1,144.8	1,114.3	734.0	215.5	3,208
Net Operating Income	8,423.1	8,581.8	9,808.8	10,620.4	37,434.1	7,774.1	7,505.2	9,521.9	9,461.1	34,262
Less: Expenses	4,792.8	4,724.3	5,071.4	5,723.2	20,311.7	4,450.4	4,294.1	4,765.3	4,898.8	18,408
Operating Profit	3,630.3	3,857.5	4,737.4	4,897.2	17,122.4	3,323.7	3,211.1	4,756.6	4,562.3	15,853
Add: Share of Profits/ (Losses) of Associate		· ·	·	,	· ·			·	,	<u> </u>
Companies	2.3	2.8	4.8	3.7	13.6	0.9	6.2	1.0	(1.6)	(
Profit Before Income Tax	3,632.6	3,860.3	4,742.2	4,900.9	17,136.0	3,324.6	3,217.3	4,757.6	4,560.7	15,860
Less: Income Tax Expense	1,095.7	1,213.3	1,491.4	1,476.4	5,276.8	1,022.6	999.5	1,425.9	1,169.2	4,61
Profit for the Period	2,536.9	2,647.0	3,250.8	3,424.5	11,859.2	2,302.0	2,217.8	3,331.7	3,391.5	11,243
Quarterly Profit as a % of the Profit after Tax	21.4	22.3	27.4	28.9	100.0	20.5	19.7	29.6	30.2	100
Cumulative Quarterly Profit as a % of the Profit after Tax	21.4	43.7	71.1	100.0		20.5	40.2	69.8	100.0	
Bank										
Net Interest Income	7,232.7	7,534.9	7,630.2	7,947.8	30,345.6	6,571.4	7,114.0	6,886.2	6,650.3	27,22
Net Fees and Commission Income	1,256.4	1,217.5	1,333.3	1,566.8	5,374.0	1,074.1	1,169.9	1,246.8	1,340.4	4,831
Other Operating Income (Net)	1,192.6	543.2	1,889.2	1,937.2	5,562.2	1,249.7	319.0	2,093.3	1,665.4	5,327
Less: Impairment Charges for Loans and Other	1 200 7	700.0	1.055.6	000.0	2.042.0	1 151 0	1 104 4	700.1	017.4	2 220
Losses Net Operating Income	1,329.7 8,352.0	729.9 8,565.7	1,055.6 9,797.1	828.0	3,943.2	7,744.0		726.1 9,500.2	217.4 9,438.7	3,229
Less: Expenses	4,772.8	4,701.8	· · · · · · · · · · · · · · · · · · ·	10,623.8	37,338.6 20,195.0	7,744.0	7,468.5 4,284.9	4,761.5	,	
Profit Before Income Tax	3,579.2	3,863.9	5,049.7	5,670.7		3 290 4			4,915.4	18,415
Less: Income Tax Expense	1,070.5	1,204.6	1,489.4	4,953.1 1,475.9	17,143.6 5,240.4	3,290.4 1,011.9	3,183.6 983.1	4,738.7 1,413.0	4,523.3	15,736 4,556
Profit for the Period	2,508.7	2,659.3	3,258.0	3,477.2	11,903.2	2,278.5	2,200.5	3,325.7	1,148.0 3,375.3	11,180
	2,500.7	2,009.0	5,200.0	0,+11.2	11,300.2		2,200.5	0,020.7	0,010.0	11,100
Quarterly Profit as a % of the Profit after Tax	21.1	22.3	27.4	29.2	100.0	20.4	19.7	29.7	30.2	100
Cumulative Quarterly Profit as a % of the Profit after Tax	21.1	43.4	70.8	100.0		20.4	40.1	69.8	100.0	

#### **Summary of Statements of Financial Position**

	2015				2014				
As at	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Mar. 31	Jun. 30	Sep. 30	Dec. 31	
	Rs. Mn.	Rs. Mn							
Group									
Cash and Cash Equivalents	25,668.2	26,117.8	19,311.9	20,107.1	18,538.0	15,332.2	15,789.1	20,621.8	
Placements with Banks	13,275.0	6,149.5	10,362.5	17,193.5	7,190.8	4,981.5	4,774.8	14,507.9	
Securities Purchased Under Resale Agreements	10,266.1	6,001.0	1,944.4	8,002.1	12,994.6	20,538.8	38,033.6	41,198.3	
Other Financial Assets – Held-for-Trading	9,501.5	12,392.0	12,624.0	7,656.3	15,241.7	14,941.2	9,834.4	6,326.6	
Loans and Receivables to Banks and Other Customers	439,122.3	456,915.4	484,416.1	509,923.1	359,739.6	372,108.8	397,065.5	406,531.0	
Financial Investments – Available-for-Sale	215,671.3	206,166.1	236,351.0	204,262.0	148,107.3	167,359.0	189,901.9	214,225.0	
Financial Investments - Loans and Receivables	50,249.3	50,684.2	58,030.1	57,724.4	45,740.3	45,556.6	48,838.1	50,436.1	
Other Assets	45,719.8	51,481.1	52,391.1	57,314.7	41,051.4	43,350.2	44,409.8	43,411.0	
	809,473.5	815,907.1	875,431.1	882,183.2	648,603.7	684,168.2	748,647.3	797,257.7	
Due to Banks	30,445.8	16,008.3	34,661.1	31,789.4	9,165.4	15,964.1	26,791.0	25,669.0	
Securities Sold Under Resale Agreements	115,936.1	119,539.1	137,403.1	112,249.7	60,594.9	72,158.1	101,309.1	124,391.0	
Due to Other Customers/Deposits from Customers	549,003.3	568,954.3	588,803.5	624,021.2	472,175.2	487,506.2	504,103.2	529,266.6	
Other Borrowings	11,359.3	10,116.4	10,045.9	9,985.6	14,353.1	13,171.2	12,733.6	11,636.6	
Subordinated Liabilities	11,415.0	11,324.1	12,106.1	11,988.3	11,084.1	10,937.8	11,374.2	11,262.6	
Other Liabilities	24,734.5	18,943.3	21,078.3	21,135.2	19,967.7	21,140.3	22,646.8	23,778.5	
Shareholders' Funds	66,579.5	71,021.6	71,333.1	71,013.8	61,263.3	63,290.5	69,689.3	71,253.4	
	809,473.5	815,907.1	875,431.1	882,183.2	648,603.7	684,168.2	748,647.3	797,257.7	
Quarterly Growth (%)									
Loans and Receivables to Banks and Other Customers	8.02	4.05	6.02	5.27	1.48	3.44	6.71	2.38	
Due to Other Customers/Deposits from Customers	3.73	3.63	3.49	5.98	4.67	3.25	3.40	4.99	
Total Assets	1.53	0.79	7.30	0.77	6.93	5.48	9.42	6.49	

#### **Summary of Statements of Financial Position**

	2015				2014				
As at	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Mar. 31	Jun. 30	Sep. 30	Dec. 31	
	Rs. Mn.								
Bank									
Cash and Cash Equivalents	25,640.4	26,097.7	19,286.7	20,043.5	18,521.8	15,316.8	15,732.4	20,591.9	
Placements with Banks	13,275.0	6,149.5	10,362.5	17,193.5	7,190.8	4,981.5	4,774.8	14,507.9	
Securities Purchased Under Resale Agreements	10,266.1	6,001.0	1,944.4	8,002.1	12,994.6	20,538.8	38,033.6	41,198.3	
Other Financial Assets – Held-for-Trading	9,501.5	12,392.0	12,624.0	7,656.3	15,241.7	14,941.2	9,834.4	6,326.6	
Loans and Receivables to Banks and Other Customers	438,037.6	455,430.4	482,511.5	508,115.1	359,748.1	372,114.0	396,068.7	405,431.4	
Financial Investments – Available-for-Sale	215,654.5	206,149.1	236,333.6	204,244.3	148,107.3	167,359.0	189,885.5	214,208.4	
Financial Investments – Loans and Receivables	50,249.3	50,684.2	58,030.1	57,724.4	45,740.3	45,556.6	48,838.1	50,436.1	
Other Assets	45,227.5	50,937.1	51,830.2	56,825.8	40,478.3	42,772.1	44,121.9	42,909.1	
	807,851.9	813,841.0	872,923.0	879,805.1	648,023.0	683,579.9	747,289.5	795,609.6	
Due to Banks	30,069.9	15,174.1	33,373.7	30,319.1	9,165.4	15,964.1	26,423.8	25,261.0	
Securities Sold Under Resale Agreements	116,096.1	119,679.7	137,535.5	112,384.8	60,782.3	72,344.8	101,506.1	124,564.5	
Due to Other Customers'/Deposits from Customers	549,111.2	569,082.1	588,917.5	624,101.8	472,244.6	487,598.8	504,161.2	529,361.5	
Other Borrowings	11,346.3	10,104.4	10,045.9	9,985.6	14,343.6	13,162.5	12,722.0	11,636.6	
Subordinated Liabilities	11,197.2	11,106.3	11,888.3	11,973.3	11,084.1	10,937.8	11,156.4	11,044.8	
Other Liabilities	24,215.3	18,432.7	20,579.4	20,699.7	19,703.8	20,859.3	22,236.3	23,229.6	
Shareholders' Funds	65,815.9	70,261.7	70,582.7	70,340.8	60,699.2	62,712.6	69,083.8	70,511.7	
	807,851.9	813,841.0	872,923.0	879,805.1	648,023.0	683,579.9	747,289.5	795,609.6	
Quarterly Growth (%)									
Loans and Receivables to Banks and Other Customers	8.04	3.97	5.95	5.31	1.47	3.44	6.44	2.36	
Due to Other Customers/Deposits from customers	3.73	3.64	3.49	5.97	4.68	3.25	3.40	5.00	
Total Assets	1.54	0.74	7.26	0.79	6.94	5.49	9.32	6.47	

#### 2. Stock Exchange Listing

The following securities of the Bank are listed on the Main Board of the CSE:

Shares	Ordinary Shares-Voting	
	Ordinary Shares-Non-Voting	
Debentures	Fixed Rate	<ul> <li>December 2006/16</li> </ul>
	Floating Rate	<ul> <li>December 2006/16</li> </ul>

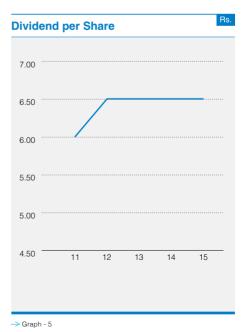
The Bank duly submitted the unaudited Interim Financial Statements for the year 2015 to the CSE within applicable statutory deadlines as required by the Rule No. 7.4 (a) (i) of the Listing Rules of the CSE. (The Bank also duly complied with this requirement for 2014.)

The Audited Income Statement for the year ended December 31, 2015 and the Audited Statement of Financial Position as at December 31, 2015 will be submitted to the CSE within three months from the year-end, which is well within the required deadline as required by the Rule No. 7.5 (a) of the Listing Rules of the CSE. (The Bank duly complied with this requirement for 2014.)

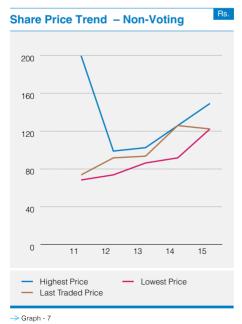
#### 3. Information on Share Trading

	Ordinary SI	Ordinary Shares-Voting		es-Non-Voting
	2015	2014	2015	2014
Number of Transactions	15,575	17,846	5,073	7,382
Number of Shares Traded	117,372,662	129,328,356	9,552,654	19,648,816
Value of Shares Traded (Rs. Bn.)	19.39	18.34	1.28	2.09









#### 4. Shareholder Base

	2015	2014
Number of Ordinary Voting Shareholders	9,412	8,374
Number of Ordinary Non-Voting Shareholders	4,216	4,140
Total	13,628	12,514

# 5. The Names, Number and Percentage of Shares held by Twenty Largest Shareholders [As per Rule No. 7.6 (III) of the Listing Rules of the CSE]

As a	t December 31,	2015		2014 (*	·)
Ordi	nary Shares-Voting	No. of Shares	%	No. of Shares	%
1.	DFCC Bank A/C 1	121,005,515	14.75	119,806,122	14.79
2.	Mr. Y.S.H.I. Silva	81,388,992	9.92	47,355,714	5.84
3.	Employees' Provident Fund	79,594,968	9.70	78,806,032	9.73
4.	Sri Lanka Insurance Corporation Ltd. – Life Fund	41,260,840	5.03	40,851,867	5.04
5.	CB NY S/A International Finance Corporation	36,677,879	4.47	40,381,198	4.98
6.	Sri Lanka Insurance Corporation Ltd. – General Fund	35,478,645	4.32	35,126,985	4.34
7.	HSBC International Nominees Ltd. – JPMLU – Franklin Templeton Investment Funds	24,352,909	2.97	47,984,547	5.92
8.	Melstacorp Ltd.	19,879,375	2.42	18,989,272	2.34
9.	HSBC International Nominees Ltd. – SSBT – Wasatch Frontier – Emerging Small Countries Fund	16,087,568	1.96	20,383,126	2.52
10.	Mrs. L.E.M Yaseen	15,380,000	1.87	14,000,030	1.73
	HSBC International Nominees Ltd. – SSBT – Morgan Stanley Institutional Fund, Inc. Frontier Emerging Markets Portfolio	13,434,182	1.64	11,295,245	1.39
12.	HSBC International Nominees Ltd. – SSBT – Morgan Stanley Asset Management SA Acting on behalf of Morgan Stanley Galaxy Fund	11,731,336	1.43	8,094,018	1.00
13.	HSBC International Nominees Ltd. – BPSS – LUX – Aberdeen Global Asia Pacific Equity Fund	11,014,249	1.34	10,905,077	1.35
14.	Mercantile Investments and Finance PLC	10,509,737	1.28	10,405,566	1.28
15.	HSBC International Nominees Ltd. – BPSS – LUX – Aberdeen Global – Asian Smaller Companies Fund	10,319,466	1.26	15,177,533	1.87
16.	HSBC International Nominees Ltd. – SSBT – Aberdeen Institutional Commingled Funds, LLC	8,681,933	1.06	7,769,156	0.96
17.	HSBC International Nominees Ltd. – JPMLU – Schroder International Selection Fund	8,592,280	1.05	12,012,366	1.48
18.	The Bank of New York Mellon SA/NV - CF Ruffer Total Return Fund	8,280,574	1.01	8,198,498	1.01
19.	HSBC International Nominees Ltd. – SSBT – BMO Investments II (Ireland) Public Limited Company	7,208,955	0.88	_	_
20.	HSBC International Nominees Ltd. – SSBT – National Westminster Bank PLC as Depositary of First State Indian Subcontinent	7,037,883	0.86	_	_
	Sub Total	567,917,286	69.22	547,542,352	67.57
	Other Shareholders	252,649,829	30.78	262,735,377	32.43
	Total	820,567,115	100.00	810,277,729	100.00

As per Rule No. 7.6 (iv) of the Listing Rules of the CSE, percentage of public holding of voting shares as at December 31, 2015 was 99.64% (99.57% as at December 31, 2014).

As per Rule No. 7.13.1 of the Listing Rules of the CSE, Number of shareholders representing public holding as at December 31, 2015 – 9,383 (8,349 as at December 31, 2014).

<sup>\*</sup> Comparative shareholdings as at December 31, 2014 of the twenty largest shareholders as at December 31, 2015.

As a	at December 31,	2015		2014 (	*)
Ord	inary Shares – Non-Voting	No. of Shares	%	No. of Shares	%
1.	Employees' Trust Fund Board	4,101,132	7.28	882,181	1.57
2.	HSBC International Nominees Ltd. – JPMLU – Franklin Templeton Investment Funds	3,256,814	5.78	3,215,179	5.71
3.	Citi Bank NY S/A Forward International Dividend Fund	1,781,807	3.16	1,926,649	3.42
4.	GF Capital Global Ltd.	1,565,812	2.78	1,545,795	2.75
5.	HINL – JPMCB – Butterfield Trust (Bermuda) Ltd.	1,396,941	2.48	1,379,083	2.45
6.	Citi Bank Newyork S/A Norges Bank Account 2	1,265,623	2.25	-	-
7.	Mr. J.D. Bandaranayake	1,085,359	1.93	1,098,285	1.95
8.	Waldock Mackenzie Ltd./ Mr. S.N.P. Palihena and Mrs. A.S. Palihena	1,000,000	1.78	1,000,000	1.78
9.	M.J.F. Exports Ltd.	963,107	1.71	950,795	1.69
10.	Mr. M.F. Hashim	767,339	1.36	746,733	1.33
11.	Saboor Chatoor (Pvt) Ltd.	763,000	1.36	751,000	1.33
12.	Beta Holdings Ltd.	727,971	1.29	698,000	1.24
13.	Mrs. L.V.C. Samarasinha	607,769	1.08	600,000	1.07
14.	Union Assurance PLC - No - 01A/C	572,424	1.02	565,107	1.00
15.	Akbar Brothers (Pvt) Ltd. A/C No 1	567,605	1.01	560,349	1.00
16.	Dr. A.K.A. Jayawardene	496,976	0.88	490,623	0.87
17.	Mr. G.R. Mallawaaratchy/Mrs. B.G.P. Mallawaaratchy	462,309	0.82	446,527	0.79
18.	Mr. W.R.H.Perera	444,838	0.79	439,512	0.78
19.	Alpex Marine (Pvt) Ltd.	423,734	0.75	418,317	0.74
20.	Mr. J.G. de Mel	420,000	0.75	250,000	0.44
	Sub-Total	22,670,560	40.26	17,964,135	31.91
	Other Shareholders	33,629,126	59.74	37,615,811	68.09
	Total	56,299,686	100.00	55,579,946	100.00

As per Rule No. 7.6 (iv) of the Listing Rules of the CSE, percentage of public holding of non-voting shares as at December 31, 2015 was 99.79% (99.79% as at December 31, 2014).

As per Rule No. 7.13.1 of the Listing Rules of the CSE, Number of shareholders representing public holding as at December 31, 2015 – 4,207 (4,131 as at December 31, 2014).

# 6. Directors' Shareholding Including the Chief Executive Officer's Shareholding [As Per Rule No. 7.6 (V) of the Listing Rules of the Colombo Stock Exchange]

As at December 31,	Ordinary Sha	Ordinary Shares-Non-Voting		
	2015	2014	2015	2014
Mr. K.G.D.D. Dheerasinghe – Chairman	20,859	20,653	Nil	Nil
Mr. M.P. Jayawardena – Deputy Chaiman	Nil	Nil	Nil	Nil
Mr. J. Durairatnam – MD/CEO	412,056	379,087	Nil	Nil
Mr. S. Renganathan	191,936	190,034	10,321	10,190
Mr. S. Swarnajothi	Nil	Nil	8,599	8,490
Mr. H.J. Wilson	Nil	Nil	Nil	Nil
Prof. A.K.W. Jayawardane	Nil	Nil	Nil	Nil
Mr. K. Dharmasiri	Nil	Nil	Nil	Nil

<sup>\*</sup> Comparative shareholdings as at December 31, 2014 of the twenty largest shareholders as at December 31, 2015.

#### 7. Material Foreseeable Risk Factors

#### [As per rule no. 7.6 (VI) of the Listing Rules of the Colombo Stock Exchange]

Information pertaining to the material foreseeable risk factors, that require disclosures as per the Rule No. 7.6 (vi) of the Listing Rules of the CSE are discussed in the Section on 'Managing Risk at Commercial Bank' on pages 112 to 144.

# 8. Material Issues Pertaining to Employees and Industrial Relations Pertaining to the Bank [As per Rule No. 7.6 (VII) of the Listing Rules of the Colombo Stock Exchange]

There were no material issues pertaining to employees and industrial relations pertaining to the Bank that occurred during the year under review which require disclosure.

# 9. Information on Movement in Number of Shares Represented by the Stated Capital [As per Rule No. 7.6 (IX) of the Listing Rules of the Colombo Stock Exchange]

Year	Details		Basis	No. of Shares Issued/ (Redeemed)	No. of Shares		
					Ordinary Shares -Voting	Ordinary Shares- Non-Voting	Cumulative Redeemable Preference Shares
1987	As at December 31, 1987				3,000,000	_	_
1988	Bonus Issue	Voting	2 for 3	2,000,000	5,000,000	_	_
1990	Bonus Issue	Voting	1 for 1	5,000,000	10,000,000	_	_
1993	Rights Issue	Voting	1 for 4	2,500,000	12,500,000	_	-
1996	Bonus Issue	Voting	3 for 5	7,500,000	20,000,000	_	_
	Rights Issue	Voting	1 for 4	5,000,000	25,000,000	_	-
	Share Swap	Non-Voting		894,275	25,000,000	894,275	_
	Bonus Issue	Non-Voting	3 for 5	536,565	25,000,000	1,430,840	-
	Rights Issue	Non-Voting	1 for 4	357,710	25,000,000	1,788,550	_
1998	Bonus Issue	Voting	3 for 10	7,500,000	32,500,000	1,788,550	_
	Bonus Issue	Non-Voting	3 for 10	536,565	32,500,000	2,325,115	_
2001	Bonus Issue	Voting	1 for 5	6,500,000	39,000,000	2,325,115	_
	Bonus Issue	Non-Voting	1 for 5	465,023	39,000,000	2,790,138	_
	Issue of Cumulative Redeemable Preference Shares			90,655,500	39,000,000	2,790,138	90,655,500
2003	Bonus Issue	Voting	1 for 3	13,000,000	52,000,000	2,790,138	90,655,500
	Rights Issue	Voting	1 for 4	13,000,000	65,000,000	2,790,138	90,655,500
	Bonus Issue	Non-Voting	1 for 3	930,046	65,000,000	3,720,184	90,655,500
	Rights Issue	Non-Voting	1 for 4	930,046	65,000,000	4,650,230	90,655,500
	Issue of Cumulative Redeemable Preference Shares			100,000,000	65,000,000	4,650,230	190,655,500
2004	ESOP	Voting		29,769	65,029,769	4,650,230	190,655,500
2005	ESOP	Voting		1,361,591	66,391,360	4,650,230	190,655,500
	Bonus Issue	Voting	1 for 1	66,389,162	132,780,522	4,650,230	190,655,500
	Bonus Issue	Non-Voting	1 for 1	4,650,230	132,780,522	9,300,460	190,655,500
2006	ESOP	Voting		737,742	133,518,264	9,300,460	190,655,500
	Redemption of Cumulative Redeemable Preference Shares			(90,655,500)	133,518,264	9,300,460	100,000,000
2007	Rights Issue	Voting	3 for 10	40,288,996	173,807,260	9,300,460	100,000,000
	Bonus Issue	Voting	1 for 3	58,204,268	232,011,528	9,300,460	100,000,000

						No. of Shares	
Year	Details		Basis	No. of Shares Issued/ (Redeemed)	Ordinary Shares -Voting	Ordinary Shares- Non-Voting	Cumulative Redeemable Preference Shares
	ESOP	Voting		919,649	232,931,177	9,300,460	100,000,000
	Rights Issue	Non-Voting	3 for 10	2,790,138	232,931,177	12,090,598	100,000,000
	Bonus Issue	Non-Voting	1 for 3	4,030,199	232,931,177	16,120,797	100,000,000
2008	Redemption of Cumulative Redeemable Preference Shares			(100,000,000)	232,931,177	16,120,797	_
	ESOP	Voting		350,049	233,281,226	16,120,797	_
2009	ESOP	Voting		540,045	233,821,271	16,120,797	_
2010	Share Split	Voting	1 for 2	117,402,608	351,223,879	16,120,797	_
	Share Split	Non-Voting	1 for 2	8,060,398	351,223,879	24,181,195	_
	ESOP	Voting		2,081,508	353,305,387	24,181,195	_
2011	Scrip Issue for Final Dividend 2010	Voting		2,277,195	355,582,582	24,181,195	_
	Scrip Issue for Final Dividend 2010	Non-Voting		255,734	355,582,582	24,436,929	_
	ESOP	Voting		1,457,645	357,040,227	24,436,929	_
	Rights Issue	Voting	1 for 14	25,502,433	382,542,660	24,436,929	_
	Rights Issue	Non-Voting	1 for 14	1,745,494	382,542,660	26,182,423	_
	Share Split	Voting	1 for 1	382,542,660	765,085,320	26,182,423	_
	Share Split	Non-Voting	1 for 1	26,182,423	765,085,320	52,364,846	-
2012	Scrip Issue for Final Dividend 2011	Voting		13,587,144	778,672,464	52,364,846	_
	Scrip Issue for Final Dividend 2011	Non-Voting		1,108,902	778,672,464	53,473,748	_
	ESOP	Voting		1,341,768	780,014,232	53,473,748	_
2013	Scrip Issue for Final Dividend 2012	Voting		13,076,189	793,090,421	53,473,748	-
	Scrip Issue for Final Dividend 2012	Non-Voting		1,069,474	793,090,421	54,543,222	_
	ESOP	Voting		1,445,398	794,535,819	54,543,222	_
2014	Scrip Issue for Final Dividend 2013	Voting		12,504,344	807,040,163	54,543,222	_
	Scrip Issue for Final Dividend 2013	Non-Voting		1,036,724	807,040,163	55,579,946	_
	ESOP	Voting		3,237,566	810,277,729	55,579,946	-
2015	Scrip Issue for Final Dividend 2014	Voting		8,118,773	818,396,502	55,579,946	_
	Scrip Issue for Final Dividend 2014	Non-Voting		719,740	818,396,502	56,299,686	-
	ESOP	Voting		2,170,613	820,567,115	56,299,686	_

## 10. Distribution Schedule of the Number of Holders and Percentage of Holding in Each Class of Equity Securities [As per Rule No. 7.6 (X) of the Listing Rules of the Colombo Stock Exchange]

		A	s at Decer	nber 31, 2015		As at December 31, 2014				
		No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%	
Ordinary Shares Vot	ing									
1 -	1,000	4,683	49.77	1,187,812	0.14	4,033	48.16	985,748	0.12	
1,001 –	10,000	3,014	32.02	11,163,309	1.36	2,683	32.04	10,067,965	1.24	
10,001 -	100,000	1,432	15.21	41,917,942	5.11	1,380	16.48	40,455,736	4.99	
100,001 -	1,000,000	211	2.24	59,390,754	7.24	206	2.46	61,331,081	7.5	
Over	1,000,000	72	0.76	706,907,298	86.15	72	0.86	697,437,199	86.08	
Total		9,412	100.00	820,567,115	100.00	8,374	100.00	810,277,729	100.00	
Ordinary Shares No	n-Voting									
1 -	1,000	2,235	53.01	567,113	1.00	2,163	52.24	564,960	1.0	
1,001 -	10,000	1,370	32.50	4,474,887	7.95	1,359	32.83	4,533,671	8.1	
10,001 –	100,000	506	12.00	13,724,725	24.38	515	12.44	14,051,351	25.28	
100,001 -	1,000,000	98	2.32	23,079,473	41.00	96	2.32	23,887,685	42.9	
Over	1,000,000	7	0.17	14,453,488	25.67	7	0.17	12,542,279	22.5	
Total		4,216	100.00	56,299,686	100.00	4,140	100.00	55,579,946	100.00	

## 11. Information on Ratios, Market Prices of Shares and Credit Ratings [As per Rule No. 7.6 (XI) of the Listing Rules of the Colombo Stock Exchange]

### (a) Information on Ratios

			2015	2014
Dividend per Share (Rs.)	Cash	First Interim Paid	1.50	1.50
		Second Interim Paid	_	1.00
		Final Proposed*/Paid	3.00	2.00
		Total	4.50	4.50
	Issue and Allotment of Shares	Final Proposed*/Allotted	2.00	2.00
	Total Dividend		6.50	6.50
Dividend Payout Ratio (%)	Cash		33.15	34.86
	Total (Cash and Shares)		47.88	50.36
Net Assets Value per Share (Rs.)			80.22	81.44

<sup>\*</sup> The Board of Directors of the Bank has recommended a final dividend of Rs. 5.00 per ordinary share, which consists of a cash dividend of Rs. 3.00 per share and the balance entitlement of Rs. 2.00 per share satisfied in the form of issue and allotment of new shares for both Voting and Non-Voting shareholders of the Bank for the year ended December 31, 2015 for approval by the shareholders at the 47th Annual General Meeting (AGM), to be held on March 31, 2016. (The Bank declared and paid a final dividend of Rs. 4.00 per share for the year ended December 31, 2014 which consists of a cash dividend of Rs. 2.00 per share and balance entitlement of Rs. 2.00 per share satisfied in the form of issue and allotment of new shares.)

### (b) Market Prices

Ordinary Shares-Voting		Ordinary Shares-Non-Votin	
5	2014	2015	2014
0	179.90	149.00	125.50
5) (	(18.11.2014)	(12.01.2015)	(31.12.2014)
0	113.50	122.10	91.30
5) (	(24.02.2014)	(28.12.2015)	(01.04.2014)
0	171.00	123.00	125.10
2	20	20 171.00	20 171.00 123.00

### (c) Debenture Composition

		Circulation	erest Rate		Election I	tarast Data
		015		 )14	2015	terest Rate 2014
Time of leave		D:	D: .	D 11:	D 11	D 1 11
Type of Issue	Private	Public	Private	Public	Public	Public
Debenture Type	N/A	Type 'A'	N/A	Type 'A'	Type 'D'	Type 'D'
CSE Listing	Not listed	Listed	Not listed	Listed	Listed	Listed
Issue Date	May 2006	Dec. 2006	May 2006	Dec. 2006	Dec. 2006	Dec. 2006
Maturity Date	May 2016	Dec. 2016	May 2016	Dec. 2016	Dec. 2016	Dec. 2016
Interest Payable Frequency	Annually	Annually	Annually	Annually	Annually	Annually
Offered Interest Rate	13.25% p.a.	14.00% p.a.	13.25% p.a.	14.00% p.a.	12 Months TB Rate (Gross) + 1% p.a.	12 Months TB Rate - (Gross) + 1% p.a.
Amount (Rs. Mn.)	505.000	467.260	505.000	467.260	0.400	0.400
Market Values						
- Highest (Rs.)	N/A	Not traded	N/A	Not traded	Not traded	Not traded
- Lowest (Rs.)	N/A	during the	N/A	during the	during the	during the
- Year-end (Rs.)	N/A	year	N/A	year	year	year
Interest Rates		·				
- Coupon Rate (%)	13.25	14.00	13.25	14.00	7.68	10.21
- Effective Annual Yield (%)	13.25	14.00	13.25	14.00	7.68	10.21
Interest Rate of Comparable Government Security	6.65	7.60	6.35	6.70	9.10	7.70
Other Ratios as at Date of Last Trade						
- Interest Yield (%)	N/A	Not traded	N/A	Not traded	Not traded	Not traded
- Yield to Maturity (%)	N/A	during the year	N/A	during the year	during the year	during the year

12 Months TB Rate (Gross) – Twelve months Treasury Bill rate before 10% withholding tax rate as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period.

### (d) Other Ratios

	2015	2014
Debt Equity Ratio (%)	23.20	25.97
Interest Cover (Times)	27.87	28.31
Liquid Assets Ratio (%) (Minimum 20%)	27.72	33.11

### (e) Credit Ratings

- The Bank's credit rating, AA(lka) was reaffirmed by Fitch Ratings Lanka Ltd. in 2015
- The Bank's Bangladesh Operation's credit rating was reaffirmed as AAA by Credit Rating Information Services Ltd. in 2015

### (f) Credit Ratings - Debentures

• The credit rating of the Bank's Subordinated Debentures Final, AA- (Ika) too reaffirmed in 2015 by Fitch Ratings Lanka Ltd.

### 12. Information on Scrip Issues, Rights Issues and Share Splits

Year/Month	Details
2015 April	Issue of ordinary shares to satisfy a part of the final dividend for 2014 of Rs. 2.00 per ordinary share
2014 April	Issue of ordinary shares to satisfy a part of the final dividend for 2013 of Rs. 2.00 per ordinary share
2013 April	Issue of ordinary shares to satisfy a part of the final dividend for 2012 of Rs. 2.00 per ordinary share
2012 April	Issue of ordinary shares to satisfy a part of the final dividend for 2011 of Rs. 2.00 per ordinary share
2011 September	Share split of one ordinary share for every one ordinary share held immediately after the right issue
2011 August	Rights issue of one ordinary share for every fourteen ordinary shares held
2011 April	Issue of ordinary shares to satisfy a part of the final dividend for 2010 of Rs. 2.00 per ordinary share
2010 June	Share split of one ordinary share for every two ordinary shares held
2007 June	Scrip issue of one ordinary share for every three ordinary shares held
2007 April	Rights issue of three ordinary shares for every ten ordinary shares held
2005 June	Scrip issue of one ordinary share for every one ordinary share held
2003 October	Right issue of one ordinary share for every four ordinary shares held
2003 May	Scrip issue of one ordinary share for every three ordinary shares held

### 13. Share Price Trend Over Last Ten Years

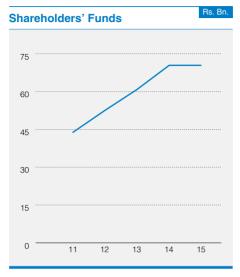
Year	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Ordinary Shares-Voting										
Highest Price (Rs.)	194.00	179.90	126.00	119.50	284.00	295.00	192.00	149.75	250.00	192.50
Lowest Price (Rs.)	139.90	113.50	103.20	96.80	97.00	178.00	66.00	66.25	128.00	123.00
Last Traded Price (Rs.)	140.20	171.00	120.40	103.00	100.00	259.90	189.50	67.00	147.00	190.00
Ordinary Shares-Non-Voting										
Highest Price (Rs.)	149.00	125.50	102.00	99.50	200.00	226.00	131.25	89.50	114.50	90.00
Lowest Price (Rs.)	122.10	91.30	87.00	73.00	69.10	75.00	48.25	48.00	60.00	54.00
Last Traded Price (Rs.)	123.00	125.10	93.00	91.10	74.50	162.00	124.75	49.00	74.50	89.00

### 14. Composition of Shareholders

	A	s at Decer	nber 31, 2015		A	s at Decer	nber 31, 2014	
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
Ordinary Shares-Voting								
Resident	9,094	96.62	558,973,595	68.12	8,065	96.31	504,235,468	62.23
Non-Resident	318	3.38	261,593,520	31.88	309	3.69	306,042,261	37.77
Total	9,412	100.00	820,567,115	100.00	8,374	100.00	810,277,729	100.00
Individuals	8,847	94.00	187,853,981	22.89	7,878	94.08	149,595,615	18.46
Institutions	565	6.00	632,713,134	77.11	496	5.92	660,682,114	81.54
Total	9,412	100.00	820,567,115	100.00	8,374	100.00	810,277,729	100.00
Ordinary Shares – Non-Voting								
Resident	4,128	97.91	44,666,354	79.34	4,057	98.00	43,842,309	78.88
Non-Resident	88	2.09	11,633,332	20.66	83	2.00	11,737,637	21.12
Total	4,216	100.00	56,299,686	100.00	4,140	100.00	55,579,946	100.00
Individuals	3.997	04.04	00 174 000	F7.4F	3.941	05.40	24 720 040	62.50
Institutions	219	94.81	32,174,283	57.15		95.19	34,736,840	37.50
		5.19	24,125,403	42.85	199	4.81	20,843,106	
Total	4,216	100.00	56,299,686	100.00	4,140	100.00	55,579,946	100.0

### 15. Information on Shareholders' Funds and Market Capitalisation

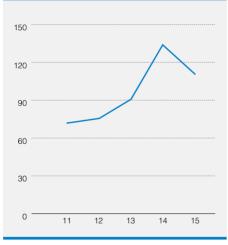
	Shareholders' Funds	Commercial Bank's Market Capitalisation (*)	Total Market Capitalisation of the CSE	Commercial Bank's Market Capitalisation as a % of CSE Market Capitalisation	Commecercial Bank's Market Capitalisation Ranking
As at December 31,	Rs. Mn.	Rs. Mn.	Rs. Mn.	%	Rank
2015	70,341	115,033	2,937,998	3.92	3
2014	70,512	138,557	3,104,864	4.46	3
2013	60,944	95,654	2,286,320	4.18	4
2012	52,577	80,341	2,167,581	3.71	5
2011	43,765	76,509	2,268,854	3.37	6
2010	33,965	91,824	2,280,874	4.03	4
2009	28,499	44,309	1,092,138	4.06	5
2008	25,891	15,630	488,813	3.20	4
2007	23,937	34,234	820,652	4.17	4
2006	15,843	25,368	834,763	3.04	5



→ Graph - 8

## Commercial Bank's Market Capitalisation

Rs. Bn.



→ Graph - 9

→ Managing Risk at Commercial Bank

### Highlights

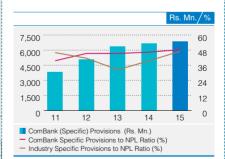
## Asset Quality and Provisioning



Improving asset quality whilst growing the portfolio is a critical success factor. A proven track record as demonstrated in the graph below is testimony to the effectiveness of the Bank's credit sanctioning and credit monitoring processes.



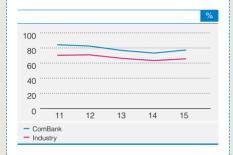
A stringent provisioning policy which goes beyond the regulatory requirements has resulted in consistently high levels of provisioning which are well above the industry.



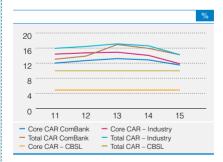
## Capital and Liquidity



A conservative approach to managing liquidity ensures that our Loans to Deposits and Borrowings ratio remains consistently above industry norms. An increasing trend in the ratio is observed mainly due to the substantial credit growth enabling the Bank to optimise earnings within the Bank's risk appetite.



An approach of optimising use of capital ensures that the Bank is well capitalised whilst maximising its earnings potential. The graph depicts Bank's CAR against the industry CAR levels which include Licensed Specialised Banks as well. The Bank's CAR has remained above the CAR levels of competitor Licensed Commercial Banks historically.



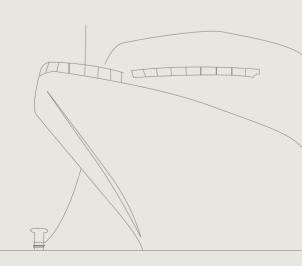
## A Well-diversified Portfolio



Concentration limits for various criteria ensure that risk is well-diversified across the Bank's loans and receivables portfolio. Higher exposures to certain industry segments are inevitable in the market due to the unique profile of each country and our portfolio reflects the country's key contributors to economic growth.

		%
KA	A – Agriculture and Fishing	9%
В	B - Manufacturing	14%
, I	C − Tourism	6%
	D - Transport	3%
C	E - Construction	12%
D	F - Traders	14%
H	■ G - New Economy	3%
G	H - Financial and Business	
F	Services	9%
	I − Infrastructure	4%
	J − Other Services	10%
	K - Other Customers	16%



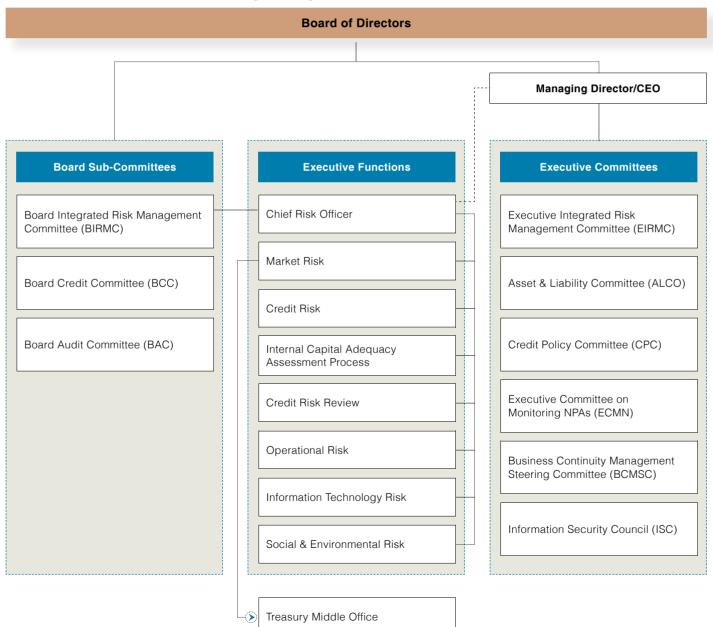


### Governance and Management Approach

As a licensed commercial bank, we accept risk in our normal business and consequently, identifying, measuring, monitoring and managing risk is a core activity for the Bank. An organisation-wide risk management framework facilitates oversight of and accountability for risk at all levels of the organisation and across all risk types. Key elements of the Bank's Integrated Risk Management Framework are as follows:

- Risk Governance
- Risk Appetite
- Risk Management Tools
- A Culture of Risk Awareness

The Risk Governance Structure of the Bank is given in Figure 10.



## Role of the Board and Board Sub-Committees

The Board of Directors bears the ultimate responsibility for oversight of risk management of the Bank and determines the risk appetite and reviews the governance structure, policy framework, risk management processes and other matters related to the effective management of risk on a regular basis.

The Board evaluates the effectiveness of risk management of the Bank on a regular basis and receives reports, explanations, clarifications and presentations from management in this regard. It also commissions investigations and initiates appropriate remedial action in instances where the Bank has incurred significant losses, breached risk appetite or incurred fines by regulators.

The Board is assisted in discharge of its duties with regard to management of risk by the Board Integrated Risk Management Committee (BIRMC) whose composition, Terms of Reference and activities are set out in the Board Integrated Risk Management Committee Report on pages 68 and 69.

Board Credit Committee (BCC) assists the Board of Directors in defining the Credit Policy Framework and provides direction on the lending operations in line with the risk appetite of the Bank thus leading to a healthy loan portfolio.

Board Investment Committee (BIC) is entrusted with the overseeing of the overall investment strategy of the Bank. The Committee achieves this task by reviewing the market risk relating to investments undertaken by the Bank and providing guidance in managing the investment portfolio in accordance with the Investment Policy.

Board Audit Committee (BAC) assists the Board by evaluating the adequacy. efficiency and effectiveness of risk management measures, internal controls and governance processes in place to avoid, mitigate or transfer current and evolving risks. The Chairpersons of the BAC, BCC, BIC, Related Party Transactions Review Committee (RPTRC) and the Board Technology Committee (BTC) also provide feedback to the Board on aspects of risk management which fall within their Terms of Reference facilitating a holistic view of the effectiveness of risk management at Board level. Additionally, the Board Human Resources and Remuneration Committee (HRRC) ensures that relevant financial risk input is considered in determining levels of compensation encouraging compliance with the risk appetite approved by the Board.

Capital Management is a key focus area for the Board, who approves the Internal Capital Adequacy Assessment Process (ICAAP) and submissions to the CBSL in this regard. The Board and the BIRMC are monitoring the progress on the Bank's implementation of ICAAP. They have participated in several presentations to fully understand the impact of developments in this regard and the related benefits, risks and opportunities. Additionally, external consultants have been engaged at the initial stages to facilitate a smooth transition and build capacity within the Bank.

During the year, the Board and the BIRMC reviewed risk management reports presented by the Chief Risk Officer and compliance reports from the Compliance Officer to evaluate the effectiveness of risk management in the Bank.

The Board continues to invest time and resources to understand the impact on risk management arising from the business and regulatory environment in order to provide informed inputs to strategy and policy formulation.



11.60%

### **Core Capital Ratio (Tier 1)**

Core Capital Ratio (Tier 1) of the Bank stood at 11.60% as against the statutory minimum requirement of 5%



10.625%

### **Minimum Total Capital**

Basel III transition phasing arrangement on capital requirement indicates a minimum total capital of 10.625% in 2016

### **Management Committees**

Executive management responsibility for managing risk is spearheaded by the Executive Integrated Risk Management Committee (EIRMC) and the following management committees, whose composition and key functions are given on page 35 of the section on 'How We Govern'.

- Asset and Liability Committee (ALCO)
- Credit Policy Committee (CPC)
- Executive Committee on Monitoring NPAs (ECMN)
- Business Continuity Management Steering Committee (BCMSC)
- Information Security Council (ISC)

These committees carry out independent risk evaluations using both quantitative and qualitative criteria with the assistance of the Integrated Risk Management Department (IRMD) of the Bank. Decisions and discussion points on regular and ad-hoc reports reviewed by these committees are shared with Line Managers and Senior Management to ensure effective communication of material issues and initiate deliberation and necessary action. The EIRMC coordinates communication with the BIRMC and ensures that risk is managed within the defined risk appetite in accordance with the risk management policies and procedures approved by the Board.

### Three Lines of Defence

The Bank deploys a 'three lines of defence' governance model (Figure 11) which facilitates accountability and transparency through clear identification and segregation of roles.

### 1st Line



Employees are responsible and accountable for the risks accepted during the course of business. The first line of defence comprises a robust system of internal controls and an organisation culture of risk awareness which is nurtured with regular training.

### 2nd Line



3rd Line



Risk management, compliance and other support functions such as finance and human resources comprise the second line of defence. They monitor, challenge and exercise oversight of activities conducted by the key business lines (the first line).

Internal Audit, External Audit and regulatory reviews comprise the third line of defence providing independent assurance to the Board over the first and second lines of defence

→ Figure – 11



55.90%

### **Distribution of Borrower Rating**

Borrowers with Investment Grade Ratings where the default risk is considered to be very low, comprised 55.90% of the Total Loans and Receivables of the Bank



77%

### **Distribution of Country Rating**

Exposures to countries which are rated AAA to BBB-(S&P or equivalent) accounted for 77% of the total Cross Border exposures of the Bank

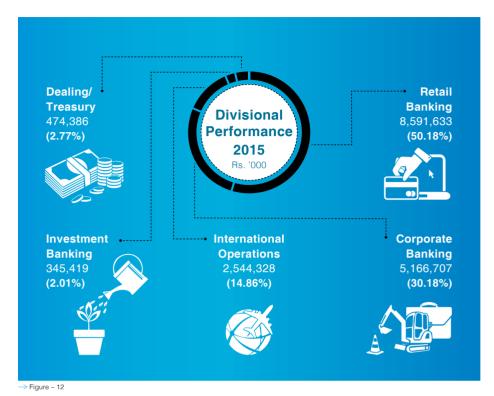
Limits

### **Risk Appetite**

The Board has set in place a Risk Appetite Statement which clearly identifies the aggregate quantum of risk the Bank is willing to assume in different areas of business in achieving its strategic objectives. 

□

Regulatory requirements, strategic goals, capital adequacy and other prudential factors have been considered by the Board in drawing up the Risk Appetite Statement to facilitate creation of sustainable value to stakeholders whilst ensuring compliance in an efficient manner.



**Capital Management Parameters** Regulatory Capital Economic Capital Stressed Earnings Liquidity Risk Appetite by Risk Type Liquidity Credit Equity Operational Market Strategic **Key Risk Indicators** Market Liquidity Credit & Equity Operational Strategic Value at Risk Limits • Gap Limits • NPL Ratio · Operational Losses Capital Adequacy to Gross Income FX Sensitivity • Liquidity Ratios Concentration Interest Rate Ratio Concentration Limits

Sensitivity

· Loss Events

### **Risk Management Tools**

Risk management tools facilitate identification, measurement, evaluation, monitoring and management of risk (Figure 14).

### Risk Management Tools Comprise





Policies and Limits

Stress Testing

→ Figure – 14

Risk measurement, monitoring and reporting is the responsibility of the Risk Management Function who are provided appropriate opportunities for refining their skills with training and development programmes. They are strongly supported with state-of-the-art IT systems which enable extraction of data, analysis and modelling. Regular and ad-hoc reports are generated for review by Senior Management, Management Committees and Board who rely on these for evaluating performance and providing strategic direction. The reports provide information on aggregate measures of risks across products and portfolios which are compared with agreed policy limits providing a clear picture of the amounts, types and sensitivities of the risks monitored by the Bank.

The Bank's Risk Management Policy addresses the risks managed by the Bank in compliance with the Banking Act Direction No. 07 of 2011 – Integrated Risk Management Framework for licensed banks which in turn is based on the Basel II Framework. This key document clearly defines the objectives, outlines, priorities, processes and roles of the Board and Management in managing risk at the Bank. The Risk Appetite Statement forms an integral part of the policy framework which is reviewed by the Board on an annual basis.

Stress testing is done at individual risk level and at entity level to estimate the potential impact on earnings, capital and liquidity due to changes in different market conditions and other risk factors. Results of stress testing are used for decision-making processes for credit risk appetite, market risk limits, capital and funding and are also integrated into the strategic and financial planning processes. Development, approval and review of stress tests are the responsibility of the EIRMC and the BIRMC.

### **Regulatory Environment**

The overall Bank exposure including overseas operations is compliant with the regulatory framework of the CBSL. In addition, Bangladesh operation is compliant with Bangladesh regulatory framework and the Bank will comply with the regulatory frameworks of Myanmar and Maldives with regard to the operations in these countries.



#### Risks

Our business is exposed to a number of risks which have the potential to impact our ability to achieve pre-determined strategic goals including our financial performance. Whilst some risks can be managed by the Bank, there are other key risks that need to be monitored in order to assess their impacts although the Bank is unable to manage these risks (Figure 15). These include the following:

#### Macroeconomic Risks

The economic and market conditions of the countries we operate in have a direct impact on our performance which are in turn impacted by global markets, events and trends. These include the following risks:

- Global economic growth and in particular, economic growth in principal export markets for Sri Lanka
- Geopolitical risks impacting principal trading partners
- Commodities markets which impact corporate earnings and external trade
- Structural reforms to regulate or stimulate economic activity including fiscal and monetary policy

## Macroprudential, Regulatory and Legal Risks

- Unfavourable developments in the financial services sector globally giving rise to increased regulation in Banking sector
- Increased regulations of the financial services sector in the countries we operate in
- Tax-related risks in countries we operate in

Risk management committees receive regular reports on trends and analysis of these risks to support decision making at operational and strategic levels.

The Bank manages the following principal risks identified as having a material impact on our ability to create value for our stakeholders:

- Credit Risk
- Concentration Risk
- Market Risk
- Liquidity Risk
- Operational Risk
- Strategic Risk

Risks

Managed by the Bank

Unable to manage, hence monitored in order to asses the impact

Credit Risk

Market Risk

Strategic Risk

Macroe-conomic Risk

Macroe-conomic Risk

And Liquidity Risk

Operational Risk

Macroe-conomic Risk

And Legal Risk



Figure – 15

26.26%

### **Maximum Credit Exposure**

Maximum Credit Exposure has increased by 26.26% in 2015 as a result of the growth momentum seen in the retail and corporate advances



**37%** 

### **Credit Risk Review**

CBSL requires 30-40% of the Total Advances and Receivables of the banks to be subjected to Credit Risk Review. The Bank has covered 37% of its Total Loans and Receivables portfolio under Credit Risk Review during 2015

### Credit Risk



Credit Risk is defined as the potential loss that could arise if a counterparty or customer fails to meet an obligation under a contract. It arises mainly from direct lending activities which are reflected on the Balance Sheet and from transactions facilitating trade such as Letters of Credit, Guarantees, **Documents Against** Acceptance etc., which are Off-Balance Sheet. Credit risk is comprised of counterparty risk, concentration risk and settlement risk.

Credit risk is present across most of our Balance Sheet and in contingent liabilities as shown in Table 6. However, losses are mainly incurred in loans and receivables to Banks, loans and receivables to Other Customers (Graph 10) and Financial Investments. Therefore, the credit risk commentary focuses primarily on these items.

Maximum credit exposure increased by 26.26% as both retail banking and corporate banking grew their portfolios. Consequently, the amount of loan impairment charges has increased by 22% during the year. Further, the provision for impairment as a percentage of gross loans and receivables has declined due to effective credit risk management, which is further evidenced from the lower NPL ratio of the Bank. However, the Bank has adopted a more stringent approach towards assessment of individual impairment which resulted in an increase in individually impaired loan portfolio (Graph 11).

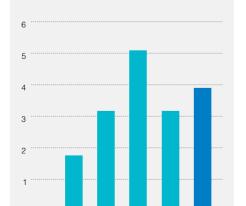
### Maximum Credit Exposure

	2015		2014	1
	Maximum Exposure Rs. Mn.	%	Maximum Exposure Rs. Mn.	%
Carrying Amount of Credit Exposures				
Loans and receivables to other customers	508,115	39.0	405,431	39.4
Loans receivables to banks	601	0.0	551	0.1
Financial investments	269,625	21.0	270,971	26.4
	778,341		676,953	
Off Balance Sheet Maximum Exposures				
Lending commitments	153,980	12.0	106,560	10.4
Financial guarantees	365,875	28.0	244,636	23.7
	519,855		351,196	
Maximum credit exposure	1,298,196	100.0	1,028,149	100.0
Individually Impaired loans	11,747		6,549	
Impaired loans as a % of gross loans and receivables	2.23		1.55	
Provision for impairment individual and collective	18,052		16,956	
Net carrying amount of loans and receivables	508,115		405,431	
Provisions as a percentage of gross loans and receivables	3.43		4.01	
Loan impairment charge individual and collective	3,905		3,190	

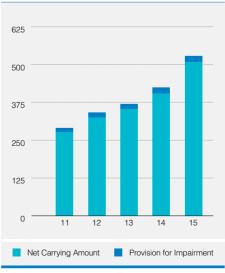
<sup>→</sup> Table – 6

## **Gross Loans & Receivables** to Other Customers





Rs. Bn.



→ Graph – 11

**Impairment** 

Charge

-> Graph - 10

#### **Management Processes**

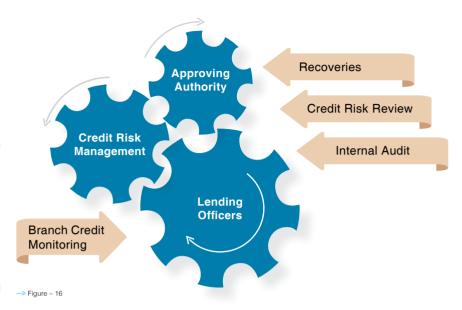
Management of credit risk is critical to the Bank and our approach is to enhance value through credit risk management going beyond mere regulatory compliance. It is managed through the Credit Risk Management Framework approved by the Board which comprises the following:

- A comprehensive suite of policies and procedures - This includes a defined delegation of authority for approval of credit and committees to address specific aspects of credit risk management with a view to maintaining the quality of credit within the defined risk appetite. The Bank's Social and **Environmental Management Systems** (SEMS) Policy integrated to the Bank's pre-sanction risk evaluation process and Credit Risk Review Framework that covers the post disbursement review, enable maintenance of a high quality lending portfolio are encapsulated in the Credit Policy and Lending Guidelines of the Bank. The Credit Policy Committee of the Bank recommends amendments to the policy from time to time based on industry practices, operational efficiency factors and evolving risk landscape.
- Risk Appetite Statement This includes limits on maximum exposures to industry sectors, products and geographies with reference to qualitative and quantitative criteria which encompass maturities and risk ratings. It also specifies High Risk and Prohibited Appetite which are reviewed on a regular basis and amended as deemed necessary. Proposals in the High Risk Category may be approved under exceptional circumstances which will take into account the business rationale and risk mitigants whilst proposals for Prohibited Appetite are not entertained under any circumstances.

- Risk Ratings The Bank has in place a comprehensive risk rating system in compliance with Basel II Guidelines which is capable of representing diverse risk factors through a single point indicator and predicting the probability of default based on borrower and transaction specific criteria. These indicators facilitate measurement of risk in credit portfolios in an objective and consistent manner while supporting the Bank's progression from the present Basel II Standardised Approach towards the more advanced Internal Ratings Based approaches for calculating the capital requirement for credit risk.
  - Collateral Management and Valuation -The Bank obtains collaterals as a possible secondary recourse in the form of cash, marketable securities, properties, stocks, trade debtors, other receivables, machinery and equipment and other physical or financial assets. Clear guidelines are in place to determine the suitability of collateral in credit risk mitigation based on their different characteristics and valuation, to ensure the collaterals will continue to provide the anticipated secondary source of repayment in an eventuality. The Bank has a panel of appointed professional Valuers in order to obtain valuation of the properties, machinery and vehicles taken as collaterals. Periodic estimation of values of collateral ensures that they will continue to provide the expected repayment source in an event where the primary source has not materialised. The collaterals vulnerable to frequent fluctuations in values are subject to stringent haircuts and/or more frequent valuations. The Bank also accepts personal and/or Corporate Guarantees, Guarantees from other banks and creditworthy bodies as collateral for credit facilities. The financial strength of guarantors as against their cash flows, net worth, etc. is taken into consideration to establish their capacity to repay the facilities in case of a default.
- Segregation of Credit Risk Management Functions - Credit risk management comprises of three functional components with pre-sanction risk being monitored and evaluated by Credit Risk Management, post-sanction credit risk being monitored by the Credit Risk Review Function and the social and environment risk being monitored by the Environmental Risk Review Function. This facilitates a high degree of specialisation and honing of skills resulting in focussed and effective analysis supporting effective credit risk management. The Credit Risk Review Function has reviewed borrowers with an exposure upto 37% of total loans and receivables portfolio of the Bank during 2015.
- Independent Verification of Risk
   Assessments The Credit Risk
   Management Function independently
   verifies that the proposals with
   exposures above identified threshold
   levels fall within the established Credit
   Risk Framework of the Bank and that
   they are in compliance with the internal
   as well as regulatory requirements.
- Credit Risk Monitoring The Branch Credit Monitoring Department of the Bank which reports to Assistant General Manager - Credit Supervision and Recoveries independently monitors the advances portfolio for any signs of delinquency and supports the Lending Officers to maintain the quality of the loan book (Figure 16). The Credit Risk Management Function prepares monthly reports on Key Credit Risk Indicators (KCRIs) which include the loans and advances segmentation by business lines and products, risk rating, economic sectors, exposures, analysis of NPL portfolio and default ratios, analysis of high risk segments, concentration and cross border exposures etc. to assess risks of the advances portfolio in a holistic manner. These risks are analysed in an objective manner and compared with established policy parameters to ensure effective management of

credit risk. A high level of granularity in analysis facilitates identification of portfolio characteristics, possible correlations between portfolios and environmental factors and comparison of trends across different lending portfolios leading to identification of emerging risks in individual portfolios and implementation of corrective action in a timely manner.

- Providing Direction to Business Line Managers – The credit monitoring process provides information on products, industries and other indicators of elevated risk, facilitating diversification into thriving economic segments whilst reducing the overall credit risk concentration and optimising returns.
- Internal Audit Credit risk management processes are reviewed by Internal Audit to ensure that it is in compliance with regulatory requirements and the Bank's policy framework.



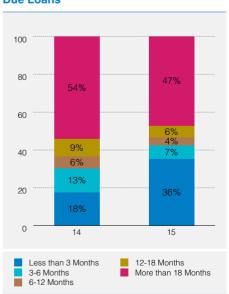
### **Credit Risk Review**

Default Risk

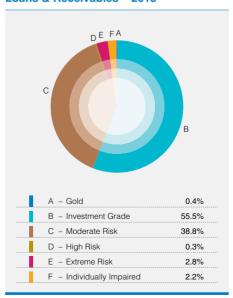
Default risk (defined as the potential loss due to borrowers'/counterparties' inability or unwillingness to meet its obligations) moderated during the year as indicated by the improved risk ratings of the loans and receivables portfolio is reflected in the graphs 13 and 14 This is attributable to the efficacy of credit risk management

processes which enabled channelling of lending to economically thriving industry sectors, improved risk assessments of credit proposals and effective credit monitoring enabling early interventions. Risk profile of the lending portfolio of the Bank indicates an increase in the investment grade borrowers during 2015.

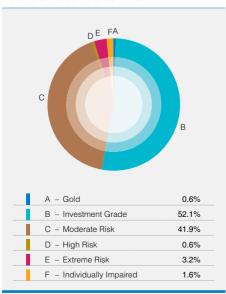
## Age Analysis of Past Due Loans



## Risk Ratings-Wise Distribution of Loans & Receivables – 2015



## Risk Ratings-Wise Distribution of Loans & Receivables – 2014



→ Graph – 12 → Graph – 13

→ Graph – 14

The allowance for individual and collective impairment increased by 6.46% during the year due to strong growth in retail banking and corporate banking portfolios. Moderation of default risk made it permissible to reduce the impairment provision coverage within the Bank's risk appetite. Allowance for individual and collective impairment by industry sectors is given in Table 7. Individual impairment of tourism and hospitality trade is high mainly due to two exposures which are being closely monitored and recovery probability is predicted as favourable. The provision cover computed under time based provisioning policy of the CBSL guidelines remains well above industry levels as depicted in Asset Quality and Provisioning illustration given on page 112 as the Bank adopts stringent policies for provisioning which go beyond the regulatory requirements.

### Concentration Risk

Concentration risk is managed by diversification of risk across industry sectors, products, counterparties and geographies. The Bank's Risk Appetite Statement defines the limits for these segments and exposures are monitored by the Board, BIRMC, EIRMC and the CPC to ensure compliance and also make recommendations on modifications to specified limits taking into consideration trends and events shaping the business environment. Total industrywise credit exposure as at end of 2015 is graphically depicted on page 112.

An analysis of the loans and receivables portfolio given on page 112 reflects a well-diversified portfolio with significant exposures to - manufacturing, trade, construction and other customers which are the country's thriving economic segments.

An analysis of loans and receivables by product (Graph 15) also reflects the effectiveness of the Bank's credit policies with risks being well-diversified across the Bank's range of credit products with relatively high exposure of 29.74% to long term loans which is rigorously monitored and mitigated with collateral.



Product-wise Analysis of Loans &
<b>Receivables to Other Customers</b>
as at December 31, 2015

K	B C C FE
A - Overdraft	15.56%
B - Trade Finance	8.87%
C - Lease Receivables	6.66%
D - Credit Card	0.79%
E - Pawning	0.37%
F - Staff Loans	1.20%
G - Housing Loans	7.75%
H - Personal Loans	5.05%
I - Short Term Loans	8.40%
J - Medium Term Loans	13.40%
K - Long Term Loans	29.74%
L - Bills of Exchange	2.21%

→ Graph – 15

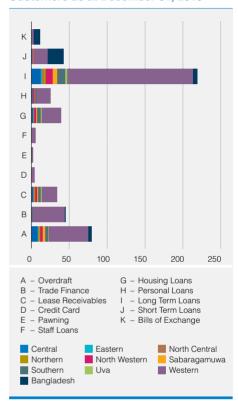
A geographical analysis reflects a high concentration of loans (Graph 16) in the Western Province which is due to concentration of economic activity and the Head Offices of borrowing entities being located in the Western Province. It is noteworthy that there is a significant decline in the exposure to the Western

### Individual/Collective Impairment Distribution

Country/Industry Sector	Past Due Advances (According to SLFRS Classification)	Allowance for Individually Impaired Loans	Allowance for Collective Impairment	Amount Written off
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Exports	1,782,376	167,109	854,701	4,896
Imports and trading	3,476,350	764,604	1,533,759	6,136
Wholesale and retail trading	1,374,062	126,680	685,733	2,271
Construction industry	2,222,731	443,721	291,291	2,147
Any other commercial activity	1,437,100	13,694	468,953	1,547
Industries – mfg for local market	3,087,162	886,936	1,468,691	34,834
Agricultural activity	2,282,998	95,337	963,757	35,891
Housing & property development	901,279	464,854	271,979	2,163
Tourism and hospitality trade	4,092,162	1,520,466	394,890	1,100
Personal	3,972,745	229,922	2,672,751	221,062
Services	2,302,197	126,629	1,797,916	31,137
Holding companies	851,298	997	87,896	165
Finance & insurance industry	69,709	47,157	211,252	49
State institutions	20,875		100,750	_
Others	266,065	14,779	173,775	4,432
Bangladesh		467,074	703,499	
	28,139,109	5,369,960	12,681,595	347,830

Province from 71.73% in 2014 to 69.93% in 2015 mainly due to growth of business volumes of branches located outside the Western Province.

Geographical Analysis of
Loans & Receivables to Other
Customers as at December 31, 2015



→ Graph – 16

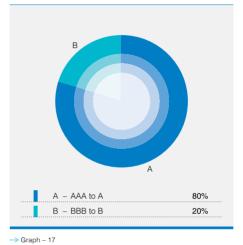
### Counterparty Risk

Counterparty risk is managed through single borrower limits and group borrowing limits which have sub-limits for products and other criteria as well. The Bank has established more stringent limits for individual and Group exposures as compared to Single Borrower Exposure thresholds stipulated by the regulator which provides the Bank with a greater comfort in managing concentration levels.

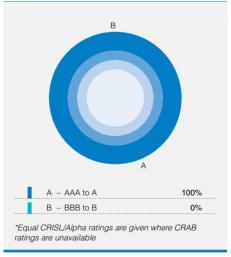
A key component of counterparty risk is loans and receivables to Banks, both local and foreign entities, managed through a specific set of policies and procedures which include comprehensive limits. Exposures to this segment are monitored regularly to ensure compliance and there is a rigorous scrutiny of market,

financial and other information relating to these counterparties throughout the year with limits revised to reflect latest information whenever deemed necessary.

The Concentration of Counterparty
Bank Exposures in Sri Lanka as at
December 31, 2015 (Fitch Ratings-Wise)



The Concentration of Counterparty
Bank Exposures in Bangladesh as at
December 31, 2015 (CRAB\* Ratings-Wise)



→ Graph – 18

The analysis uses Fitch Ratings for local banks in Sri Lanka and Credit Ratings Agency of Bangladesh (CRAB) for local banks of Bangladesh (Equivalent CRISL/Alpha ratings have been used where CRAB ratings are not available). Exposures for local banks in Sri Lanka rated AAA to A

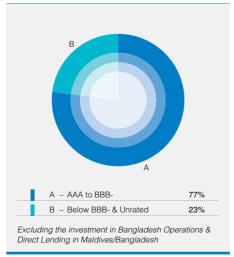
category stood at 80% (Graph 17) while 100% of exposure of local banks in Bangladesh consisted of AAA to A rated counterparty Banks (Graph 18).

#### Cross-Border Risk

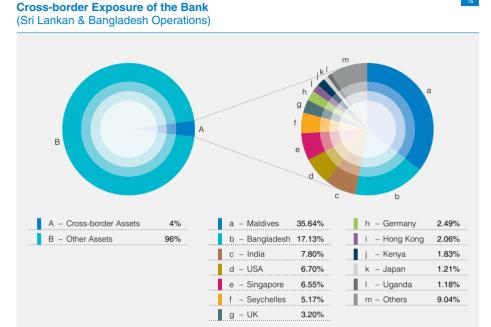
Cross-border risk is the risk that the Bank will not able to obtain payment from its customers or third parties on their contractual obligations as a result of certain action taken by foreign Governments, mainly relating to convertibility and transferability of foreign currency. Cross-border assets comprise loans and receivables to banks and other customers, balances with banks and Central Banks, trade and other bills and acceptances which predominantly relate to short term money market activities.

Total cross-border exposure is only 4% of total assets of the Bank (Graph 20). The Bank has exposures to cross-border through a spread of countries which primarily include Maldives, Bangladesh, India, USA, Singapore, Seychelles, UK, Germany, Hong Kong etc.

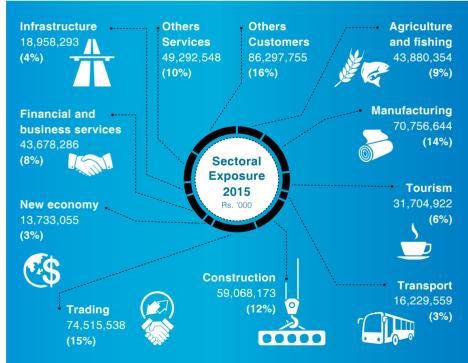
The Concentration of Cross-border
Exposure (Sri Lanka and Bangladesh
Operations) S & P Ratings-Wise
as at December 31, 2015



→ Graph – 19



→ Graph – 20



### Market Risk



Market risk is the potential of an adverse impact on the Bank's earnings or capital due to changes in interest rates, foreign exchange rates, commodity prices or equity and debt prices. The Bank's normal operations include dealing in financial products which expose the Bank to market risk in varying degrees.

Most items on the Balance Sheet are subject to some of the following elements of market risk:

- Interest Rate Risk (IRR)
- Foreign Exchange (FX) Risk
- Equity Risk (The Bank's exposure is negligible)
- Commodity Risk (The Bank does not have any exposure to Commodity Risk)

Interest Rate Risk is the exposure of the Bank's financial condition against movements in interest rates. Extreme upward or downward movements in interest rates could pose a severe threat to the Bank's Net Interest Income and also affect the underlying value of assets, liabilities and Off-Balance Sheet items. The main types of IRR to which the Bank is exposed are re-pricing risk, yield curve risk and basis risk.

- Re-pricing Risk occurs due to differences in amounts of interest earning assets and interest bearing liabilities getting re-priced at the same time or due to timing differences in the fixed rate maturities and appropriately re-pricing of floating rate assets, liabilities and Off-Balance Sheet instruments. The Bank monitors this risk through internally set re-pricing gap limits and interest rate sensitivity limits on a regular basis.
- Yield Curve Risk arises due to unanticipated changes in shape and gradient of the yield curve, while basis risk arises due to differences in the relative movement of rate indices used for pricing instruments with similar characteristics, both of which contribute to IRR of the Bank. These risks are managed by appropriately re-balancing and/or re-pricing of portfolios.

FX Risk is the possible impact on earnings or capital, due to movements in exchange rates arising out of maturity mismatches in foreign currency positions other than the base currency, Sri Lankan Rupee (LKR).

Bank has set stringent risk tolerance limits for individual currency exposures as well as aggregate exposures within regulatory limits to ensure that potential losses due to fluctuations in FX rates are minimised and within the Bank's risk appetite.

Equity and Debt Price Risks arise due to changes in prices and volatilities of individual equities/debts. Mark to market calculations are carried out daily and quarterly for Held-for-trading and Available-for-sale portfolios respectively, although the Bank's exposure to this risk is negligible.

Commodity Price Risks result from exposures to changes in prices and volatilities of individual commodities. However, the Bank does not have any exposure in Commodity Risk.

### Management of Market Risk

The Market Risk Management Framework of the Bank provides guidance on appropriate management of market risk within the overall risk appetite so that adverse changes in market risk parameters, do not materially impact the Bank's profitability, capital or the risk profile. Key elements include:

 A Robust Risk Governance Structure - Market risk is monitored by BIRMC, EIRMC and ALCO who are responsible for formulating policy in this regard including setting the parameters of the Risk Appetite Statement. EIRMC is the principal management committee responsible for monitoring market risk exposure and initiating appropriate action to optimise overall market risk exposures within the defined risk appetite. Market Risk Management Unit (MRMU) of the IRMD is responsible for co-ordinating and performing daily market risk management activities including measuring, monitoring and reporting of market risk exposures, and reviewing the Bank's market risk-related policies and exposure limits at least annually. It also provides independent reviews on market risks associated with new investment proposals and products, thus facilitating efficient decision-making through optimising risk-return trade off. The Treasury Middle Office (TMO) is an integral part of MRMU and functions independently from both the Treasury Front Office (i.e. trading unit) and Treasury Back Office (i.e. settlement unit). TMO independently monitors, measures and analyses exposures as per the comprehensive limit framework pertaining to Treasury transactions. Further, it reports on Management

- Action Triggers (MATs), which alert of imminent limit breaches and recurring loss events, to initiate preventive measures to mitigate potential losses.
- A Comprehensive Suite of Policies –
   Policies covering various aspects of
   market risk which include Market Risk
   Management Policy, Asset and Liability
   Management (ALM) Policy, Foreign







32%

## **Funding Sources**

Bank's healthy savings deposit base contributed to 32% of total funding sources



20%

## **Purchased Funding**

Purchased funds (including inter-bank and money market borrowings) to total funds has been maintained below 20% Exchange (FX) Risk Management Policy, Derivative Policy, Treasury Policy and Stress Testing Policy define exposure limits and procedures for transactions.

- Market Risk Limits These are regularly reviewed by ALCO and EIRMC and revised to narrower bands than specified in the Risk Appetite Statement to control the impact of market dynamics arising from elevated risk levels.
- Management Action Triggers –
   These are risk thresholds that trigger specific actions to safeguard the market risk exposures of the Bank within the levels specified in the Risk Appetite Statement.
- Risk Monitoring ALCO is responsible for monitoring Asset and Liability gaps, composition and market trends to determine strategy, pricing of risk and funding requirements. The IRR of the Bank is measured independently and managed by Treasury in a consolidated manner through Funds Transfer Pricing (FTP) mechanism under the guidance of ALCO. Additionally, the Bank uses several tools such as gap analysis (income perspective) and duration analysis (value perspective) to monitor IRR on an ongoing basis taking into consideration re-pricing characteristics of all assets and liabilities of the Bank. The Bank assesses IRR exposure based on both the Earnings at Risk (EAR) approach focusing on the impact of interest rate changes on its nearterm earnings and the Economic Value of Equity (EVE) approach, focusing on the value of the Bank's net cash flows.
- Risk Assessment The Bank uses
  a range of techniques including
  sensitivity analysis, stress testing,
  marking to market and Value-at-Risk
  (VaR) calculations to assess market
  risk across portfolios.

### Market Risk Review

The Bank's exposures to market risk analysed by Trading Book and Non-Trading Portfolios (or Banking Book) are set out in the Table 8:

	Carrying Amount Rs. Mn.	Trading Portfolio Rs. Mn.	Non-Trading Portfolio Rs. Mn.
Assets Subject to Market Risk			
Cash & cash equivalents	6,012		6,012
Balances with Central Banks	8,146	-	8,146
Placements with banks	17,194	-	17,194
Securities purchased under resale agreements	8,002	_	8,002
Derivative financial assets	4,118	4,118	_
Other financial instruments – Held for trading	7,656	7,656	_
Loans & receivables to banks	601	_	601
Loans & receivables to other customers	508,115	_	508,115
Financial Investments – Available-for-sale	204,244	_	204,244
Financial investments – loans and receivables	57,724	_	57,724
Total	821,812	11,774	810,038
Liabilities Subject to Market Risk			
Due to banks	30,319		30,319
Derivative financial liabilities	1,891	1,891	
Securities sold under Repurchased Agreements	112,385	_	112,385
Due to other customers/Deposits from customers	624,102	_	624,102
Other borrowings	9,986	_	9,986
Subordinated liabilities	11,973	_	11,973
	790,656	1,891	788,765

→ Table - 8

The Bank's market risk arises mainly from the Non-Trading Portfolio (Banking Book) which accounts for 92.07% of the total assets and 97.44% of the total liabilities subject to market risk. The Bank's exposure to market risk arises mainly from Interest Rate Risk (IRR) and Foreign Exchange (FX) Risk as the Bank does not have any exposure to commodity-related price risk and only a negligible exposure on equity and debt price risk which was less than 8.00% of the total risk weighted exposure for market risk.

### Interest Rate Risk (IRR)

Market Risk Portfolio Analysis

Interest Rate Sensitivity Gap Analysis of Assets and Liabilities is given below:

	Up to 1 Month Rs. Mn.	1-3 Months Rs. Mn.	3-6 Months Rs. Mn.	6-12 Months Rs. Mn.	1-3 Years Rs. Mn.	3-5 Years Rs. Mn.	Over 5 Years Rs. Mn.	Non- Sensitive Rs. Mn.	Total Rs. Mn.
Cash on hand							_	15,873	15,873
Deposits with Central Banks	2,745							20,075	22,820
Balances due from head office, affiliates and								20,075	22,020
own branches							_	_	
Balances due from other banks	22,497	4,829						<u> </u>	27,326
Investments	57,897	4,265	197	14,217	95,670	45,278	56,229	2,066	275,821
Bills of exchange	11,242							_	11,242
Overdrafts	52,535	11,908	3,903	8,969	2	_	-	-	77,318
Loans and advances	175,975	40,188	39,097	67,135	60,537	33,514	2,433	-	418,879
NPLs	_			_	67	27	33	629	756
Fixed assets	_		_	_			_	10,435	10,435
Net inter-branch transactions								=	=
Accrued interest								9,400	9,400
Other assets								6,265	6,265
Reverse repos	8,002		_	_			_	_	8,002
FRAs	_						_	_	_
SWAPs	_	_	_	_			_	_	_
Futures	_						_	_	_
Options	_	_	_	_			_	_	_
Others									
Total Rate Sensitive Assets (RSA)	330,893	61,190	43,198	90,321	156,276	78,819	58,696	64,744	884,137
Demand deposits								57,986	57,986
Savings deposits	241,928								241,928
Time deposits	46,334	75,940	66,315	94,524	12,684	8,790	10,434		315,020
Other deposits									
Balances due to head office, affiliates and own branches								_	_
Balances due to other banks	6,727	10,431	2,162	10,090					29,411
Certificate of deposits	120	15	45	89	151				420
Other borrowings	2,227	5,607					2,056		9,889
Net Inter-Branch transactions								_	
Bills payable								_	
Interest payable								10,012	10,012
Provisions (Others)								=	
Capital								23,255	23,255
Reserves								46,912	46,912
Retained earnings								4,490	4,490
Subordinated debt	10,811		505	467					11,784

	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5 Years	Non- Sensitive	Total
	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.
Other liabilities	-	_	=	-	-	=	-	19,823	19,823
Repos	71,140	19,080	11,243	11,413	332	-	_	-	113,207
FRAs		_	-	-		_	_	_	-
Futures	_	-	-	-	-	-	-	-	-
SWAPs		_	_		_	_	_		_
Options	_	-	-	-	-	-	-	-	-
Total Rate Sensitive Liabilities (RSL)	379,288	111,072	80,270	116,583	13,167	8,790	12,490	162,478	884,137
Period gap	(48,395)	(49,882)	(37,073)	(30,431)	143,109	70,029	46,206		
Cumulative gap	(48,395)	(98,276)	(135,349)	(165,780)	(18,501)	51,528	97,734		
RSA/RSL	1	1	1	1	12	9	5		

→ Table – 9

Table 9 is prepared by stratifying Rate Sensitive Assets (RSA), Rate Sensitive Liabilities (RSL) and Off-Balance Sheet items into various time bands according to maturity (if fixed rates) or time remaining to their next re-pricing (if floating rate). The gap between RSA and RSL indicates the vulnerabilities the Bank is exposed to with changing interest rate scenarios in the market.

Impact on Net Interest Income (NII) due to rate shocks on LKR and FCY is continuously monitored to ascertain the Bank's vulnerability to sudden interest rate movement [Refer Note 67.3.2 (b) to the Financial Statements on page 400]. Table 10 depicts the sensitivity of projected NII to interest rate changes for 2014 and 2015 which demonstrates an increased/decreased sensitivity due to the conscious decision of the Bank to rebalance its fixed income securities portfolio.

### Sensitivity to projected NII

	20	15	20	14
	100 bp	100 bp	100 bp	100 bp
	Parallel Up	Parallel Up Parallel Down		Parallel Down
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at December 31,	363,173	(362,303)	494,488	(495,461)
Average for the year	336,601	(335,541)	751,326	(753,968)
Maximum for the year	469,161	(468,336)	893,537	(901,327)
Minimum for the year	267,117	(266,063)	494,488	(495,461)

→ Table - 10

The Bank conducts regular stress tests on Interest Rate Risk in Banking Book (IRRBB) encompassing changing positions and new economic variables together with specific stress scenarios. Change in value of the Fixed Income Securities (FIS) portfolio in Held-for-Trading (HFT) category due to abnormal market movements is measured using both Economic Value of Equity (EVE) and Earnings at Risk (EAR) perspectives. Results of stress test on IRR are analysed to identify the impact of such scenarios on Bank profitability and capital.

### Foreign Exchange (FX) Risk

Foreign exchange risk is the possible impact on earnings or capital, due to movements in exchange rates arising

out of maturity mismatches in foreign currency positions other than the base currency, Sri Lankan Rupee (LKR). The Bank has set stringent risk tolerance limits for individual currency exposures as well as aggregate exposures within the regulatory limits to ensure that potential losses arising out of fluctuations in FX rates are minimised and maintained within the Bank's risk appetite.

USD/LKR exchange rate fluctuated between a low of Rs.131.25 and a high of Rs.144.25 (Source: Bloomberg) during the year under review and the annual Rupee depreciation was recorded at approximately 9.03%. Table 11 indicates the Bank's exposure to FX risk as at December 31, 2015.

### FX Position as at December 31, 2015

	Net Open Position	Overall Exposure in Respective Foreign Currency	Overall Exposure in LKR '000
United States Dollar	1,096	1,877	270,602
Great Britain Pound	46	15	3,171
Euro	(58)	(31)	(4,886)
Japanese Yen	(420)	5,848	6,999
Indian Rupee	0	0	0
Australian Dollar	(33)	1	86
Canadian Dollar	(0)	7	716
Other currencies in US \$	44	333	47,951
Total exposure US \$	1,117	2,252	324,639
Total capital funds as at December 31, 2015			79,687,972
Total exposure as a % of capital funds as at December 31, 2015			0.41%

→ Table - 11

Stress testing is conducted on Net Open Position (NOP) by applying rate shocks ranging from 6% to 15% in order to estimate the impact on profitability and capital adequacy of the Bank. The impact of a 1% change in exchange rate on the Net Open Position will result in a profit/loss of Rs. 126.26 Mn. on the positions as at December 31, 2015 (Refer Note 67.3.3 to the Financial Statements on page 401). In addition, the Bank continuously monitors the sensitivity of NOP to exchange rate fluctuations.

### **Equity Risk**

Equity price risks arise from exposures to changes in prices and volatilities of individual equities. Although the Bank's exposure to this risk is negligible, mark-to-market calculations are conducted either daily or quarterly on Held-for-trading and Available-for-sale portfolios

respectively, to identify the impact on profit due to changes in equity prices. The Bank has also commenced VaR calculations on equity portfolio. Table 12 summarises the impact of a shock of 10% on equity price on profit, Other Comprehensive Income (OCI) and equity: as at December 31, 2015. (Refer Note 67.3.4 to the Financial Statements on page 402)

	Held-for-Trading Rs. '000	Available-for-Sale Rs. '000	Total Rs. '000
	Impact on Income		
	Statement	Impact on OCI	Impact on Equity
Shock of 10% on equity price	32,626	23,484	56,110

→ Table – 12



14.26%

### **Total Capital Ratio**

Total Capital Ratio (Tier 1 and Tier 2) of the Bank which stood at 14.26% was well above the statutory Requirement of 10%.



24.48%

### **Risk Weighted Assets**

Total Risk Weighted Assets has shown a growth of 24.48% during 2015 mainly due to the expansion of the loan growth in Corporate Banking and Personal Banking Divisions.

### Liquidity Risk



Liquidity risk is the Bank's inability to meet 'On' or 'Off' Balance Sheet contractual and contingent financial obligations as they fall due, without incurring unacceptable losses.

Banks are vulnerable to liquidity and solvency problems resulting from asset and liability mismatches. Therefore, the principle objective in liquidity risk management is to assess the need for funds to meet obligations and to ensure the availability of adequate funding to fulfil those needs at the appropriate time, both under normal and stressed conditions.

The Bank has maintained the following Liquid Asset Ratios as at December 31, 2015:

	DBU	OBC
Statutory Liquid Asset Ratio (SLAR)	26.24%	49.13%

→ Table - 13

### Managing Liquidity Risk

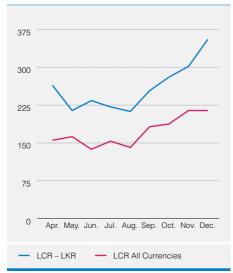
The nature of the Bank's business entails continuous monitoring of liquidity risk in accordance with the Risk Management Framework within the parameters of the Risk Appetite of the Bank. Structures and processes in place for management of liquidity risk are described below:

- Structure ALCO is the main management committee mandated with the implementation of liquidity risk management policies and procedures. These include establishing and monitoring liquidity targets. determining strategies and tactics to meet those targets, ensuring availability of sufficient liquidity for unanticipated contingencies by focusing on effective diversification in sources and tenors of funding, monitoring Off-Balance Sheet activity-related liquidity impact and diversifying deposit maturity base avoiding concentration of resources. The Board, BIRMC, ALCO and EIRMC regularly review reports of key liquidity risk indicators to ensure that they are within the agreed parameters.
- Measurement The Bank uses numerous methods to monitor its liquidity profile within both stock (based on key ratios) and flow (based on cash inflows and outflows in time bands) approaches. The range of key liquidity risk indicators used by the Bank to assess adequacy of its liquidity position includes, Statutory Liquid Asset Ratio (Table 13), Net Advances to Deposit Ratio, Dynamic and Static (Structural) Liquidity Gap Summary, Core Funding Ratio, Funding Concentration and Commitments Vs Funding Sources. Furthermore, the Bank has in place a more stringent internal limit for maintaining SLAR as compared to the minimum statutory requirement of 20% of total liabilities excluding contingent liabilities as well as appropriate levels of Liquidity Coverage Ratio (LCR) as per the Basel III Guidelines (Graph 21).

- Risk Mitigation The Bank maintains an adequate margin of safety in high quality liquid assets and access to diverse funding sources such as inter-bank market, wholesale and retail repurchase agreements, assets and investments Available-for-sale and has contingency funding agreements with peer banks to meet liquidity requirements. This ensures availability of adequate liquidity to fund its existing asset base and growth whilst maintaining sufficient liquidity buffers to operate smoothly under varying market conditions including any short, medium or long term market disruptions.
- Stress Testing The Bank conducts regular liquidity stress tests and scenario analysis to evaluate the potential impact of sudden and severe stress events on the Bank's liquidity position. This enables the Bank to proactively identify appropriate funding arrangements that can be used to manage such stress situations with a minimum financial and/or reputational impact.

## Liquidity Coverage Ratio (LCR) – 2015





→ Graph – 21

• Contingency Funding - The Bank has a Contingency Funding Plan which provides guidance in managing liquidity in bank specific or market specific scenarios. It outlines various ways in which the Bank monitors assets and liabilities of the Bank with an emphasis on avoiding major liquidity crisis. Procedures outlined include addressing unlikely but possible events of either short or long term funding crisis, forecast funding needs as well as funding sources under different market situations including aggressive asset growth or loan rollover and rapid liability erosion or sharp decline in deposits during a 3-month time period, which is considered the most critical time span in a liquidity crisis. Management and reporting framework includes early warning signals and means to avoid and mitigate possible crisis promptly, Management Action

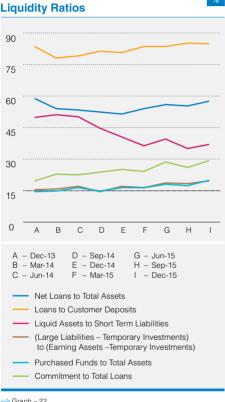
Plan with alternative sources of inflows and trigger levels for action, communication plan to prevent further escalation or contagion and regular sources of liquidity supplemented with contingent sources.

Value-at-Risk Measurements (VaR) -The Bank carries out VaR calculations on four portfolios categorised as Held-for-trading (HFT), using a market risk software solution. This software has the capability of computing VaR in three methodologies namely, Historical Simulation. Monte Carlo Simulation and Variance-Covariance in order to measure its market risk exposure in an efficient manner and to meet regulatory compliance. The Bank computes VaR in line with Basel II Market Risk Framework, considering a 99% 'Confidence Level' and a 10-tradingdays Holding Period. VaR, a quantitative measure depicts the maximum loss

the Bank shall incur, under specific conditions during a given period due to changes in interest rates, exchange rates, debt and equity prices as well as price of financial products.

### Liquidity Risk Review

The key ratios used for measuring liquidity under the Stock approach are depicted in Graph 22.



→ Graph – 22

Net Advances to Deposits Ratio is regularly monitored by ALCO to ensure that the asset and liability portfolios of the Bank are geared to maintain a healthy liquidity position.

Core Funding Ratio, an indicator of the stability of funding sources compared to loans and advances granted was maintained well above the policy threshold of 90%, which is considered healthy to support the Bank's business model and growth.



### Maturity Gap Analysis as at December 31, 2015

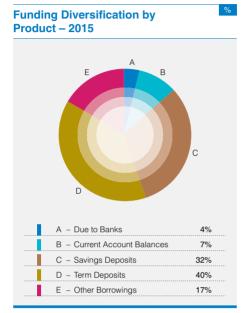
	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5 Years	Tota
	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn
Cash on hand	15,873	_	_	_	_	_	_	15,873
Deposits with Central Banks	2,043	2,899	2,559	2,689	2,377	2,100	8,154	22,820
Balances due from head office, affiliates and own branches	_	_	_	_	_	_	_	_
Balances due from other banks	22,497	4,829	_	_	_	_		27,326
Investments	14,344	6,880	6,858	25,809	111,677	52,486	57,768	275,821
Bills of Exchange	11,242	_	_	_	_	_	_	11,242
Overdrafts	5,799	5,799	5,799	11,598	16,043	16,043	16,237	77,318
Loans and receivables	29,079	54,150	47,477	47,895	129,907	68,671	41,700	418,879
NPLs	_		_	189	_	_	567	756
Net inter-branch transactions	_	_	_	_	_	_	_	_
Other assets	14,478	27	25	46	713	87	10,723	26,100
Lines of credit committed from institutions	1,000	_	_	_	_	_	_	1,000
Others (Reverse Repos)	8,002	_		_	_	_	_	8,00
Total	124,357	74,584	62,718	88,226	260,716	139,388	135,148	885,13
Demand deposits	11,597	11,597	8,698	11,597	_	_	14,496	57,98
Savings deposits	12,096	12,096	12,096	24,193	60,482	60,482	60,482	241,92
Balances due to Head Office, affiliates and own branches	_			_	_	_		
Balances due to other banks	6,727	10,431	2,162	10,090	_	_	_	29,41
Time deposits	32,434	53,158	46,420	37,810	8,879	6,153	130,167	315,02
Certificate of deposits, borrowings and bonds	120	499	1,028	1,585	4,240	140	14,481	22,09
Net inter-branch transactions	_		_	_	_	_		
Bills payable	_	_	_	_	_	_		_
Interest payable	2,753	1,572	1,914	1,911	1,442	366	54	10,01
Provisions other than NPLs and depreciation of investments	_	_	_	_	_	_		
Other liabilities	13,548	1,504	1,355	1,271	_	2,145	_	19,82
Lines of credit committed to institutions	1,000			_	_			1,00
Unutilised portion of overdrafts and advances	109,756			_	_	_		109,75
Letters of Credit/Guarantees/Acceptance	75,669	20,967	8,697	8,250	4,556	974	115	119,22
Repos/Bills Rediscounted/SWAPs/Forward Contracts	153,564	93,841	42,928	62,551	6,920	_		359,80
Others							74,657	74,65
Total	419,265	205,665	125,298	159,258	86,519	70,260	294,452	1,360,71
Period Gap	(294,908)	(131,081)	(62,580)	(71,032)	174,198	69,128	(159,304)	
Cumulative Gap	(294,908)	(425,989)	(488,569)	(559,601)	(385,404)	(316,276)	(475,580)	
Cumulative Liabilities	419,265	624,930	750,228	909,486	996,005	1,006,265		
Cumulative Gap as a % of Cumulative Liabilities	-70%	-68%	-65%	-62%	-39%	-30%	-35%	

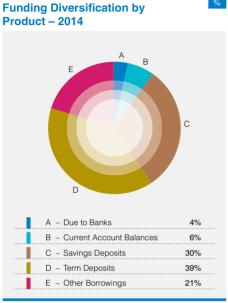
Maturity analysis of financial assets and financial liabilities of the Bank (Table 14) does not indicate any adverse situation when due cognizance is given to the fact that cash outflows include savings deposits which can be considered as a quasi stable source of funds based on historical behavioural patterns of such depositors.

The liquidity position is measured in all major currencies at both individual and aggregate levels to ensure that potential risks are within specified threshold limits. Additionally, potential liquidity commitments resulting from loan disbursements and undrawn overdrafts are also monitored to ensure sufficient funding sources.

### Funding Diversification by Product

The Bank's primary sources of funding are deposits from customers (Graph 23) provides a product-wise analysis of the Bank's funding diversification as at year-end:





### **Credit Ratings**

The Bank's ability to borrow is significantly dependent on its credit ratings which were as follows:

Operations/Entity	Rating Agency	Rating
Commercial Bank of Ceylon PLC	Fitch Ratings Lanka Ltd.	AA (lk)
Bangladesh	Credit Rating Information and	AAA
	Services Ltd. (CRISL)	

→ Table - 15

The rating of AA (lk) is the strongest rating given to a Sri Lankan non-state sector bank and was re-affirmed by Fitch Ratings Lanka Ltd. in 2015. The AAA (Triple A) long-term credit rating accorded to the Bangladesh operations of Commercial Bank PLC has been reaffirmed by CRISL for the fifth consecutive year in 2015 (Table 15).



0.16%

# Operational Losses Vs Capital Allocation

Operational losses for 2015 stood at 0.16%, compared to the capital allocation of 15% under the Basic Indicator Approach of capital computation as per Basel II



0.001%

# Operational Losses Vs Transactions

Average number of operational loss events for 2015 stood at a mere 0.001%, compared to the average number of transactions performed during the year

<sup>→</sup> Graph – 23

### **Operational Risk**



The Bank is exposed to Operational Risk as it is inherent in all banking products and processes. Operational Risk is defined as the risk of losses stemming from inadequate or failed internal processes, people and systems, or from external events such as natural disasters, social or political events. Operational Risk includes Legal Risk but excludes Strategic and 

### Managing Operational Risk

The Bank manages Operational Risk based on an organisation-wide consistent framework that enables determination of its Operational Risk profile in comparison to its risk appetite and systematically identifies Operational Risk themes and concentrations to define risk mitigating measures and priorities. These are described below:

• Governance - The Board of Directors is responsible for ensuring that a sufficiently robust framework for managing Operational Risks is established, and are aided in this duty by the BIRMC. The Bank's 'First Line of Defence' are the management and staff of the Bank and a rigorous system of review is in place to identify Operational Risks within the strategic business units. The Chief Risk Officer who reports directly to the BIRMC spearheads the Independent Operational Risk Management Unit (ORMU) which supports the EIRMC in monitoring Operational Risk providing independent oversight of the First Line of Defence. Internal Audit provides assurance

- on the effectiveness and integrity of the first and second lines of defence independently to the BAC.
- Policies The Bank's Operational Risk Management Framework defines the Bank's approach in identifying, assessing, mitigating, monitoring and reporting the Operational Risks which may impact the achievement of the Bank's business objectives. The Risk Management responsibilities and obligations of the Board of Directors, Corporate Management, ORMU and all other Risk Owners are clearly specified in the Operational Risk Management Policy which is reviewed annually by the Board.
- Risk Assessment Each business function within the Bank proactively identifies and assesses its significant Operational Risks and the controls in place to manage those risks in a semi-annual Risk and Control Self-Assessment (RCSA) process which is automated via the Operational Risk Management System. Findings from the RCSA exercise is used to formulate appropriate action plans to address identified control gaps which are monitored as part of the overall Operational Risk Management exercise. The Bank also conducts reviews of new products, processes, services, operations, etc. in order to assess risk on a regular basis.
- Risk Mitigation Risk mitigation is planned in accordance with the 'As Low As Reasonably Practicable (ALARP)' principle by balancing the cost of mitigation with the benefits thereof and formally accepting the Residual Risk. Several risk mitigation policies and programmes, including the robust internal control framework are in place to maintain a sound operating environment within the established risk appetite of the Bank.
  - Insurance coverage is used as an external mitigant for 'low probability – high impact' events and uncontrollable Operational Risk events such as damage to physical assets by natural disasters, fire etc. Insurable risks are transferred

- to reputed insurance providers, which are periodically reviewed comprehensively by the ORMU for adequacy.
- Policies and procedures relating to outsourcing of business activities of the Bank ensures that all significant risks arising from outsourcing arrangements of the Bank are identified and effectively managed on a continuous basis. Details of all outsourced functions are reported to CBSL annually. Due diligence tests of outsourced vendors are carried out by respective Risk Owners prior to entering into new agreements and renewal of existing agreements. Assistance of Information Systems (IS) Audit Unit is obtained when conducting due diligence tests of outsourced parties who provide IT services.
- Technology Risk is managed in a systematic and consistent manner to avoid potential operational losses to the Bank resulting from technological obsolescence.
   Accordingly, existing Information Technology systems including the Core-Banking system are upgraded and new software solutions are implemented in a timely and appropriate manner.
- The Bank has a comprehensive Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) to assure the immediate continuity of all essential operations in case of a disaster and the eventual continuity of all other operations, which are continuously updated and tested to ensure ongoing readiness. These plans are reviewed independently by ORMU and Bank's Internal Audit in line with CBSL requirements.
- Creating a culture of risk awareness across the Bank through comprehensive training programmes together with high standards of ethics and integrity is also a key component of the Bank's risk mitigatory measures.

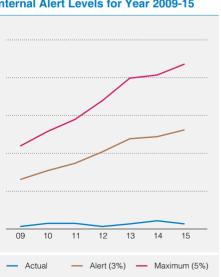
- Monitoring and Reporting of Operational Risk - Key Operational Risk Indicators (KORIs) are monitored against the corresponding tolerance levels which are reported to designated committees and Board. KORIs are statistical data collected and monitored by the ORMU on an ongoing basis to enable early detection of potential risks and possible operational control weaknesses relating to both financial and non-financial events. These include monitoring and reporting of compliance with mandatory banking and other statutory requirements, abnormal transactions including Anti-Money Laundering and Terrorist Financing Activities, and internal and external reporting of Operational Risk events. A database of Operational Risk events and losses, including losses without any financial impact and 'near misses' has been established through
- the Operational Risk Management System to facilitate the analysis of loss trends and root causes as prescribed in Basel II. This is a key component in progressing towards advanced approaches in Operational Risk capital calculations in future.
- Tolerance Levels The Bank has a low appetite for Operational Risks and has established tolerance levels for all material Operational Risk loss types by considering several factors which include historical loss data, budgets and forecasts, performance of the Bank, existing systems and controls governing Bank operations, etc. Thresholds established for monitoring purposes, considering audited financials are:
  - Alert Level 3% of the average gross income for the last three years.
  - Maximum Level 5% of the average gross income for the last three years.

- In addition to the above, thresholds for selected non-financial Operational Risk Indicators such as staff turnover, system failures, etc., are also in force, which are reported to the EIRMC and BIRMC on a regular basis in order to initiate corrective action where necessary.
- Stress Testing of Operational Risk The Bank commenced conducting of Stress Testing on operational losses during the year 2014 by considering the historical data as per the scenarios proposed in the Stress Testing Policy of the Bank. This exercise is being carried out quarterly by the Bank as an additional measure to confirm its sound position.

### Operational Risk Review

Operational losses for the financial year 2015 were well below the internal Alert level at 0.16% (of average audited gross income for last three years) which is a further improvement compared to 2014 (i.e. 0.28%) reflecting the 'tone at the top' and the effectiveness of the governance structures, processes and procedures in place to manage Operational Risk. The trend line in the Graph 24 also demonstrates the Bank's consistency in maintaining losses at minimal levels over the period of the last seven years.

## Actual Operational Losses Against Internal Alert Levels for Year 2009-15



→ Graph – 24



The Graph 25 analyse Operational Risk losses incurred by the Bank under each business line/loss event type during the year 2015.

## Classification of Losses Under Basel II Business Lines – 2015

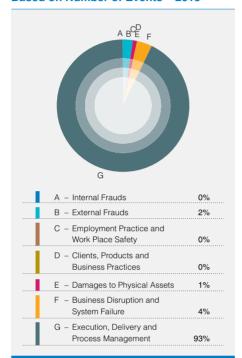


→ Graph – 25

When analysing the losses incurred during 2015 under the Basel II defined business lines, it is evident that the composition remains consistent with the previous years where the majority of losses (93%) with financial impact falls under the 'Retail Banking' business line, followed by the losses reported under the business line of 'Payment and Settlements'. Losses relating to other business lines remain negligible.

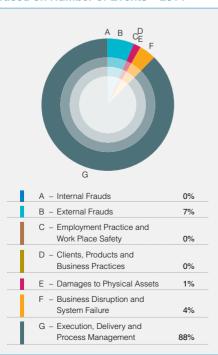
The Graphs 26 to 29 depict the comparison of operational losses reported during the last two years (2015 and 2014) under each Basel II loss event type both in terms of number of occurrences and value:

## Composition of Losses by Type – Based on Number of Events – 2015



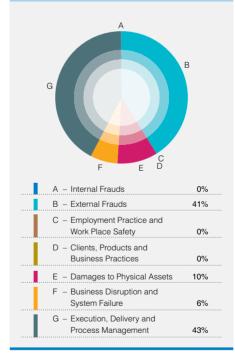
→ Graph – 26

### Composition of Losses by Type – Based on Number of Events – 2014



As typical with operational risk losses, the majority of the losses encountered by the Bank during 2015 comprised of high frequency/ low financial impact events mainly falling under the loss type 'Execution, Delivery and Process Management'. These low value events are mainly related to cash and ATM operations of the Bank's service delivery network consisting of over 900 points across Sri Lanka and Bangladesh. Individual events with monetary values less than Rs. 100,000/- account for more than 97% of the total loss events for the year. Also, the average number of loss events for the year stands at a mere 0.001% when compared to the average number of transactions performed during the year.

## Composition of Losses by Type – Based on Value – 2015



→ Graph – 28

## Composition of Losses by Type – Based on Value – 2014



→ Graph – 29

When considering the values of the losses incurred by the Bank during 2015, they can be mainly categorized under Execution, Delivery & Process Management related, External Frauds, Damages to Physical Assets and Business Disruptions & System Failures. Nevertheless, as described earlier, total of the actual Operational Risk related losses for 2015 remains at a mere 0.16% of the average audited gross income for the last three years, as compared to the capital allocation of 15% under the Basic Indicator Approach of capital computation as per Basel II. This trend of exceptionally low levels of operational risk losses of the Bank bears testimony to the effectiveness of the Bank's Operational Risk Management Framework and the internal control environment.

### IT Risk

IT Risk is a growing area of concern globally as threats have increased in magnitude and audacity dominating business news headlines. It is defined as the business risk associated with the use, ownership, operation, involvement. influence and adoption of IT within an organisation and is a major component of Operational Risk. IT Risk comprises IT-related events such as system interruptions, errors, frauds through system manipulations, obsolescence in applications, falling behind competitors concerning the technology, etc. that could potentially impact the business as a whole. It can occur with both uncertain frequency and magnitude, creating challenges in meeting strategic goals and objectives of the Bank.

A dedicated, independent IT Risk Function under the ORMU is responsible for implementation of the IT Risk Management Framework facilitating management of all significant IT Risks in a consistent and effective manner across the Bank. This has enabled developing the highly specialised skills set required for this rapidly evolving role.

The IT Risk Management Policy, aligned with the Operational Risk Management Policy of the Bank complements the Information Security Policy, the related processes, objectives and procedures relevant for managing risk and improving information security of the Bank.

Risk Control Self Assessment (RCSA) is used as the core mechanism for IT Risk identification and assessment, while the IT Risk Unit carries out independent IT Risk reviews both separately and in conjunction with regular Operational Risk reviews in line with the established structure of the Operational Risk Management process. Results of these independent IT Risk assessments together with audit findings, analysis of information security incidents, internal and external loss data are also employed for IT Risk identification and assessment purposes.

IT Risk mitigation involves prioritising, evaluating and implementing the appropriate risk-reducing controls or risk treatment techniques recommended from the risk identification and assessment process. The Bank has implemented a range of controls including technical, operational and management controls required to mitigate its identified IT Risks and potential vulnerabilities, strengthened by the Bank's implementation of an Information Security Management System (ISMS) established as per ISO 27001:2013 Information Security Standard.

The IT Risk Unit carries out continuous monitoring of Key IT Risk Indicators (KIRIs) with corresponding thresholds defined as 'Tolerable', 'Alert' and 'Unacceptable'. KIRIs outside set thresholds receive a differential level of management attention in order to initiate appropriate corrective actions.

### Legal Risk

Legal Risk is defined as the exposure to the adverse consequences resulting from inaccurately drafted contracts, their execution, the absence of written agreements or inadequate agreements. An integral part of Operational Risk, Legal Risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

Legal Risk is managed by ensuring that applicable regulations are fully taken into consideration in all relationships and contracts with individuals and institutions who maintain business relationships with the Bank, and that they are supported by required documentation whereas risk of breaching the rules and regulations are managed by establishing and operating a sufficient mechanism for verification of conformity of operations with applicable regulations.

### Compliance and Regulatory Risk

Compliance and Regulatory Risk refers to the potential risk of incurring regulatory sanctions, financial and/or reputational damage arising from failure to comply with applicable laws, rules and regulations and Codes of Conduct applicable to banking activities.

A Compliance Function reporting directly to Board of Directors is in place to assess the Bank's compliance with external and internal regulations. A comprehensive Compliance Policy describing how this key risk is identified, monitored and managed by the Bank in a structured manner is in place.

With regard to its card operations, the Bank has identified possible chargebacks for the Bank with the shifting of fraud liability to Acquirers effective from October 2015 due to non-compliance to EMV Standards. Accordingly, Bank has already converted over 450 ATMs to be EMV compliant.

### Other Related Risks

### Strategic Risk

Strategic Risks are those that either affect or are created by strategic decisions. They could materialise due to internal or external factors that can cause reduction in shareholder value. loss of earnings, etc. Strategic goals determined through the Corporate Planning and Budgeting process and critical evaluation of their alignment with the Bank's Vision, Mission and the risk appetite facilitates management of Strategic Risk. The detailed Scorecardbased qualitative model aligned to ICAAP is used to measure and monitor Strategic Risk of the Bank. This Scorecard-based approach takes into consideration a range of factors, including the size and sophistication of the organisation, the nature and complexity of its activities in measuring Strategic Risk and highlights the areas that need emphasis to mitigate potential Strategic Risks.



Hasrath Munasinghe Deputy General Manager

### Reputational Risk

Reputational Risk is the risk of adverse impact on earnings or organisational value arising from negative stakeholder perception of the Bank's business practices, activities and financial condition. The Bank recognises that Reputational Risk is driven by a wide range of other business risks that must all be actively managed. Accordingly, Reputational Risk is broadly managed through the systems and controls adopted for all other risk types such as Credit, Market, Operational Risk, etc., which are underpinned by the Code of Conduct and business ethics which is applicable to all employees and Directors. Further, Reputational Risk is measured through a detailed Scorecard-based model developed by the Bank to measure and monitor Reputational Risk under ICAAP. Timely actions are initiated to mitigate potential Reputational Risks by critically evaluating the criteria given in the said Scorecard.

### Capital Management

The Bank manages its capital with the objective of maintaining sufficient capital for its regulatory requirements, business needs, and requirements identified through stress testing. The Internal Capital Adequacy Assessment Process (ICAAP) Framework in line with Basel II requirements implemented in the Bank in 2012 introduced a process for assessing total overall capital adequacy in relation to its risk profile.

ICAAP supports the regulatory review process providing valuable inputs for evaluating the required capital in line with future business plans. It integrates strategic plans and risk management plans with the capital plan in a meaningful manner with inputs from Senior Management, Management Committees, Board Sub-Committees and the Board. It also supports proactive decision-making on exposures both current and potential through measurement of vulnerabilities by carrying out stress testing and scenario-based analysis. The ICAAP process also

identifies gaps in managing qualitative and quantitative aspects of Reputational Risk and Strategic Risk which are not covered under Pillar 1 of Basel II.

### Stress Testing

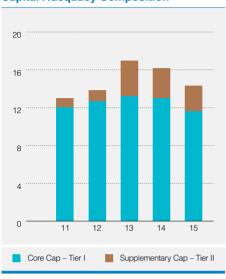
Stress testing is an integral part of ICAAP under Pillar 2 used to evaluate the sensitivity of the current and future risk profile relative to risk appetite. Stress testing supports a number of business processes, including strategic planning, the ICAAP including capital management, liquidity management, setting of risk appetite triggers and risk tolerance limits, mitigating risks through actions such as reviewing and changing limits, limiting or reducing exposures and hedging thereof. facilitating the development of risk mitigation or contingency plans across a range of stressed conditions supporting communication with internal and external stakeholders.

The Bank's Stress Testing Governance Framework sets out the responsibilities for and approaches to stress testing activities which are conducted at Bank. business line and risk type level. The group's stress testing programme uses one or a combination of stress testing techniques, including scenario analysis, sensitivity analysis and reverse stress testing to perform stress testing for different purposes. As it provides a broader view of all risks borne by the Bank in relation to its risk tolerance and strategy in a hypothetical stress situation, stress testing has become an effective communication tool to Senior Management, Risk Owners, Risk Managers as well as Supervisors and Regulators. The results of the stress testing are reported to the EIRMC and BIRMC on a quarterly basis for appropriate, proactive decision-making.

### Regulatory Capital

Regulatory guidelines require the Bank to maintain a Capital Adequacy Ratio (CAR) of not less than 5% Core Capital (Tier I) and a minimum overall CAR of 10% of Core Capital and Supplementary Capital (Tier II) in relation to total risk-weighted assets.





→ Graph – 30

Tier I and Tier II capital of the Bank during 2015 stood at 11.60% and 14.26% respectively compared to 12.93% and 15.97% as at end of 2014. (Group Tier I & Tier II Capital for 2015 stood at 11.55% and 14.28%) as detailed in Table 16. A decreasing trend in CAR is observed mainly due to portfolio growth in loans and receivables to customers during 2015. The Bank has consistently maintained higher levels of capital than the minimum regulatory requirement as observed from the Graph 30.

With the objective of achieving a more resilient banking system in the country, CBSL is to implement Basel III minimum capital requirements and leverage ratio framework in Sri Lanka

In line with such directive, introduction of various capital buffers and strengthening of level of capital as well as avoidance of systemic risk is expected to be achieved. The Bank is gearing to embrace changes to be proposed in line with this and work towards providing a safe banking system to our stakeholders.

Managing Risk at Commercial Bank − ← Capital Adequacy Computation − Group

### Pillar I Capital Calculation

### 1. Capital Adequacy Ratios

### 1.1 Core Capital Ratio

As at December 31,	2015	2014
Total Eligible Core Capital (Tier I Capital) (Refer Note 2.1)	64,914,870	58,662,124
Total Risk-Weighted Assets (Refer Note 3)	561,797,327	448,906,024
Total Eligible Core Capital (Tier I Capital) (Minimum Requirement 5%) (%)	11.55	13.07

### 1.2 Total Capital Ratio

As at December 31,	2015	2014
Total Capital Base (Refer Note 2.2)	80,218,414	72,832,325
Total Risk Weighted Assets (Refer Note 3)	561,797,327	448,906,024
Total Capital Ratio (Minimum Requirement 10%) (%)	14.28	16.22

### 2. Computation of Capital

### 2.1 Computation of Eligible Core Capital (Eligible Tier I Capital)

As at December 31,	2015	2014
Paid-up Ordinary Shares/Common Stock/Assigned Capital	23,254,605	21,457,501
Statutory Reserve Fund	4,922,367	4,327,103
Published Retained Profits/(Accumulated Losses)	1,557,331	1,667,087
General and Other Reserves	36,015,294	32,020,287
Minority Interests (consistent with the above capital constituents)	50,208	47,564
Less: Deductions/adjustments	400.045	400.045
Goodwill	400,040	100,010
Other intangible assets	483,989	456,185
Other intangible assets	483,989	456,185

Managing Risk at Commercial Bank – Capital Adequacy Computation – Group

### 2.2 Computation of Total Capital Base (Regulatory Capital)

As at December 31,	2015	2014
Total Eligible Core Capital (Tier I Capital) (Refer Note 2.1 Above)	64,914,870	58,662,124
Supplementary Capital		
Revaluation Reserves (as approved by Central Bank of Sri Lanka)	2,034,231	2,034,231
General Provisions	2,351,948	1,836,058
Approved Subordinated Term Debt	10,917,767	10,300,314
Less: Deductions/Adjustments		
50% Investments in the Capital of Other Banks and Financial Institutions	402	402
Total Capital Base	80,218,414	72,832,325

### 3. Computation of Risk-Weighted Assets - RWA

As at December 31,	2015	2014
Credit Risk		
RWA of On-balance sheet assets (Refer Note 4.1)	458,837,165	357,895,337
RWA of Off-balance sheet assets (Refer Note 4.2)	39,319,568	36,624,440
Total RWA for Credit Risk (a)	498,156,733	394,519,777
Market Risk		
Capital Charge for Interest Rate Risk	561,648	525,669
Capital Charge for Equities	61,176	70,347
Capital Charge for Foreign Exchange and Gold	143,204	123,188
Total Capital Charge for Market Risk	766,028	719,204
Total RWA for Market Risk (Total Capital Charge for Market Risk x 10) (b)	7,660,279	7,192,045
Operational Risk		
Gross Income		
Year 1	35,666,060	32,989,114
Year 2	35,273,703	24,964,114
Year 3	41,020,866	36,435,177
Average Gross Income	37,320,210	31,462,802
Total Capital Charge for Operational Risk – (Average Gross Income x 15%)	5,598,031	4,719,420
Total RWA for Operational Risk – (Total Capital Charge for Operational Risk x 10) (c)	55,980,315	47,194,203
Total Risk-Weighted Assets (a + b + c)	561,797,327	448,906,024

## 4. Computation of RWA of On-Balance Sheet and Off-Balance Sheet Assets

## 4.1 Computation of RWA of On-Balance Sheet Assets

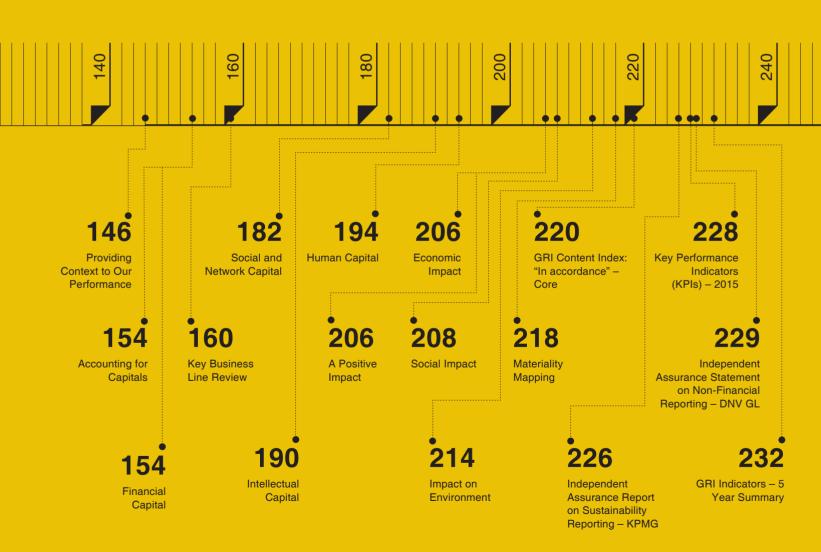
As at December 31,		20	015	2014		
	Risk Weight Factor %	On Balance Sheet Assets Rs.'000	Risk Weighted Assets Rs.'000	On Balance Sheet Assets Rs.'000	Risk Weighted Assets Rs.'000	
Claims on Government of Sri Lanka and Central Bank of Sri Lanka	0	278,819,777	_	296,402,175	_	
Claims on Foreign sovereigns and their Central Banks	0-150	10,963,272	10,963,272	14,474,568	14,474,568	
Claims on Public Sector Entities (PSEs)	20-150	2,176,061	2,176,061	2,001,386	2,001,386	
Claims on Banks	0-150	21,931,045	10,693,390	22,000,718	9,123,717	
Claims on Financial Institutions	20-150	32,635,103	13,736,419	6,717,256	2,595,421	
Claims on Corporates	20-150	229,452,108	222,334,225	180,382,044	163,169,705	
Retail Claims	75-100	151,746,375	126,561,595	128,387,920	106,252,471	
Claims Secured by Residential Property	50-100	43,268,979	35,778,552	34,128,075	27,615,834	
Non-Performing Assets (NPAs)	50-150	7,232,518	9,702,823	7,673,647	10,687,124	
Cash Items	0-20	15,951,475	3,907	13,678,575	950	
Property, Plant & Equipment	100	11,288,672	11,288,672	11,243,805	11,243,805	
Other Assets	100	15,598,248	15,598,248	10,730,355	10,730,356	
Total		821,063,633	458,837,164	727,820,524	357,895,337	

## 4.2 Computation of RWA of Off-Balance Sheet Assets

As at December 31,		20	015	20	)14
	Credit Conversion Factor	Principal Amount of Off-Balance Sheet Assets	Risk Weighted Assets	Principal Amount of Off-Balance Sheet Assets	Risk Weighted Assets
	<u></u> %	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Claims on Banks					
(a) Foreign Exchange Contracts	2	213,383,575	1,335,748	110,163,778	1,478,510
(i) Original Maturity-less than one year		213,383,575	1,335,748	110,163,778	1,478,510
Claims on Corporates					
(a) Direct Credit Substitutes	100	19,525,544	16,782,075	19,339,591	18,094,265
(i) General Guarantees of Indebtedness		19,525,544	16,782,075	19,339,591	18,094,265
(b) Transaction-related Contingencies	50	11,610,441	5,600,459	9,655,456	4,825,310
(ii) Performance Bonds, Bid Bonds & Warranties		11,610,441	5,600,459	9,650,119	4,822,641
(ii) Others		_	_	5,337	2,669
(c) Short Term Self-Liquidating Trade-Related Contingencies	20	54,293,156	10,620,306	44,215,017	8,725,516
(i) Shipping Guarantees		1,755,562	336,409	2,042,463	386,509
(ii) Documentary Letters of Credit		26,441,578	5,064,694	19,629,284	3,830,353
(iii) Trade Related Acceptances		387,284	77,457	1,663,030	332,606
(iv)Others		25,708,732	5,141,746	20,880,240	4,176,048
(d) Foreign Exchange Contracts		32,729,935	476,461	19,457,853	374,013
(i) Original Maturity-Less than one year	2	26,286,091	411,071	19,259,628	364,102
(ii) Original Maturity-More than one year and less than two years	5	6,443,844	65,390	198,225	9,911
Retail Claims					
(a) Direct Credit Substitutes	100	6,163,524	3,412,998	5,220,140	1,840,022
(i) General Guarantees of Indebtedness		6,163,524	3,412,998	5,220,140	1,840,022
(b) Transaction-related Contingencies	50	2,484,828	578,091	2,387,898	454,785
(ii) Performance Bonds, Bid Bonds & Warranties		2,484,828	578,091	2,387,898	454,785
(c) Short Term Self-Liquidating Trade-Related Contingencies	20	3,898,084	513,430	5,785,464	832,019
(i) Shipping Guarantees		178,038	28,044	128,185	17,394
(ii) Documentary Letters of Credit		3,720,046	485,386	5,657,279	814,625
Other Commitments with an Original maturity of up to one year or which can be unconditionally cancelled at any time	0	127,288,911	_	97,266,455	_
Undrawn Term Loans		38,435,052	_	15,766,856	-
Undrawn Overdraft Facilities/Unused Credit Card Lines		71,320,764	-	56,599,992	-
Others		17,533,095	_	24,899,607	_
Total		471,377,998	39,319,568	313,491,652	36,624,440

# **Focus on Value Creation**

A balanced account of how we utilise 'capitals' in creating value for our stakeholders and our impact on the economy, society and environment



→ Providing Context to Our Performance

Commercial Bank of
Ceylon PLC is the largest
private sector Bank in
Sri Lanka and the 3rd
largest foreign Bank in
Bangladesh, in terms of its
assets. This section of the
Report provides context to
our performance in both
Sri Lanka and Bangladesh
which contributes for over
99% of revenue and assets
of the Group.

#### Our Relevance to the Sri Lankan Economy

Bank Rs. Bn.	Banking Sector Rs. Bn.	Bank's Share %
872.9	7,706.4	11.33
500.3	4,495.3	11.13
588.9	5,125.4	11.49
244	3,547	6.88
617	3,447	17.90
	872.9 500.3 588.9 244	Rs. Bn.     Rs. Bn.       872.9     7,706.4       500.3     4,495.3       588.9     5,125.4       244     3,547

→ Table – 17

As of the date of this report the industry comparators available from the country's regulator (CBSL) were only up to September 30, 2015. Consequently, the comparatives given for the Bank are also as per the Financial Statements circulated to shareholders as at September 30, 2015.

#### Global Economy

Global growth, currently estimated at 3.1% in 2015, is projected at 3.4% in 2016 and 3.6% in 2017. Growth in emerging markets and developing economies while still accounting for over 70% of global growth-declined for the fifth consecutive year, while a modest recovery continued in advanced economies. (Table 18)

Risks to the global outlook remain tilted to the downside and relate to ongoing adjustments in the global economy, a generalised slowdown in emerging market economies, China's rebalancing, lower commodity prices, and the gradual exit from extraordinarily accommodative monetary conditions in the United States. If these key challenges are not successfully managed, global growth could be derailed.

#### **Advanced Economies**

A modest and uneven recovery is expected to continue, with a gradual further narrowing of output gaps. Overall activity remains resilient in the United States, supported by still-easy financial conditions and strengthening housing

and labour markets. In the euro area, stronger private consumption supported by lower oil prices and easy financial conditions is outweighing a weakening in net exports. Overall, financial conditions within advanced economies remain very accommodative.

#### **Emerging Economies**

The picture for emerging market and developing economies is diverse but in many cases challenging. The slowdown and rebalancing of the Chinese economy, lower commodity prices, and strains in some large emerging market economies will continue to weigh on growth prospects in 2016/17.

The projected pick up in growth in the next two years despite ongoing slowdown in China, primarily reflects forecasts of a gradual improvement of growth rates in countries currently in economic distress, notably Brazil, Russia, and some countries in the Middle East, however this projected partial recovery could be frustrated by new economic or political shocks.

Source: IMF World Economic Outlook Update – January 2016

#### **World Economic Outlook Projections**

	2014	2015	2016
	%	(Estimated) %	(Projected) %
World Output	3.4	3.1	3.4
Advanced Economies	1.8	1.9	2.1
United States	2.4	2.5	2.6
Euro Area	0.9	1.5	1.7
Japan	0.0	0.6	1.0
United Kingdom	2.9	2.2	2.2
Emerging Market and Developing Economies	4.6	4.0	4.3
Russia	0.6	-3.7	-1.0
China	7.3	6.9	6.3
India	7.3	7.3	7.5
ASEAN-5	4.6	4.7	4.8

→ Table – 18

Source: IMF World Economic Outlook Update - January 2016

#### Sri Lanka

Sri Lanka adopted a new methodology to measure GDP in July, 2015. As per the new series, GDP recorded a growth of 5.2% during the first nine months of 2015, driven by improved performance in all three sectors (Table 19), namely Agriculture, Industry and Services.

Service sector activity continues to be the highest contributor to GDP growth and recorded a growth of 5.18% in the first nine months of 2015, led by the improvement in wholesale and retail activities.

	Contribution to GD	P Growth (%)	Share of GDP (%)		
Sector	9M 2014	9M 2015	9M 2014	9M 2015	
Agriculture	(3.5)	8.7	7.4	7.5	
Industry	(15.5)	18.9	27.2	26.8	
Services	99.3	57.9	58.5	58.4	
Taxes less subsidies on products	19.7	14.5	6.9	7.3	

→ Table - 19

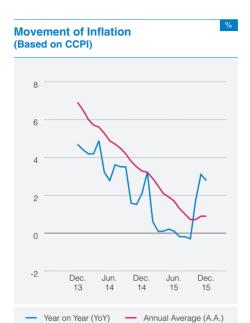
Representing around 70% of GDP, private consumption is the biggest contributor to growth and is expected to be the key driver of growth in 2016 as well. Improvement in consumption driven demand was supported by an increase in per capita income with a salary increase to the Government sector, increased public sector pension payments and low inflation.

Financial and insurance activities recorded a growth of 12.2% in the first nine months of 2015 supported by increased demand for credit by the private sector.

#### Inflation

Inflation (YoY) as measured by the Colombo Consumers' Price Index (CCPI) (2006/07=100) turned negative since July 2015 and recorded -0.3 % by the end of September, which is the lowest level recorded since February 2004¹, primarily due to sharp reductions in energy costs and improved food supply. However, inflation reached positive territory in October 2015, to record 1.7% and further increased to 2.8% by end of 2015.

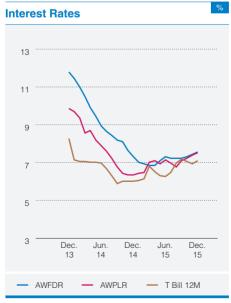
<sup>1</sup>Fiscal Management Report 2015



→ Graph – 31

#### **Interest Rates**

Interest rates continued the declining trend which commenced in 2013, with slight fluctuations due to easing of monetary policy by the CBSL since December 2012. However, the greater reliance on domestic credit to finance the budget deficit, which exceeded the target 4.4% of GDP by end July 2015, applied upward pressures on interest rates.



→ Graph – 32

Low interest rates have contributed to increased imports and a significant outflow of foreign investments in Government Securities, which has contributed to the depreciation of the rupee during the year.

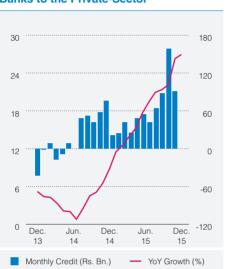
#### Credit to the Private Sector

Credit to the private sector increased by 27% (YoY) by November 2015, compared to 6.5% for the same period in 2014, as low interest rates, low inflation and increased disposable income made

We aim to be the preferred corporate banking solutions provider by assuring quality of service through a deeper understanding of our clients' needs

credit more affordable. Concessions given for vehicle financing contributed significantly to the increase in credit to the private sector.

# **Credit Granted by Commercial Banks to the Private-Sector**



→ Graph - 33

Sanath Manatunge

Corporate Banking

Deputy General Manager

# **External Sector**

Subdued growth in Sri Lanka's major export destinations, reduced the demand for exports in 2015. The leading markets for merchandise exports of Sri Lanka, during the first eleven months of 2015 were USA, UK, India, Germany, Italy and China, which accounted for about 54% of total exports.

The trade deficit marginally widened during the first eleven months of 2015, driven by the continued increase in import of vehicles and consumer goods, reversing the favourable impact of a reduced petroleum bill.

#### **Exchange Rate**

The Sri Lankan Rupee, depreciated only by 2.4% against the US Dollar during the first eight months of 2015. However, the Sri Lankan Rupee depreciated against the US Dollar by 9.03% for the full year of 2015 with the CBSL's decision to accommodate greater flexibility in the determination of the exchange rate, commencing from September 04, 2015. This was largely attributable to the outflow of foreign funds invested in rupee denominated Government Securities, interest and loan repayments of foreign debt and a surge in vehicle imports.

# Rs./Other Currencies & Gross Official Reserves in US\$ Mn.

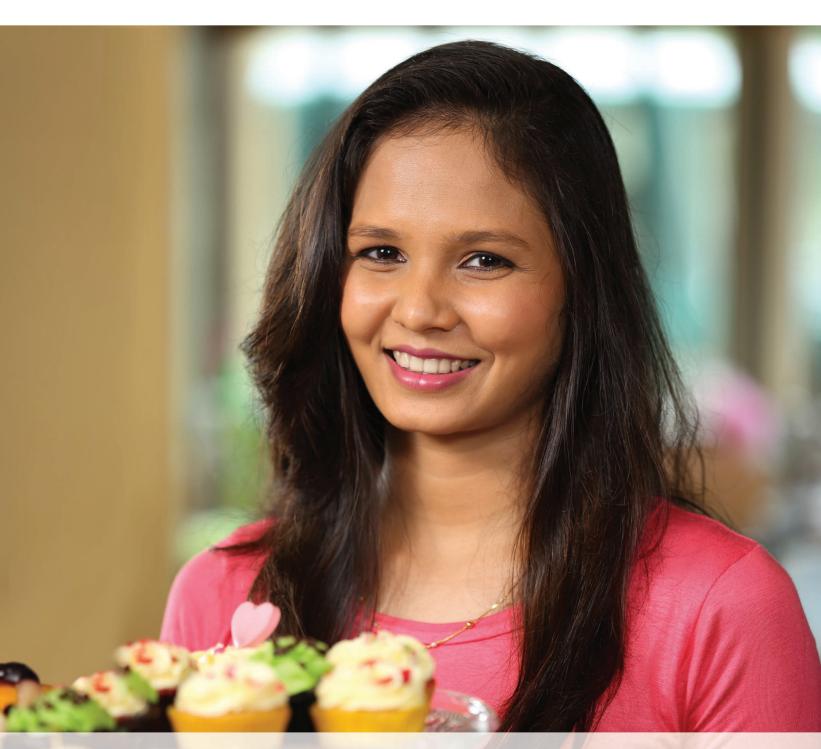
Rs./US\$ Mn



→ Graph – 34

#### **International Reserves Position**

Gross official reserves of the country reduced significantly in 2015, mainly due to foreign exchange outflows resulting from the settlement of the matured International Sovereign Bond, IMF-SBA repayments and foreign currency debt service payments. This was managed to some extent with a US \$ 1.1 Mn. SWAP arrangement with India and receipts from the ninth International Sovereign Bond issuance for US \$ 1.5 Bn. Consequently, gross official reserves, which stood at US \$ 8.2 Bn. at end 2014, were estimated at US \$ 7.3 Bn. by end 2015 (Graph 34).





**5.2% GDP Growth**(During first nine months of 2015)



12.2%

**Growth in Financial and Insurance Activities** 

(During first nine months of 2015)

## Outlook for 2016

The Budget for 2016 has encouraged construction activity, exports, investments and tourism and the proposed revisions to import taxes on a range of consumer goods and luxury goods is likely to increase consumer demand in the country and the demand for private sector credit.

Downward pressures on lending include increased taxes on vehicle imports and the reduction in Loan To Value (LTV) ratio, which are likely to have a negative impact on leasing.

According to the IMF, with the recent acceleration in private sector credit growth and rising core inflation, there is now little scope for further monetary easing. The IMF has further pointed out that most factors including the deterioration in the balance of payments and pressures on the rupee suggest that the CBSL should be prepared to tighten monetary policy in the coming months, albeit at a gradual pace.

#### Overview of the Global Banking Sector

Banking system capital dynamics differ between advanced and emerging market economies. Capital ratios in most advanced economy banking systems have improved during the past five years, mainly through a combination of very low credit

growth has absorbed essentially all of the retained earnings and new capital raised during the past five years.

As emerging market economies approach the late stage of the credit cycle, banks have thinner capital cushions relative to advanced economy banks and non-performing loans are set to rise as corporate earnings and asset quality deteriorate. Increasing loss-absorbing buffers will require raising additional capital, because higher provisioning and lower profitability will hinder the ability of banks to generate internal capital.

Rapid credit growth also underlies a significant increase in emerging market banks' loan-to-deposit ratios during the past eight years. Their loan-to-deposit ratios are now converging with those of advanced economy banks, whose funding positions have improved in the same period.

Source: Global Financial Stability Report, October 2015

By Number



Felician Perera Deputy General Manager Credit Supervision & Recoveries

Despite the prospect of continued low economic growth, Ernst & Young see four areas where banks will be able to generate higher revenues over the next decade: targeting new customers in emerging markets; developing new products and acquiring market share in developed markets; funding infrastructure investment; and partnering with non-banks.

Source: Global Banking Outlook 2015, Ernst & Young

#### Key Economic Indicators and their Impact on Commercial Bank

Economic Indicator	Movement During 2015	Cause of Movement	Impact on Commercial Bank	
The world economy (World output)	The world economy is estimated to have recorded a growth of 3.1% in 2015	US, UK and the Euro area, which are Sri Lanka's key export destinations, experienced mixed fortunes in 2015	The country's exports reduced. Nevertheless, the Bank's share exports increased	
Local Economy (GDP)	The Sri Lankan economy recorded a growth rate of 5.2% during the first nine months of 2015	An improved performance was recorded in all three sectors, i.e. services, industry and agriculture	Helped the Bank to increase its business volumes substantially	
Inflation and interest rates	Inflation (YoY) and the interest rates were maintained at low levels	Lower energy costs and an improvement in food supply helped to maintain the rate of inflation at low levels	Helped the Bank to record substantial growth in loans and advances	
Exchange Rate (LKR/USD)	The LKR depreciated by 9.03% against the USD in 2015	Largely attributable to the outflow of foreign funds invested in Rupee denominated Government Securities, interest and loan repayments of foreign debt and a surge in vehicle imports.	Enhanced exchange profits	

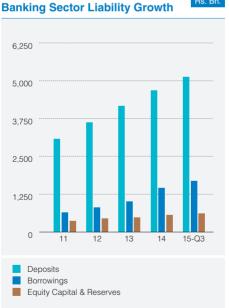
→ Table - 20

#### Banking Sector: Sri Lanka

The Sri Lankan Banking sector witnessed a healthy expansion of its asset base (Graphs 36) in 2015, supported by increased demand for credit from both state and private sectors due to lower interest rates. However, the pawning portfolio contracted during the same period, continuing the trend prevailed in the previous years, due to the decline in global gold prices.

Asset quality of the banking sector improved as observed by the improvement in the NPA ratio, which stood at 4% as at end September 2015, compared to 4.2% in December 2014, mainly due to a higher growth in loans and advances.





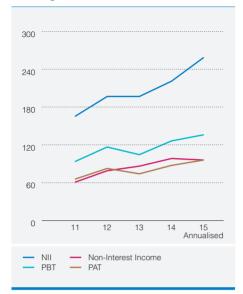
→ Graph – 37

Deposits growth was 9% in the first nine months of 2015 and continued to be the main source of funds for banks contributing to 66.5% of the total assets of the banking sector. Borrowings too increased by 15% during the first nine months of 2015 (Graph 37).

Liquidity levels of the banking sector, remained healthy with Rs. 2.2 Bn. in excess of the Statutory Liquid Assets as at end of September 30, 2015. The ratio of liquid assets to total assets stood at 29% as at end September 2015, at a healthy level although lower than the 32.2% observed at the close of 2014. The loans to deposit ratio increased from 83.1% as at end 2014, to 87.7% as at end of September 30, 2015, due to increased growth in loans and advances.

Profits of the sector increased from Rs.106 Bn. for the nine months ended September 2014, to Rs.120 Bn. for the same period in 2015. This performance was mainly due to the higher Net Interest Income, as Non-Interest Income remained relatively flat during this period. Overall business expansion, increased lending and investment activity, resulted in a favourable increase in Net Interest Income.

# Profitability of Banking Sector

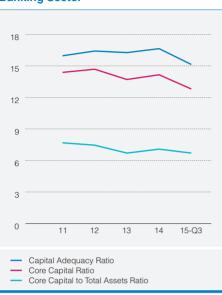


→ Graph - 38

ROE declined from 16.6% as at December 2014, to 16.2% for the nine months ended September 2015, due to lower margins on both fees and fee-based operations and increased operating costs.

The banking sector continued to maintain sufficient capital as evinced by the Core Capital Adequacy Ratio (CAR) and Total CAR, which were at 12.8% and 15.2%, respectively as at September 30, 2015, well above the regulatory minimum of 5% and 10% respectively.

### Soundness Indicators of Banking Sector



→ Graph – 39

The Banks branch network increased by 18 outlets and 60 new ATMs during the first seven months of 2015.

#### New Banking Regulations Adopted in 2015

Directions were issued to licensed banks to implement the LCR under Basel III Liquidity Standards, requiring banks to maintain a minimum LCR of 60%, effective from April 01, 2015.
A Consultation Paper on the Implementation of Basel III Minimum Capital Requirements and Leverage Ratio was issued to banks and the regulations on same will be issued in due
course with a phase by phase implementation from 2016.
A maximum LTV ratio of 70.0% was imposed on loans and advances granted by licensed banks for the purpose of purchase or utilisation of motor vehicles.
Existing limits on share ownership of banks and assessment criteria of fitness and propriety of Board of Directors are being reviewed to further strengthen the governance and resilience of the banking sector.





13.2%

# Growth in Banking Sector Profit

During first nine months of 2015, profits increased from Rs. 106 Bn. to Rs. 120 Bn. due to business expansion, and increased lending and investment activity



27%

# Credit Growth (YoY) to Private Sector

Low interest rates, low inflation and increased disposable income made credit more affordable

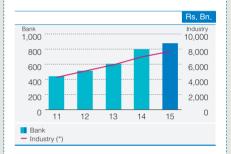
# → Accounting for Capitals - Financial Capital

We have delivered prudent growth in profitability whilst strengthening our financial position in 2015 as our strategic goals were re-aligned to meet heightened levels of uncertainty in the business environment. The results reflect healthy growth in all our key business lines, operational excellence and optimal utilisation of funds. A 95 year history interwoven with the socio-economic progress of our island nation, gives us exceptional insights into doing business in the country and the region. Consistently delivering results exceeding industry benchmarks, the Bank presently accounts for approximately 12% of the country's Banking sector assets. The highlights of 2015 are given below:

#### **Asset Growth**



Our strategy of prudent growth is reflected in the total asset growth rate of 10.58%, a moderation from 2014. Strongly correlated to economic growth, this key indicator reflects the moderation in growth witnessed during the first half of the year which picked up towards the latter part of the year.



#### Credit Growth



Net loans and receivables to customers grew by 25.33% during the year, due to increased cross-sell, client acquisition and process efficiencies comfortably surpassing the industry growth.



## Deposit Growth



Unparalleled convenience and reach, coupled together with a strong credit rating of AA(lka) and high levels of customer satisfaction, facilitated deposit growth of 17.90% well above industry benchmarks, despite a high base.



## **Asset Quality**



## Capital Adequacy



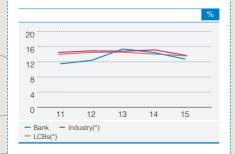
Profitability



Responsible lending practices, consistent investments in developing people and a culture of risk awareness enabled us to curtail our NPA ratio to 2.74% well below the industry average.



The Bank pursued a strategy of optimising capital, which reduced the excess liquidity and aligned the capital adequacy ratios to strategic goals within the risk appetite and the regulatory requirements.



Operational excellence and employee productivity were key contributors to profitability, which improved despite declining net interest margins.



<sup>\*</sup> Industry and LCB figures in above graphs are only upto September 30, 2015. Source: CBSL

#### **Income Statement Analysis**

#### Net Interest Income (NII)

NII increased by 11.47% during the year to Rs.30.345 Bn., despite a decline in the Net Interest Margin (NIM) from 3.88% in 2014 to 3.62% in 2015. Interest income growth of 6.79% is primarily attributable to healthy growth in the Loans and advances portfolio, improved asset quality and timely re-pricing of assets. Retail banking continues to be the key contributor to NII, accounting for 77.01%. Interest expense growth was curtailed to 3.11%, mainly due to the improvement in the Current and Savings account (CASA) ratio and effective management of liabilities. The decline in NIM reflects the relatively low interest regime that prevailed during the year, despite normalisation of the excess liquidity that prevailed in the market previously.

Rs. Mn./% **Net Interest Income** 35,000 5.00 28.000 4.00 21,000 3.00 14.000 2.00 7 000 1 00 0 0 11 15 NII (Rs. Mn.) — NIM (%)

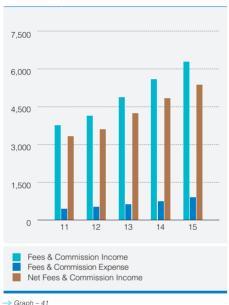
#### Net Fees and Commission Income

→ Graph – 40

Fees and commission income growth was 12.20%, with impetus from inward remittances, which increased by 22.02% during the year, affirming our leadership in this segment. Credit and debit card-related services too grew at a healthy pace. Fees and commission expenses increased at 18.34%, mainly due to arise in credit and debt card related expenses resulting in a decline in margins on this high growth area, inevitable as

competition intensifies from players in the financial services sector, IT and telecommunication companies in-line with global trends. However, Bank is well placed to compete in this area with a large captive customer base, already well connected through our local and overseas networks and a pipeline of innovations to be rolled out in 2016.

# Fees & Commission Income/Expenses



#### Total Operating Income

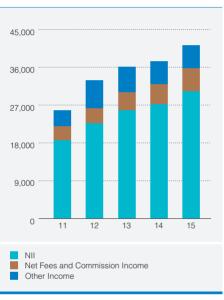
Composition of total operating income reflects stability in earnings with healthy growth in both fund based and fee based activities. Volatile elements such as gains from trading and mark to market valuations were curtailed to a relatively narrow band consistently over the past five years, despite significant market changes over the same period. This reflects our commitment to sustainable growth, taking a long term view inline with the Bank's philosophy and recognition of stakeholder concerns, which have been entrenched in the organisation culture. NII contributed 73.51% of operating income in 2015, whilst the contribution from net fees and commission amounted to 13.02%, with other income accounting for the remaining 13.47%.

Net gains from trading amounted to Rs. 813.376 Mn. supported by a favourable movement in currency premiums during the year, recording an impressive growth of 366.25% over the previous year. Net gains from financial investments were Rs. 693.933 Mn., a decrease of 69.46% over 2014 due to substantial gains recorded from bond trading in 2014.

# Total Operating Income

Rs. Mn.





→ Graph – 42

# Impairment Charges on Loans and Advances

Impairment charges are computed on the incurred loss methodology, which has two key components, namely individual impairment and collective impairment. Individual impairment is computed on individually significant loans and advances, which are determined with reference to thresholds set by the Bank and are evaluated against pre-determined impairment triggers. Threshold limits are set to cover a reasonable proportion of the portfolio and are reviewed annually, together with impairment triggers to ensure they are in-line with the overall risk appetite of the Bank.

Collective impairment is computed by categorising loans into several groups that are neither individually significant nor individually impaired, based on homogeneous risk characteristics of each product. These loans are then subjected to collective impairment based on the historical loss experience of each product portfolio, expressed in terms of Probability of Default (PD) and Loss Given Default (LGD). Individual impairment charge increased by Rs. 1.116 Bn. (414.08%) mainly due to the provision made on

Our unparalleled presence

through extensive Branch and

provide customers that extra

ATM networks enable us to

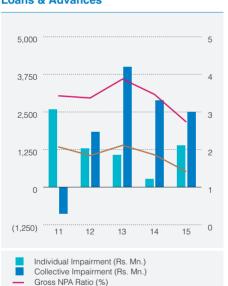
attention and care

account of few large customers in 2015, for which provisions had been made under collective impairment in 2014.

As a result, charge under collective impairment dropped by Rs. 376.934 Mn. and therefore total impairment charge increased only by Rs. 714.052 Mn.

However, credit quality improved as reflected in the decreased charge for collective impairment and the decline in the value of non-performing loans. Further, NPA ratios which are computed in accordance with regulatory requirements to reflect facilities overdue for payment, also declined from 3.47% in 2014 to 2.74% in 2015.

# Impairement Charges on Loans & Advances



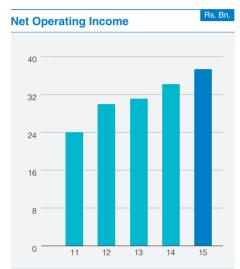
→ Graph – 43

Net NPA Ratio (%)

# Mrs. Sandra Walgama Deputy General Manager Personal Banking

#### Net Operating Income

Net operating income increased by 9.33% reflecting increased activity in both fund and fee based operations despite increase in the total impairment charges as explained above.



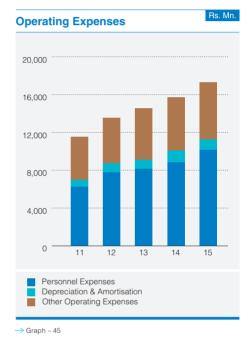
→ Graph – 44

Rs. Mn./%

#### Managing Expenses

Total expenses increased by 10.04% from Rs.15.726 Bn. to Rs. 17.305 Bn. due to an increase of 14.35% in Personnel expenses and an increase of 6.41% in Other Operating expenses. As a financial services organisation, we seek to attract, develop and retain highlyskilled employees and remunerate them in-line with market where a significant component of remuneration is linked to performance as detailed in both the 'Human Capital Report' and in the Section on 'How We Govern' on pages 194 and 26 respectively. Consequently Personnel expenses accounted for 58.83% of the total expenses. Other expenses include Establishment and Office Administration expenses, Directors' emoluments, professional fees including Audit fees and donations including the donation to the CSR Trust Fund.

The Bank has placed significant effort on curtailing growth of costs through streamlining processes, to maximise value creation as evinced by the cost to income ratio of 48.92% which is well below the industry average. Many of these are described in more detail in the 'Social and Network Capital Report', the 'Human Capital Report' and the 'Impact on Environment Report' on pages 182, 194 and 214 respectively.

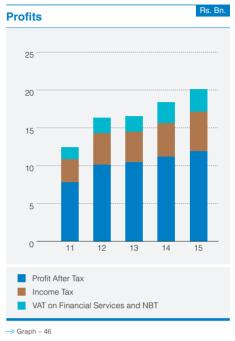


#### Profit before and after Tax

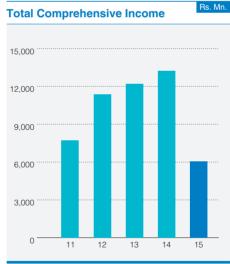
Profit before tax increased by 8.94% in 2015 due to increased income from operations and curtailing of operating expenses.

The Bank experienced an increase in the Income Tax expense by Rs. 684.351 Mn. in 2015. This was attributable due to the decrease in Income Tax expense in 2014, due to a qualifying payment relief being claimed on the acquisition cost of Serendib Finance Ltd. amounting to Rs. 916.046 Mn.

In addition, current year's Income Tax expense includes a remittance tax paid on repatriation of profits by the Bank's. Bangladesh operation, amounting to Rs. 86.551 Mn.



#### Other Comprehensive Income (OCI)



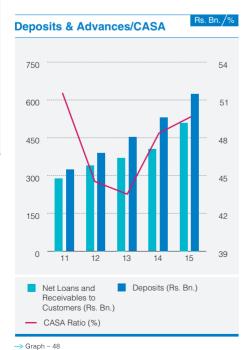
→ Graph – 47

The fair value of Investment securities Available for sale reported an unrealised loss of Rs. 6.690 Bn. as a result of the sharp upward movement in interest rates in 2015. The Bank holds Government Securities to meet regulatory liquidity requirements and for investment purposes in the Available-for-sale portfolio which is subject to mark to market valuation. The Bank intends to identify and re-classify the core

component of the Government Securities held for liquidity purposes amounting to Rs. 35 Bn. as Held to maturity in 2016, to mitigate the adverse impact arising from market movements for which CBSL approval has also been obtained in January 2016 (Graph 47).

#### **Balance Sheet Analysis**

The Bank's fund-based operations grew at a healthy pace with net Loans and advances and Deposits, growing at 25.33% and 17.90% respectively. A wellestablished branch network, coupled with strategic investments in technology, have provided a scalable platform for growth. Multiple channels of banking supported the Bank's strategies to address transitioning demographics, enhancing customer satisfaction. Well-honed programmes for retaining and developing our team, supported delivery on robust growth targets, whilst ensuring that we stayed within the Bank's defined risk appetite. The opening of a representative office in Myanmar and a move to have a majority stake in the Subsidiary, Commercial Bank of Maldives, enhanced the footprint of the Bank, although performance will materialise only in the coming years.



Branches remain our key channel for deposits and loan growth, while electronic channels are evincing encouraging growth rates for transactions. Deposits continue to be the main source of funds for the Bank's operations, accounting for 77.10% of liabilities in comparison to 73.01% in the previous year, enabling the Bank to decrease its levels of borrowings. The CASA ratio increased during the year, due to targeted marketing efforts supporting the Bank's Net Interest Margins (NIM).

The growth in Interest earning assets and Interest bearing liabilities demonstrate encouraging trends, strongly supported by the Banks' credit rating, brand and reputation as the most respected Bank in Sri Lanka.



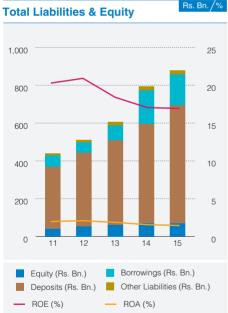


Return on Assets (RoA) declined during the year due to the growth in the asset base of the Bank and narrowing NIMs.

#### Capital Funding and Liquidity

Capital, funding and liquidity of the Bank are managed to optimise returns to shareholders, whilst ensuring sufficient liquidity to meet foreseeable requirements. After two years of relatively low credit demand, we see the excess liquidity in the Banking sector reverting to levels that prevailed prior to 2013. which we believe is a healthy sign for the Banking sector in the country. This industry wide trend of normalising the excess liquidity is observed in Commercial Bank's results as well as the trade-off between liquidity and profitability favoured profit taking during 2015, as credit growth picked up in both retail and corporate books throughout the year.





→ Graph – 50

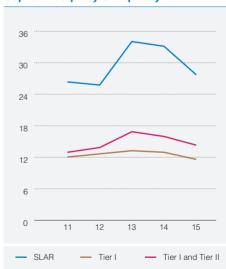
Total liability growth during the year was 11.64% driven by strong growth in deposits which grew by approximately Rs. 8.0 Bn. per month on average. Borrowings declined during the year by 4.55% as the Bank repaid borrowings reducing excess liquidity positions.

This is reflected in the movement of the Statutory Liquid Assets Ratio which has been optimised during the year. enhancing the Bank's profitability.

The average equity of the Bank increased by 7.15% in 2015 compared to the growth in Profit After Tax of 6.47%. Consequently, the ROE of the Bank for 2015 dropped marginally to 16.90% from 17.01% reported for 2014.

Capital adequacy ratios remain well above the regulatory requirements of 5% for Tier I and 10% for total Capital and reflect the normalising of the excess liquidity positions that prevailed over the past two years. The Statutory Liquid Assets Ratio (SLAR) of 27.72% also is well above the regulatory minimum of 20%. Whilst these ratios are marginally below industry averages as at September 30, 2015, they remain at healthy levels within the defined risk appetite of the Bank and reflect the Bank's efficient utilisation of capital.

#### **Capital Adequacy & Liquidity**



→ Graph – 51

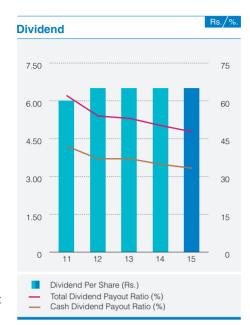
Further, single borrower limits of the Bank stood at Rs. 21.165 Bn. for individual customers and Rs. 23.281 Bn. for a group of customers as at December 31, 2015.

#### Group Performance

The Commercial Bank Group's four subsidiaries namely, Commercial Development Company PLC (CDC), ONEzero Company Ltd., Serendib Finance Company Ltd. and Commex Sri Lanka S.R.L. located in 'Italy' collectively incurred a loss of Rs. 48.378 Mn. at Total Comprehensive Income level as increased impairment provisions made in Serendib Finance Ltd. to be aligned with the provisioning policy of the Bank. The subsidiaries account for 0.27% of Total Assets of the Group which grew by 44.30% during the year as Serendib Finance Ltd. expanded its' operations. However, given the scale of operations of the Bank, these results do not materially impact the results of the Bank and are set out in appropriate detail in the Business Line Review and the Note 61 to the Financial Statements on pages 160 to 181 and 364 respectively.

#### Creating Value to Shareholders

The Bank creates value to shareholders through dividends and enhanced value of shares. The Bank's dividend policy seeks to maximise shareholder wealth, increase market capitalisation, whilst ensuring there is sufficient capital for planned business expansion and maintaining a consistent stream of dividends to shareholders. Accordingly, the Bank paid an interim dividend of Rs.1.50 per share in December 2015 and proposed a final dividend of Rs. 5.00 per share for both voting and non-voting ordinary shareholders. The marginally declining trend in the dividend pay-out ratios, reflect the aggressive business plans of the Bank as we venture into new markets and consolidate our position in established markets. Dividend per share has been maintained at a constant Rs. 6.50 per share since 2012, to ensure a balance between retaining capital for business needs and recognition of shareholder expectations.

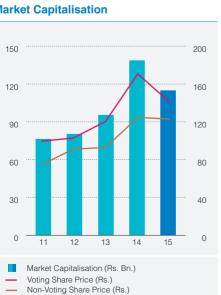


→ Graph – 52

The Bank outperformed all listed banking and financial sector institutions in the country, with a market capitalisation of Rs. 115.033 Bn. as at December 31, 2015. Notably, the Bank's market capitalisation is the 3rd largest among all listed companies in the Colombo Stock Exchange, reflecting the complex mix of brand, reputation, governance, transparency. The share price of the Bank declined from Rs. 171.00 in 2014 to Rs. 140.20 at the close of 2015 was mainly due to the lacklustre performance of the Colombo bourse.

Rs. Bn. /Rs.

#### **Share Prices & Market Capitalisation**



#### **Personal Banking**

Reaching over 3.7 Mn. customers, Personal Banking division is responsible for growing the footprint of the Bank and reaching out to all communities of the country. We process over 600,000 transactions a day facilitating economic activity and creating wealth for our customers through an innovative range of products that support evolving customer requirements. Relevant to millennials and senior citizens alike, we make it our mission to enhance the customer's value proposition to drive growth in this key business line.

#### Relevance to the Bank

63% of Operating Income

50% of Profit before Tax

36% of Assets

62% of Liabilities

#### **Performance Highlights**

#### **Enhancing Our Reach**

We added 7 delivery points and 15 ATMs

to reach 867 touchpoints during the year,

focussing on creating convenience to our

customers. Our footprint is extensive and

the ATM network is the single largest in the



Nos.

**Deposit Growth** 



Deposits recorded a healthy growth of 11.39% in 2015 mainly through organic

growth and the enhanced convenience offered to our customers. The CASA ratio increased during the year as we were able to attract relatively low cost deposits through high levels of brand recognition

and recognition as the most respected Bank in the country.



#### Credit Growth



A healthy growth in Loans and advances which reached Rs. 286.385 Bn. was supported by increased demand for development loans, housing loans and leasing and approval process efficiencies. Asset quality was a key area of focus and the improved NPA ratio is an indicator of the enhanced risk acceptance procedures and rigorous monitoring.



#### **Electronic Banking**

■ Branches - Sri Lanka ■ ATMs - Sri Lanka



Growth of online banking has been extremely encouraging recording over 100% growth in value of transactions in 2015.



country.

1,000

800

600

400

200

**213%** AValue of Transactions

Number of Transactions



#### Personal Banking Product Portfolio



**Access to Finance** 



- Deposits
- Treasury Bills
- Term Loans
- Personal Loans
- Home Loans
- Leasing
- Agriculture and Microfinance Loans
- Industrial Loans



- Branches
- ATMs and Automated Deposit Machines
- Debit and Credit Cards

→ Figure – 18

#### Performance

Key Performance Indicators (\*)

	20	15	2014		
	Actual Rs. Mn.	Target Rs. Mn.	Actual Rs. Mn.	Achievement (Actual over budget) %	
Deposits as at December 31	485,458.6	450,469.7	407,509.3	107.8	
Loans and advances as at December 31	280,953.6	249,767.1	221,187.8	112.5	
Profit before Tax	8,372.9	6,627.4	7,017.7	126.3	
Cost to income ratio (%)	47.6	43.3	48.2		
NPA ratio (%)	3.5	5.5	6.8		

## **Growing Our Touchpoints**

We have grown our network of branches and ATMs to 246 and 621 respectively totalling to 867 owned customer touchpoints in Sri Lanka facilitating ease of access to financial services. Strategic partnerships with institutional partners and connectivity with the common switch, takes our total customer touchpoints to an unparalleled 1.9 Mn. ATMs across over 200 countries. Our branches have also extended banking hours for the convenience of customers in identified locations which received a favourable response. Consequently, we converted a total of 52 branches to 365-Day Banking Centres and a further 22 to Weekend Banking Centres. Details of locations of branches are given on page 162 (Figure 19 & 20 and Table 23). Branches outside

the Western Province have grown during the year facilitating increasing penetration of financial services. Establishment of two Priority Banking Centres located in premium residential areas has enabled us to cater to a high net worth clientele, ensuring our accessability to all customers.

The ATM network (Table 23 & Figure 21) was upgraded to provide deposit facilities at nine locations and we expect

> Krishan Gamage Assistant General Manager Information Technology

to have the entire ATM network converted to Automated Deposit Machines (ADM) in the coming years. The number of cardless ATMs increased to 379 and was an innovation focussing on customer convenience. In November 2015, we opened an Automated 24/7 Banking Centre at the Ward Place Branch which is the first of its kind in the country, expanding the services available 24/7 to encompass opening of savings accounts and fixed deposits, access to online banking, settlement of credit card dues, as well as cash and cheque deposits with additional functionality planned in the future to encompass even submitting loan application.



<sup>\*</sup> Based on Management Accounts

Kottawa

## **Network of Delivery Points in Sri Lanka**

Western Province Aluthgama Athurugiriya Attidiya Avissawella Bambalapitiya Bambalapitiya (Maiestic City) K Bandaragama Bandarawatte (Laugfs Super)\* K Raseline Road Battaramulla Battaramulla (Arpico Super) K Beruwala (Minicom) K Biyagama Bokundara (Minicom) K Boralesgamuwa Boralesgamuwa (Laugfs Super) K Borella A City Office Colombo 07 G Colombo Gold Centre Dehiwela Dehiwela (Arpico Super) K Delkanda Divulapitiya Dunlication Road E Banking Ekala Elite A Foreign D Gampaha A Gampaha (Keells Super) K Ganemulla Grandpass Hanwella Hendala (Keells Super) K Homagama Horana Horana (Wijemanna Super) K Hulftsdorp Hyde Park Corner (Arpico Super) K Ja-Ela Ja-Ela (K-Zone) K Kadawatha Kadawatha (Arpico Super) K Kaduwela Kalutara Kalutara (Arpico Super) K Kandana / Katubedda Katubedda (K-Zone) K Katukurunda (Minicom) K Katunayake BIA Arrival Lounge \* M Katunavake EPZ Keyzer Street Kiribathgoda J Kiribathgoda (Laugfs Super) K Kirindiwela Kirulapone Second

Maharagama A Maharagama (Laugfs Super) K Makola Malabe Maradana Mattegoda (Laugfs Super) K Matugama C Minuwangoda Mirigama Moratuwa A Moratuwa (Laugfs Super) K Mount Lavinia Mutwal Narahennita Narahenpita (Ronan Inter'l) K Nawala Nawam Mawatha Nawinna (Arpico Super) K Negombo B Negombo (Arpico Super) K Negombo Second Nittamhuwa Nittambuwa (Nihal Super) H Nugegoda A Old Moor Street Padukka Panadura Panadura (Minicom) K Panadura Second Panchikawatte Pelawatte (Laugfs Super) K Peliyagoda Pettah Main Street E Piliyandala Pita Kotte Raddolugama A Ragama A Rajagiriya Rajagiriya (Keells Super) K Ramanayake Mawatha Ratmalana Reid Avenue Seeduwa J Thalawathugoda Union Place Union Place (Keells Super) K Vauxhall Street (SLIC) Wadduwa Ward Place L Wattala Wattala (Arpico Super) K Weliveriya Wellawatte Wellawatte Second World Trade Centre Yakkala

#### **Uva Province**

Badulla Badulla (Minicom) \* F Bandarawela Kataragama Mahiyanganaya Monaragala Passara Welimada

# Central Province Akurana (Minicom) K

Anniwatte
(Nihals Super) K
Dambulla
Digana
Galewela
Gampola
Gelioya (Arpico Super) K
Hatton
Kandy A
Kandy (City Center) K
Katugastota (Minicom) K
Kundasale
(Dumbara Super) K

#### North Central Province Anuradhapura Anuradhapura Ne

**Eastern Province** 

Akkaraipattu

Batticaloa A

Chenkalady

Kattankudy

Trincomalee

Valaichchenai

Kalmunai

Pottuvil

Ampara

Anuradhapura New Town Hingurakgoda Kaduruwela Kekirawa Medawachchiya Nochchiyagama Thambuttegama

#### Sabaragamuwa Province

Wattegama Ext. Office

Maskeliya

Nawalapitiya

Nuwara Eliya

Peradeniya

Pilimatalawa

Thalawakelle

Matale

Balangoda
Eheliyagoda
Embiliyagoda
Embilipitiya
Godakawela
Kahawatte
Kalawana
Kegalle A
Kuruwita
Mawanella
Pelmadulla
Ratnapura
Ratnapura
(Laugfs Super) K
Ruwanwella
Warakapola

#### **Southern Province**

Akuressa

Ambalangoda

Ambalantota

Baddegama

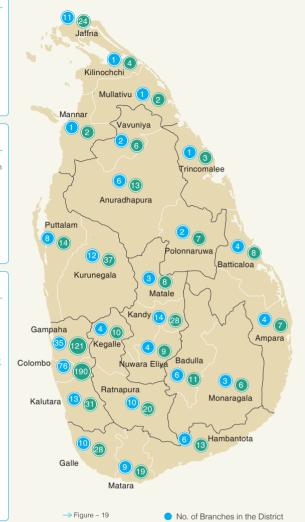
Batapola Ext. Office \* Beliatta Deniyaya Elpitiya Galle City B Galle Fort Hambantota Hikkaduwa Kamburupitiva Karapitiya Koggala Matara B Matara (Keells Super) K Matara City Office Middeniya Neluwa Tangalle Tissamaharama Udugama Urubokka Weligama

# North Western Province

Alawwa Chilaw Dankotuwa Giriulla Kuliyapitiya Kurunegala B Kurunegala (Minicom) K Kurunegala City Office Marawila Mawathagama Narammala Nattandiva Nikaweratiya Palavi Pannala Polgahawela Puttlam Wariyapola Wennappuwa (Arpico Super) K Wennannuwa

#### **Nothern Province**

Achchuvely
Chankanai \*
Chavakachcheri
Chunnakam
Jaffna G
Jaffna Stanley Road A
Kilinochchi
Kodikamam
Manipay
Mannar
Mulliyawalai
Nelliady A
Thirunelvely
Vavuniya A
Vavuniya Second
Velanai



Province	No. of Branches	No. of ATMs		
Central	21	45		
Eastern	9	18		
North Central	8	20		
North Western	20	51		
Northern	16	38		
Sabaragamuwa	14	30		
Southern	25	60		
Uva	9	17		
Western	124	342		
Total	246	621		

No. of ATMs in the District.

#### Kotahena A Kotikawatte A → Table – 23

Kirullapone

Kohuwala

Kollupitiya

Kochchikade

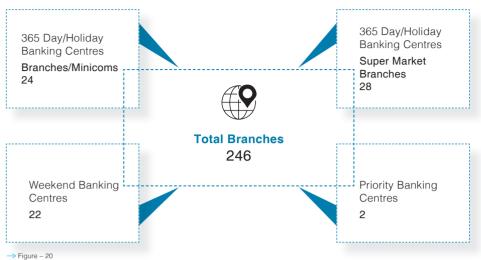
Kohuwala (Keells Super) K

Kollupitiya (Liberty Plaza) K

#### **Banking Hours**

	<u> </u>													
		A	В	С	D	Е	F	G	Н	1	J	K	L	M
Weekdays	9-3	9-3	9-3	9-3	9-4	9-6	9-6	9-6	9-6.30	9-8	9-9	9.30-7	10-5	24*7
Saturday	_	9-1.30	9-1.30	_	_	9-1.30	_	9-1.30	9-6.30	9-3	9-9	9.30-7	10-5	24*7
Sunday	_	-	9-1.30	9-1.30	-	-	9-1.30	9-1.30	9-6.30	-	9-9	9.30-7	_	24*7
Bank Holidays/Poya*	_	_	9-1.30	_	_	_	_	9-1.30	9-6.30	-	9-9	9.30-7		24*7

<sup>\*</sup> Branches opened in 2015

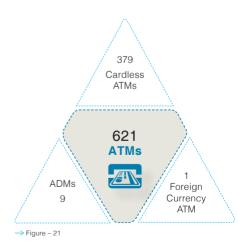




#### → Graph – 54

#### **Deposit Mobilisation**

A proven track record and extensive reach enabled a 11.39% growth in deposits of the personal banking to Rs. 494.225 Bn. accounting for an estimated 79.19% of deposits of the Bank. A relentless focus on customer expectations inspired innovation of products to fill emerging gaps in the portfolio arising from transitioning demographics.

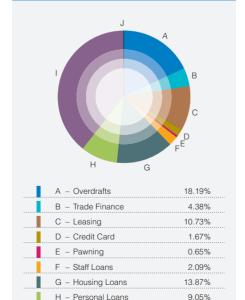


Accordingly, Millionaire Savings Account was launched during the year and is the first targeted savings account in the market. Divisaru was launched for micro savers to encourage monthly savings enabling them to access finance without collateral. Customer response to these products is encouraging and a notable achievement was 3000+ micro savers staying on target to meet the requirements for loan eligibility in the coming year. A wide product portfolio developed by a deep understanding of customer needs contributed to the improved CASA ratio of 51.06% which remains well above industry levels. Channel products developed by the Bank offering convenience to the customer also plays a key role in the growth of deposits. Interest rates declined during the early part of the year as reflected in the movement of AWDR and AWFDR which picked up marginally due to impact of special rates for deposits of senior citizens.

#### Credit Growth

Loans and advances in the personal banking book grew by 26.82% to Rs. 286.385 Bn. during the year accounting for 54.43% of Bank's loans and advances as at the year end. High growth areas were noted in leasing, SME sector loans and home loans in line with the economic developments witnessed in the country.

Advances Mix - Personal Banking



39.25%

0.12%

→ Graph - 55

I - Term Loans

J - Bills of Exchange

Growth in the leasing portfolio was supported by strong demand for vehicles as reduced tariffs introduced in latter part 2014 resulting in an increase of 181% in the number of vehicles registered between January and August 2015 in comparison to the same period in 2014. Strategic partnerships with reputed vendors coupled with promotions and internal process efficiencies provided impetus for growth in leasing.

Home loans portfolio growth was healthy reflecting increased demand for housing and enhanced disposable incomes.

The Bank has worked with developers

of condominium projects to extend sizeable home loan facilities to high net worth customers and Sri Lankans working overseas. Improvements made to the loan processing system enabled the Bank to revert to the customer within two days, supported the healthy growth witnessed in this portfolio.

The Bank decreased its pawning activities in 2013 and 2014 with the portfolio accounting for a mere 0.65% of the personal banking portfolio. As a party to the CBSL Credit Guarantee Scheme of Pawning Advances, we increased disbursements during the year in comparison to 2014 with enhanced prudential guidelines and increased LTV ratios, to maintain growth of the product to sustainable levels within the Bank's defined risk appetite.

#### **Supporting SMEs**

Commercial Bank has a track record of having the highest disbursements to SMEs through its Development Credit division as described in the section on 'Social and Network Capital' report on page 182. This year, our Development Banking Portfolio growth was an encouraging 50.25% as we disbursed Rs. 26.553 Bn. with the year end portfolio reaching to Rs. 45.244 Bn. This vital division provides support for SMEs through the provision of agricultural, microfinance and industrial loans and supports SME capacity building through targeted seminars and workshops in collaboration with the CBSL to provide insights into growing and managing a business. This year we conducted 11 programmes covering all provinces in

Sri Lanka and the response received has been encouraging with over 1,000 participants attending the workshops.

The Agriculture and Microfinance Unit of the Bank is a highly specialised unit for Agriculture supply chain financing and has structured products that are fit for this volatile and vulnerable segment. A wide array of credit schemes funded by various credit lines enabled growth in this segment at subsidised interest rates or relatively low interest rates. The Agri Leasing product launched in 2014 has also proved popular and supported growth in this portfolio. It is encouraging to observe the growing demand from commercial scale agriculture and livestock projects which will drive national agriculture production, introducing much needed improvements to agricultural practices and better management for long term growth.

# Agricultural & Microfinance Loans

Rs. Bn./Nos.



→ Graph – 56

Industrial loans provided access to finance for SMEs through participation in nine credit lines and our own *Diribala* Loan Scheme which is the only dedicated credit line offered by a private bank in Sri Lanka designed specifically to benefit the SMEs. Strong demand for industrial loans



Palitha Perera
Assistant General Manager
Operations

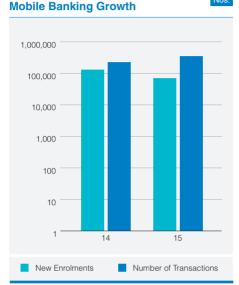
was evident, notably from construction, food processing and tourism sectors as the low interest rates enhanced the affordability of finance. We disbursed Rs. 21.072 Bn. in industrial loans during the year achieving a portfolio growth rate of 52.36% for the year. The number of loans disbursed also increased with over 1,400 customers receiving financial assistance and a vote of confidence for the economic progress of the country.

Rigorous evaluation of risk, specialised knowledge and strong customer relationships combined to improve the asset quality of the Development Credit Portfolio as evinced by the improvement in the NPA for this portfolio. Going forward, we expect further growth in this vital segment which is receiving significant attention both locally and globally to spur economic growth.

based payment system witnessed a growth of 11% in the value of transactions and 22% in the number of transactions evincing growing customer confidence and familiarity with this channel. These positive growth rates are an affirmation of the customer acceptance of this product, which has been developed on the Microsoft. Net platform and consists of Personal and Corporate Banking Solutions. Island-wide product awareness campaigns to promote the features of Corporate and Personal Banking Solutions to encourage usage, were a key factor in driving growth in online banking. Introduction of new features such as Multilevel Authorisation, Administrator User, Single User ID for several company accounts - shared ID etc., enhanced an already robust product.

Online banking, the Bank's Internet

Marketing campaigns also enhanced customer migration towards mobile banking empowering customers to bank from locations of their choice.

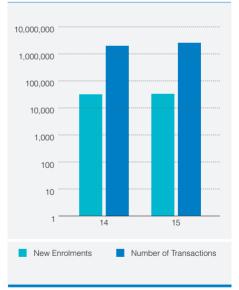


→ Graph – 59

Performance of 'PayMaster', the solution for corporates, has been particularly pleasing as graphically depicted (Graph 60). Planned enhancements for 2016 are expected to empower corporate customers to initiate and complete more transactions with enhanced security features and analytical capability.

The Bank's performance in this segment which includes two telecom providers and 9 competing banks is creditable surpassing industry growth rates of 140% and 32% respectively for number and value of transactions as reflected in the Payment Bulletin for the 2nd guarter of 2015. Progress in this segment is vital for the remittances business of the Bank as mobile banking provides the connectivity required and secures the Bank's dominance in this key business line.

# Growth of Online Banking



→ Graph – 58



→ Graph – 57

#### **Banking from Your Location**

Customers increased their usage of the electronic banking channels during the year resulting in high growth rates for online Banking, mobile banking and the Bank's flagship product for corporates, PayMaster. Key trends supporting growth in this area included the declining trend in prices of tablets, smartphones and computers resulting in higher penetration levels.

Activity across all electronic banking channels have evinced strong growth as depicted in the above graph and accounts for 13% of core banking accounts. It is attributable to high mobile penetration rates, transitioning demographics and the wide range of fit for purpose products available from the Bank.

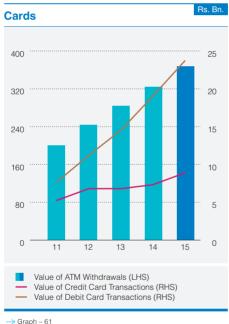


#### Cards

The use of debit cards in Sri Lanka increased by 31.6% with credit cards spending growth moderating to 10.7% as reported in the Payment Bulletin for the 3rd quarter of 2015. Notably, the number of debit card transactions has exceeded the credit card transactions for the first time in 2015 although the value of transactions in credit cards remains higher. The number of POS terminals in the country also increased by 17.8% to 38,600 as at September 30, 2015 facilitating card transactions. ATM transactions in the country also increased by 15.5% in volume and 32.3% in value as at September 30, 2015. Commercial Bank's licenses across the entire range of card services as an issuer of credit, debit cards and as a financial acquirer of payment cards provides scope and agility for growth in this lucrative segment.

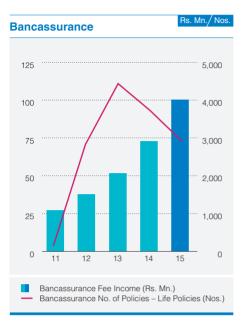
As the market leader in debit card spending, the Bank continues to witness strong growth in this segment as depicted in the adjacent graph. Recording 22.07% and 14.95% growth for 2015 in debit and credit card spend, we strengthened our position in this high growth area as popularity of debit cards increased. During the year, we continued to focus on improving the security of debit and credit cards transactions resulting in increased customer acceptance of this key channel product. Promotions with popular retailers

added to the attractiveness of our card driving growth in spending. At the end of the year cash dispensed through our ATMs grew by 13.44% and Bank accounted for 22% of the total ATM cash dispensed through ATMs in the country. Key factors attributable to growth in this area include increased range of services offered at ATMs, cardless transactions enabled at our ATMs and expansion of the capacity. In order to comply with card scheme requirements, the ATM network was upgraded to enable the processing of ATM transactions through the use of an integrated chip and by year-end we had almost 200 ATMs upgraded to this capability.



#### **Bancassurance**

Growth in bancassurance fee income was 38.6% despite the drop in the number of policies issued by the Bank due to revised bancassurance mandate that the life policies being issued only to the account holders of the Bank. The segregation of general insurance business and long term insurance business resulted in growth of partners although the product offering remains largely unchanged. Bancassurance offers convenience to our customers and provides our partners unmatched reach to our customers through our branches.



→ Graph – 62

#### **Way Forward**

Personal banking is expected to grow at an increased pace in the coming year supported by our growing customer touchpoints, technology, targeted products and a strong brand. Additionally, the Government budget proposals for 2016 also support customer acquisition and growth in card transactions. A strong pipeline of e-banking innovations empowering customer supports increased customer migration to electronic platforms driving operational efficiencies. The Bank's unparalleled networks and islandwide reach coupled with increasing functionality in its e-banking and mobile banking channels provide a strong competitive edge to outperform market growth rates.

Our highly trained team will continue to enhance the customer value proposition to ensure sustainable growth in retail banking at Commercial Bank.





18%

## **Growth in Minors' Accounts**

Isuru Minors' Savings is the ideal savings scheme to build up a better future for children



28%

# **Growth in Housing Loans**

The Bank provides a range of specialised housing loan products to suit every customer need

#### **Corporate Banking**

Accounting for over 34% of the Bank's loans and advances, the Corporate Banking division facilitates large scale economic activity, supporting the highly specialised requirements of corporate customers. A history of financing some of the largest projects in Sri Lanka and facilitating trade for over 95 years coupled together with the professionalism of our team gives us exceptional capability and agility to compete effectively.

#### Relevance to the Bank

32% Profit before Tax 24% of Assets 18% of Liabilities 24% of Operating Income

#### **Performance Highlights**





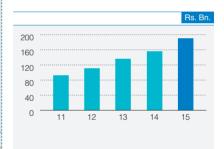
**Customer Satisfaction** 



Import/Export



Credit portfolios grew by 15.69% in line with our strategy of prudent growth. Healthy customer relationships and understanding our clients' businesses helped to increase our share of wallet with customers and utilisation of existing facilities, driving portfolio growth.



We seek to be the primary bank for our corporate customers and our strategies in this regard have been effective as evidenced by a survey of corporate clients conducted by a reputed market research company.

Voted as the primary Bank for 93% of Corporate clients

Commercial Bank accounted for 8.7% of the country's imports and 16.84% of the country's exports in 2015, showcased our status as a premier bank for trade finance.



#### **Our Products**

#### Financing

- Working Capital Financing
- Short term Loans
- Import Financing
- Export Financing
- Long Term Financing
- Term Loans
- Project Loans
- Leasing
- Factoring
- · Islamic Banking

#### **Transaction Products**

- Trade Finance Services
- · Combank Online
- Pay Master
- Interest Rate Swaps
- Currency Swaps

#### **Investment Banking**

- Initial Public
   Offerings and private
   Placements of Equity
   and Debt
- Securitisations
- Syndications
- Project Financing
- Margin Trading
- Escrow Accounts
- Custodian Services
- Advisory Services on Debt and Equity

The Corporate Banking portfolio (Figure 22) is diverse, deriving revenue from its loans and advances portfolio, trade finance activities, off-shore banking activities, the Bank's Islamic Banking portfolio and also managing overseas branches. This enables the Bank to offer customised solutions to demanding corporates supporting their growth through a wide range of services that cater to all their investment, financing and transactional needs and a global network of correspondent banks. We seek to be the 'most preferred corporate banking solutions provider' with high levels of customer satisfaction facilitating customer retention driving our growth and performance.

#### Key Performance Indicators (\*)

	201	15	2014	
	Actual Rs. Mn.	Target Rs. Mn.	Actual Rs. Mn.	Achievement (Actual over Target) %
Loans & advances portfolio	.==	.== -== -		400.5
as at December 31	179,964.1	178,856.6	155,314.7	100.6
Profit before Tax	5,606.6	5,150.1	5,463.8	108.9
Import turnover	236,535.7	210,012.0	208,103.6	112.6
Export turnover	279,218.6	303,607.7	272,229.0	92.0
Cost to income ratio (%)	19.7	22.6	19.9	
NPA ratio (%)	1.0	1.0	0.8	

<sup>→</sup> Table – 24

#### Performance

Portfolio growth was robust at 15.69% closing the year at Rs. 180.628 Bn. driven by increased demand for credit particularly in the latter half of the year. Tourism and leisure in Sri Lanka and Maldives were the key sectors of growth for corporate banking in addition to health care. Non Banking Financial Institutions and Consumer Durables as loans disbursed to these sectors increased during the year. The Bank's focus on its core areas of innovation, professionalism, service quality and optimising earnings enabled us to further strengthen our leadership in vital segments supporting growth. Customer acquisition and retention was key to our growth strategy and success in this area is attributable to effective relationship management, a strong franchise, our ability to customise solutions to customers using a wide range of products and streamlined operations backed by reliable IT.

Structural changes during the year supported higher levels of customer service and satisfaction as the Economic Research Unit and the Trade Finance Departments were brought under the purview of the Corporate Banking. This has enabled us to respond more efficiently to customer requirements and also access the highly specialised knowledge of the trade team in understanding customer needs or customising solutions for them. Need based research has enhanced the team's professionalism and supported decision-making as we access up to date trends and information on various aspects of the economy.



22%

## **Growth in Loans & Advances**

Loans & Advances grew by more than Rs. 100 Bn. during the year



1.06%

**NPA Ratio** 

Quality - Loan Portfolio

<sup>→</sup> Figure – 22

Total operating income increased by Rs. 355.008 Mn. as volume growth in portfolio and trade finance offset narrowing interest spreads and margins on fee-based income. Import and export turnover was driven by encouraging higher utilisation of established limits with existing customer and targeted client acquisition. Import turnover increased by 4.2% in US\$ terms during the year as import of vehicles and consumer goods increased and our market share in key import segments increased. Export

turnover of the Bank recorded a marginal drop in US\$ terms in line with the drop in volumes of exports of the country for the first nine months of 2015. Substantial market share of imports and exports providing undisputable evidence to our expertise and customer satisfaction in this vital aspect of corporate banking.

Nos.

# Loans Screened by the SEMS Cordinator

5,000 4,000 3,000 2,000 1,000

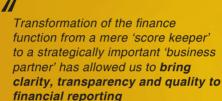
→ Graph - 63

Online banking solutions for corporate customers continued its positive growth trajectory driven by user friendly technology, allaying of security concerns and customer strategies to streamline their own operations. Commercial Bank accounts for approximately 60% of online EPF and ETF remittances of the country which is a strong indication of the business customer acceptance of the product and the Bank's market share.

Paymaster was re-launched during the year with enhanced capability and received an encouraging response from our customers as described on page 165 of the Personal Banking Report. Increasing interest from corporates will be matched by investments and innovations in this growing area of operations building on our success.

All loans were screened for environment and social compliance in accordance with the Bank's SEMS policy and progress monitored in accordance with terms and conditions included in loan agreements to ensure continued compliance. This is perhaps the Bank's most significant contribution to sustainability which is done through a structured process with dedicated resources for the purpose. We provide feedback received from the SEMS co-ordinator to clients and work together to resolve the issues that may arise, minimising overall risks related to investments.

We also implemented several initiatives to enhance customer satisfaction and improve operational efficiencies during the year. Improved management information systems in turn positively impacted employee productivity. Additionally, we focussed on training our staff on a variety of technical and soft skills topics to ensure they deliver on changing customer expectations.





Prasanna Indrajith Assistant General Manager Finance

#### **Investment Banking**

Our Investment Banking Unit had a successful year with growth across many areas of activity, including structuring and management of equity and debt, investing in corporate debt, project financing and executing syndicated loan assignments. The strong relationships established with customers by the Investment Banking Team and other departments of the Bank, have helped in generating new business volumes.

The Investment Banking Unit structured and managed multiple debt assignments in 2015, inclusive of a listed debenture issue and several securitisations, raising Rs. 8.0 Bn., and was also able to commence work on several equity fund raising assignments during the year.

We were active in arranging syndicated debt during the year, helping raise US \$ 45 Mn. in 2015 through execution of syndicated debt deals in which the Bank also participated as the Lead Bank. As part of its project financing activities, Bank's Investment Banking Unit financed a solar power project and a bio-mass power project, as well as several hydro power projects.

The equity market during the year was characterised by a decline in the main index and the margin trading portfolio and the equity portfolios of the Bank recorded subdued performances during the year.

The Investment Banking Unit intends to expand its activities in 2016, with a focus on selectively canvassing business, while engaging in the assignments for which the Unit has been mandated.

#### **Islamic Banking**

Bank's Islamic Banking service operates on the concept of 'profit and loss sharing' as an alternative to conventional interest based financial transactions as Islamic Sharia Law prohibits the charging of interest. Our Islamic Banking window, Al Adalah, has been in operation since June 2011.

The Bank's Islamic Banking Unit is supervised by the CBSL and also by a Sharia Supervisory Board, to ensure that all transactions conform to traditional law. The Sharia scholars appointed to the Board help to carry out periodic reviews and audits.

The Islamic Banking deposit products available throughout Sri Lanka include Mudaraba savings accounts and investment accounts. The asset products offered are Murabaha, Musawamah, Wakala, Musharaka, Diminishing Musharaka and Ijara (leasing) for financing requirements which are accessible through the branch network. Furthermore, the Islamic Banking Unit also continued to provide financing under Offshore banking and is in the process of

developing products that support Islamic export bill discounting, construction based financing.

In 2015, the Bank's Islamic Banking
Unit won the Gold Award for the 'Islamic
Finance Deal of The Year' at the 4th
Sri Lanka Islamic Banking and Finance
Industry (SLIBFI) Awards which
recognise individuals and institutions that
have made a significant contribution to
the industry.

After less than five years in this sector, Commercial Bank has about a 7% share of the Islamic Banking market – a number that we expect will continue to grow as we pursue new initiatives.

#### Way Forward

The annual customer survey was structured to identify areas for improvement in addition to monitoring satisfaction levels and this served as a look in the mirror for us. The results were extremely gratifying concluding that we have a large base of loyal and satisfied customers. We have also addressed the areas of concern raised in the survey, in order to enhance our customer satisfaction level and expect to reap the rewards in the coming year. Strengthening our franchise and improving earnings will be a key focus as we seek to entrench our position as the leading primary bank.



16.8%

# **Market Share in Exports**

Bank's market shares in country's exports and imports showcase its status as a premier bank for trade finance



8.7%

## **Market Share in Imports**

Commercial Bank accounted for 8.7% of the country's imports

#### **Treasury**

Managing the funding operations of the Bank, the Treasury division continued to support the retail and corporate banking units in their LKR funding requirements whilst managing the foreign currency flows arising out of their business. Considered as a significant player in Interbank FX and Fixed Income Securities market, our operation is segregated into Treasury Sales, Fixed Income Trading, Interbank & ALM and oversees the – operations of the Bangladesh branch Treasury with guidance from the ALCO. The Treasury also effectively managed the Bank's Interest Risk, Liquidity Risk and the Foreign Exchange Risk in a year which saw movements in both exchange and interest rates and ensured adequate margins.

#### Relevance to the Bank

3% of Operating Income

3% of Profit before Tax

30% of Assets

14% of Liabilities

#### **Performance Highlights**

Largest Repurchase Portfolio



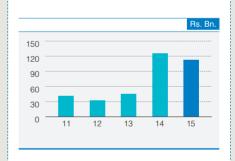
**Funding Activities** 



Managing Liquidity



Commercial Bank has the largest repurchase portfolio in the Banking sector demonstrating the scale of our primary dealer operations and customer confidence.



The Bank raised
US \$ 200 Mn.
from foreign sources
at attractive
rates leveraging
Commercial Bank's
sound positioning and
rating to good effect

during the year.

Assets managed by the Treasury declined during the year due to healthy growth of credit portfolios of the Bank.



Performance



Innovation



Treasury profits moderated during the year by 13.26% due to decline in gains from financial investments as interest rates increased during the year. Foreign exchange profits increased due to favourable movement in exchange rates and increased turnover from trade finance and interbank and remittance volumes. Climbing interest rates resulted in increased interest income which offset to some extent the decline in gains from financial investments.

The Bank was successful in creating a secondary market in Sri Lanka Development Bonds (SLDB) and generating a substantial portion of realised capital gains from secondary market dealings.



Treasury operations comprise three highly specialised areas, namely, Forex and Corporate Sales, Fixed Income Securities and ALM Operations which are headed by a Chief Dealer who reports to the Head of Global Markets and Head of Global Treasury.

Key Performance Indicators (\*)

	20	15	2014	
	Actual Rs. Mn.	Target Rs. Mn.	Actual Rs. Mn.	Achievement (Actual over Target) %
Forex Profit	1,004.4	950.1	672.9	105.7
Profit before Tax	731.0	985.2	863.8	74.2
Interest-Earning Assets				
as at December 31,	254,038.1	315,916.1	270,384.2	80.4
Interest-Bearing Liabilities				
as at December 31,	117,904.1	154,479.9	120,998.5	76.3
Cost to Income Ratio	43.3	34.2	25.7	

<sup>→</sup> Table – 25

#### **Fixed Income Securities**

The Bank's significant Fixed Income Securities portfolio accounts for 28.51% of the Bank's total assets and 30.98% of the Bank's total liabilities. Performance of this desk was impacted by the movement of interest rates which are determined mainly by the country's monetary policy and market liquidity.

The CBSL continued to maintain its relaxed monetary policy stance during 2015, with several adjustments to provide the necessary impetus to economic activity facilitating credit flows to the private sector. Overnight interest rates moved upwards and settled close to the lower bound of the policy rate corridor with the removal of the restriction on access to CBSL's Standing Deposit Facility (SDF) in March 2015. The CBSL reduced its Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) by 50 basis points each in April 2015 to 6.00% and 7.50% respectively in response to intermittent increase in interest rates in certain market segments following the removal of restrictions on the SDF and also the sharp decline in inflation and they remained at these levels throughout the year. These measures resulted in a surge of demand in private sector credit in the latter half of the year with credit growth outstripping deposit growth after

the lapse of many years. The resultant normalising of excess liquidity in the market also added pressure on interbank rates, AWDR and AWPLR which moved up during the same period. The Bank's ALCO was compelled to revise both lending and deposit rates upwards although the NIM reflects a marginal decline given the intense competition in the market for private sector credit and related business.

Upward movement of interest rates gave rise to fair value losses on remeasuring financial instruments classified as Available-for-sale, a feature observed across the Banking sector although interest income flows remain unaffected.

# Foreign Exchange and Corporate Sales

This desk provides vital support to the Retail, Corporate Banking and Trade Finance businesses managing the foreign exchange requirements of their customers and the Bank's forex risk. Operations of this division are impacted mainly by movements in the exchange rate, the volume of import and export business and remittances channelled through the Bank.

The Sri Lankan Rupee was under pressure along with other peer countries, devaluing by 9.09% from Rs.132.10

at the beginning to Rs.144.10 by the close of the year. The Sri Lankan Rupee remained broadly stable during the first eight months of the year supported by the CBSL intervention, depreciating thereafter as the CBSL allowed greater flexibility in the determination of the exchange rate. The increased demand for foreign exchange was mainly due to higher imports and debt service payments, reversal of foreign investments in the Government Rupee securities market and moderation of workers' remittances which added pressure on the exchange rate.

The Bank's forex profit was strongly supported by increased volumes of import export business and remittances. Notably, The Bank's Treasury was the market leader in Interbank FX Operations, providing liquidity in spot, forward and swap transactions.

#### **Way Forward**

The IMF believes that there is little scope for further monetary easing due to recent acceleration in private sector credit growth and rising core inflation and suggests that the CBSL should be prepared to tighten monetary policy in the coming months given the deterioration in the balance of payments and pressures on the Rupee. Additionally, the increase in rates by the Federal Reserve Bank in the US in December, 2015 is likely to cause ripples around the world leading to higher borrowing costs for developing economies, many of which are already seeing slow growth. In Sri Lanka, interest rates are expected to increase in 2016 as global borrowing costs increase, forcing the Government to rely more on domestic sources to satisfy its borrowing requirements. The Rupee is likely to depreciate further as the US Dollar strengthens in the aftermath of the increase in rates and a challenging external environment coupled with poor export performance.

Moderating trade flows and volatile interest and exchange rates indicate higher levels of uncertainty for Treasury activities and conservative positions which is likely to result in a moderation of profitability in 2016.

<sup>\*</sup> Based on Management Accounts

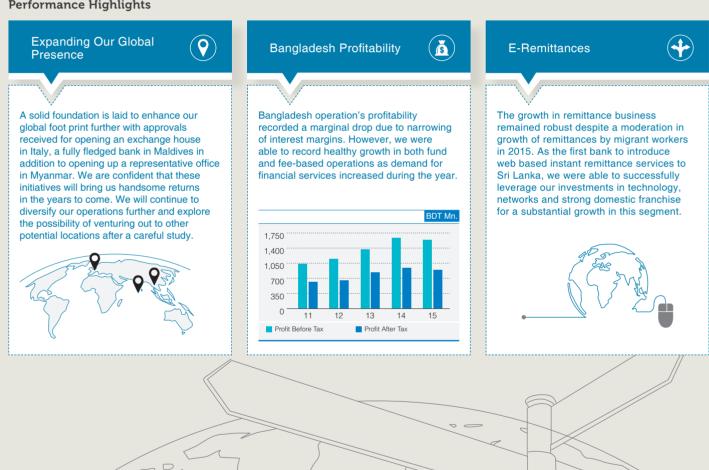
#### **International Operations**

We were able to lay solid foundations for growth of our international operations in 2015, with the opening of a representative office in Myanmar and approvals received to commence operations in Maldives and Italy. As at date, our results in this segment focus on the Bangladesh operation now in its 12th year as our first overseas venture, e-remittance business and offshore banking operations.

#### Relevance to the Bank

15% of Net Profit 10% of Assets 6% of Liabilities 10% of Operating Income

#### **Performance Highlights**







# **Enhancing the Global Foot Print**

50 Correspondent Bank, 4 Franchise Partners, 109 Exchange Houses and Agents, Facilitating Global Connectivity across over 200 Countries



23%
Growth in Loans & Advances

(Bangladesh Operation)

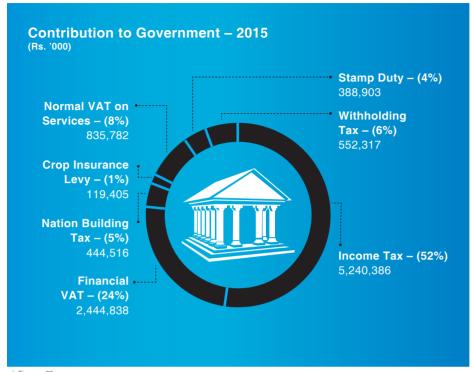
#### Overview of Bangladesh Economy

Bangladesh is one of the most densely-populated countries in the world with a population estimated at 166 Mn. The country has experienced strong economic growth since 1990 and witnessed improvements across a range of social indicators which include primary school enrolment, gender parity in primary education and declining infant mortality. Bangladesh has maintained a Ba3 stable rating by Moody's and BB-from Standard & Poor sovereign rating with stable outlook for six consecutive years since 2010.

GDP growth of 6-7% in the recent past has boosted per capita income in 2014/15 fiscal year to US \$ 1,314 in a rapidly developing market-based economy. More than half of the GDP is generated by the services sector although nearly half the population is employed in the agriculture sector. Remittances from Bangladeshis working overseas and apparel exports constitute the principal sources of foreign exchange for the country.

Strongly divided politics have deterred foreign investment during the year with GDP growth strongly supported by growing domestic consumption, private sector wages and public investments. Inflation moderated below 6.1% during the year in comparison to 6.5% a year earlier, reflecting large public stocks of food grains, healthy weather, supportive monetary policy and low global food and commodity prices recorded in the year 2015. The local currency depreciated only by 0.70% against the US Dollar during the year despite pressure from large regional economies mainly due to healthy current account surplus and all time high external reserves.

Export growth moderated from 12.1% in 2014 to a mere 3.3% in 2015. Import growth accelerated from 8.9% in 2014 to 11.2% in 2015 due to increased imports on machinery, fertilizer and industrial raw materials. The resultant widening of trade gap was largely offset by remittance flows which crossed \$ 15 Bn. mark in 2015.



→ Figure – 23

#### Banking Sector in Bangladesh

Bangladesh Bank (BB) is the regulator of the country's financial system which comprises 56 banks further categorised into six nationalised commercial banks, Two Government owned specialised banks, 39 domestic private banks, nine foreign banks and 31 non-bank financial institutions. The Banking sector witnessed growth of 10.53% in 2014/15 recording the second highest sector growth rate reflecting the vibrancy of the sector.

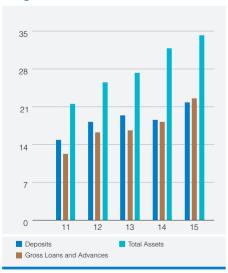
#### **Our Performance**

Commercial Bank of Ceylon (CBC) commenced its operations in Bangladesh by acquiring the banking business of Credit Agricole Indosuez in November 2003. Since commencement, CBC has established its position well above the other Regional Banks operating in the country growing from two branches and two booths to 10 branches, 6 SME Centres and 2 Offshore Banking Units (Figure 24). The number of employees has also grown from 126 at inception to 255 as at close of 2015. Operating mainly as a corporate bank, CBC Bangladesh

competes with SCB, HSBC and Citi Bank and is positioned ahead of other regional banks operating in Bangladesh.

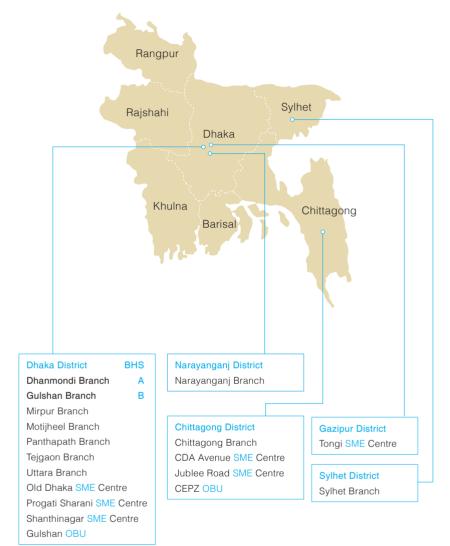
# Growth in Assets/Liabilites – Bangladesh





→ Graph – 64

# Network of Delivery Points - Bangladesh



→ Figure – 24

# **Banking Hours**

Banking Hour Symbol (BHS)		А	В
Sunday to Thursday	10.00 - 4.00	10.00 – 4.00	10.00 - 8.00
Friday and Saturday		9.30 - 12.30	
Holidays			

SME : Small & Medium Enterprises
OBU : Off-Shore Banking Unit



We utilize our valuable resources efficiently and effectively to deliver an unmatched service to our many

stakeholders

Chinthaka Dharmasena Assistant General Manager Services

 $\rightarrow$ 

#### Key Performance Indicators (\*) – International Operation

	2015		2014	
	Actual Rs. Mn.	Target Rs. Mn.	Actual Rs. Mn.	Achievement (Actual over Target) %
Deposits as at December 31	54,071.8	48,767.3	44,092.0	110.9
Loans and Advances as at December 31	58,857.6	48,277.3	40,175.3	121.9
Profit before Tax	2,811.9	2,849.3	2,759.8	98.7
Cost to Income Ratio	27.2	29.5	28.1	
NPA Ratio as at December 31	4.1	3.4	5.3	

<sup>→</sup> Table - 26

financial commitments

Investment Banking has taken a new dimension at the Bank as we always back professional advice with our

## Key Performance Indicators (\*) – Bangladesh Operation

	2015		2014	014 Achievement (Actual ove	
	Actual	Target	Actual	Target) %	
Deposits (BDT '000)	21,936	24,000	18,624	91.40	
Loans & advances (BDT '000)	22,621	21,000	18,328	107.72	
Total Assets (BDT '000)	34,405	38,775	32,064	88.73	
Total Operating Income (BDT '000)	2,398	2,551	2,332	94.00	
Cost to Income Ratio (%)	24.98	31.87	28.15		
ROA (%)	4.63	4.35	5.09		
ROE (%)	12.61	13.22	14.86		

<sup>→</sup> Table – 27

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Naveen Sooriyarachchi Assistant General Manager Corporate & Investment Banking

Bangladesh operations recorded a substantial credit growth of 23% amidst the lackluster demand for credit as some corporates deferred investment in the market due to political unrest. Excess liquidity in the market resulted in reducing interest rates, however, our Bank recorded an impressive deposit growth of 18% during the year. Client acquisition initiatives were successful with deposits diversifying further, reducing the dependency on the top 50 depositors and auguring well for growth in the future. Total operating income declined due to pressure on margins as interest rates declined exacerbated by reduced import and export turnover. Credit quality deteriorated throughout the industry which has been a key area of focus for improvement through increased rigour in monitoring. The cost to income ratio of Bangladesh Operations decrease by 3.17% to 24.98% for 2015.

<sup>\*</sup> Based on Management Accounts.

<sup>\*</sup> Based on Management Accounts

CBC is well-positioned in the Banking sector in Bangladesh with the highest rating of AAA given to a regional bank for the fifth consecutive year. The country's GDP growth rate is expected to moderate marginally to 6.5% in 2016 as forecasted by IMF in its January 2016 update of the World Economic Outlook. We continue to monitor the developments in this market closely to ensure our strategies are aligned to opportunities in the market and are confident of strengthening our position in 2016.

### **E-Remittances**

### E-Remittance to Accounts – Growth 60 48 36 24 12 0 111 12 13 14 15

→ Graph – 65

It is noteworthy that we were able to grow our e-Remittances to accounts despite the decline witnessed in the country's remittances as we implemented a strategy of expanding to new markets and providing meaningful benefits for both the remitter and the beneficiary. Growth in the country's foreign remittances was negative with 0.5% to US\$ 6.980 Bn. during the year 2015 compared to 9.5% in the previous year. This was largely attributable to the decline in oil prices impacting key labour markets in the Middle East and decrease of 14.8% in labour migration in the first half of the year in unskilled categories. However, skilled categories recorded an increase of 8.3% during the year. This change in migration patterns is likely to have a significant impact on the pattern of overseas remittances.

Key success factors in this vibrant segment include campaign to increase awareness on the benefits of receiving remittances to accounts and providing a specialised service through dedicated counters manned by well-trained staff. A ioint campaign carried out with the Sri Lanka Bureau of Foreign Employment also contributed significantly as we were able to target prospective migrant workers. Initiatives targeting professionals increasing the network to 108 direct e-Exchange agents and a strong network of global remittance players such as Moneygram, RIA, Xpress Money enabling us to connect with Sri Lankan expatriates and diaspora in all corners of the world including North America, Canada and EU, Improvements in technology enabled the Bank to allow common payout modes for most of the leading agent partners making e-Exchange a convenient but reliable product for both agents and customers. The Bank was successful in placing 18 business promotion officers in 11 countries on permanent and temporary basis including in some of the new and emerging corridors i.e., Malaysia, Israel and Singapore during 2015.

### Offshore Banking

2015 has been a year of success for expanding our global footprint to Myanmar, Maldives and Italy. Each location provides a unique opportunity for growth, matching our strengths with perceived opportunities in the market identified after careful study. Consequently, our proposals for growth include an SME strategy for Myanmar, a high tech strategy for Maldives and an exchange house in Italy.

The Bank opened its representative office in Yangon in June, formally launching its operations in Myanmar, becoming the first Sri Lankan Bank to be granted a licence by the Central Bank of Myanmar. This operation will initially offer-advisory services to Sri Lankan and Bangladeshi businesses wishing to enter Myanmar, arrange Banking and Advisory facilities, funds transfers and encashment services. There is significant potential

to increase bi-lateral trade between Myanmar and Sri Lanka and interest among Sri Lanka's leading apparel exporters and other industries to set up operations in Myanmar and the Bank is well positioned to be the catalyst.

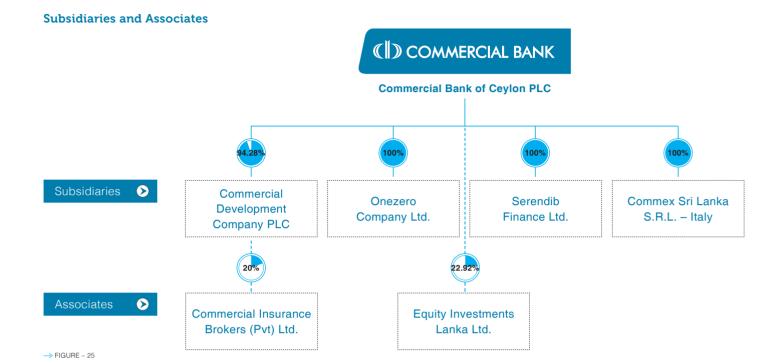
The Bank also received a licence from Maldives Monetary Authority and approval from the CBSL to establish a fully-fledged Tier I Bank in the Maldives. It will hold the majority stake in a new Subsidiary, Commercial Bank of Maldives (Pvt) Ltd., with a leading Maldivian Group holding the remaining stake.

We also received approval from the Italian Government to establish an Exchange House in Rome through our subsidiary Commex Sri Lanka S.R.L. providing a base in EU for expansion within the EU. This is particularly gratifying as the Bank was able to meet stringent requirements of the EU financial system.

### **Way Forward**

International operations provides a new direction of growth for the Bank which is expected to provide stability in earnings in the future, as we increase our geographical diversity. Bangladesh is a market that is projected to increase its pace of growth in 2016 and 2017 and presents an exciting opportunity. Approvals obtained for new overseas ventures will see us commencing operations in the Maldives and Italy during 2016 and we will continue to explore new markets in the coming year.

The Bank is also well-positioned to grow its remittance volumes through increased digitisation and a growing presence in key migrant markets. As the pioneer local Bank to introduce its own electronic instance remittance service product to Sri Lanka in 2003, the Bank has now set up all the necessary strategies to become the first ever Sri Lankan Bank to introduce itself as a Remittances Service Provider (RSP) with a global product in 2016.



### Commercial Development Company PLC

Commercial Development Company PLC (CDC) was formed in 1980 as the first subsidiary of the Bank to build the present Head Office building of Commercial Bank. At present, the Bank holds 94.28% stake of the CDC. Today, CDC is one of the principal utility service providers to the Bank. The Company derives most of its income from renting space in the 'Commercial House' building and outsourcing staff.

CDC recorded a post-tax profit of Rs. 259.795 Mn. for the year ended December 31, 2015 compared to Rs. 275.434 Mn. recorded in the previous year, a drop of 5.68%. However, its operating profit when discounted for the fair value gain recognised on investment properties in the previous year, grew by 10.5% mainly due to the revision of building rent in line with comparable market rates and expansion of its staff outsourcing business. It is noteworthy to mention that the Company was able to maintain its administrative cost intact with a marginal increase of 2.3% amidst the general increase in the overhead cost structures in the country. The Company has already drawn up plans to improve its profitability during 2016.

### **ONEzero Company Ltd.**

ONEzero Company Ltd., a wholly-owned subsidiary of Commercial Bank, provides information technology services and solutions to the Bank. The Company has three main lines of businesses: outsource professional and skilled manpower resources to the Bank, providing hardware and software related support services and supply of computer hardware and software to the Bank. The Company now provides support services to 9 regions with the addition of two more regions during the year.

ONEzero recorded a post-tax profit of Rs. 27.523 Mn. in 2015, a decrease of 9.12% compared to the previous year mainly due to a certain additional income recognised in 2014. Discounting the above, the Company recorded a profit growth of 14.15% compared to 2014. ONEzero is exploring the possibility of enhancing its services provided to the Bank and certain actions has already been taken in this regard.

### Commex Sri Lanka S.R.L. - Italy

Commex Sri Lanka, a fully-owned subsidiary of the Bank, incorporated in Rome to serve the funds transfer needs of Sri Lankan expatriates in Italy. However, due to long delays experienced in obtaining the licenses from the Bank of Italy to handle remittances, Commex engage in facilitating remittances through other International money transfer organisations.

Commex received the regulatory approval from the Bank of Italy towards end of the year. The Bank is really pleased in meeting stringent European Union financial system requirements in obtaining the approval. Now the Company is in the process of laying the ground work to start its operations from early 2016.

### Serendib Finance Ltd.

Commercial Bank acquired 100% stake in Indra Finance Ltd., a Licensed Specialised Leasing Company, under the consolidation road map of the CBSL in 2014. The Company currently operates under the name of Serendib Finance Ltd. (SFL) which focuses mainly on leasing, hire purchase etc. SFL has a network of 11 branches.

SFL recorded a loss of Rs. 72.676 Mn. for 2015 mainly due to the increase in impairment provision subsequent to the re-alignment of impairment and other accounting policies and practices to be in line with the Bank. The Company formulated a robust plan and expects a remarkable turnaround of its fortunes during the coming year.

### Commercial Insurance Brokers (Pvt) Ltd. (CIBL)

The Bank has an indirect stake of 18.86% in Commercial Insurance Brokers (Pvt) Ltd., through its Subsidiary Commercial Development Company PLC. The Company was incorporated in 1987 and is one of the country's premier brokering firms for both life and general insurance policies. CIBL has built strong partnerships with US-based CA Technologies, as well as Pronto XI ERP of Australia, making it one of the most tech savvy firms in the Sri Lankan Insurance industry. This partnership

helps to provide appropriate solutions to all stakeholders of the company in par with world class standards.

In 2015, CIBL witnessed a significant growth of Rs. 11.990 Mn. in post-tax profit to reach Rs. 19.683 Mn. for the year 2015, mainly due to increase in its revenue from commission income.

The company is well equipped and geared to face the stiff competition faced by the industry through the personalised services.

### Equity Investments Lanka Ltd. (EQUILL)

EQUILL is a venture capital company set up in August 1990 and provides financing to local entrepreneurs and businesses in the form of equity and equity featured debt instruments. Commercial Bank holds a 22.92% stake in EQUILL.

Despite the decline in share market performance during 2015, EQUILL was able to realize capital gains through the sale of its long term held quoted shares. Company recorded a substantial increase in dividend income too, due to the investments made in high dividend paying companies, specially in the power sector.

EQUILL recorded substantial growth of 94.11% in post-tax profit to reach Rs. 43.264 Mn. in 2015.

The company is actively seeking new investments in diversified sectors but intends investing on a more selective basis in order to maximize returns and to avoid impairment.

Detailed below are some of the Fiscal and Regulatory proposals presented by the Government Budget 2016, which will have an impact on the Banking Industry. Few of these proposals have been enacted as at the date of this Report and some are pending. Our Bank is aware of the implications arising out of these proposals and therefore geared to meet the challenges/requirements that may arise in the future.

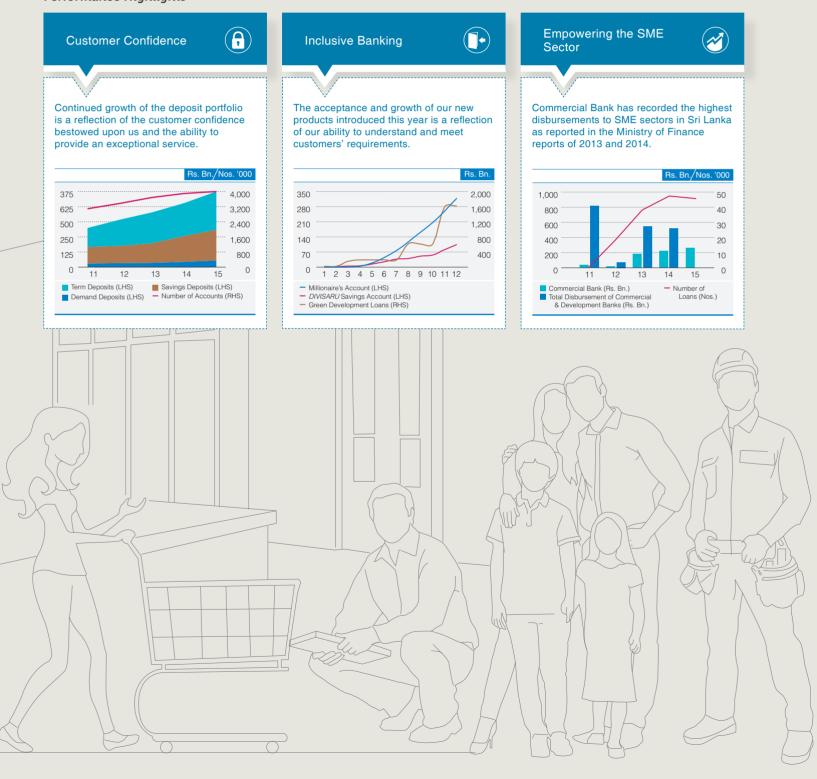
Fiscal Proposals	
Income Tax	Profits from Banking and Finance services to be liable to the higher Income Tax of 30% which is 2% above the current rate.
Financial VAT & NBT	Financial VAT and Nation Building Tax paid by banks on the adjusted profit of financial services to be increased by 1.5% and 2% respectively.
Stamp Duty	Local use of credit cards exempt from Stamp Duty. Stamp Duty on use of credit cards for foreign transactions to be increased to Rs. 25/- for every Rs.1,000/- or part thereof.
Regulatory Proposals	
Branch Expansion	All banks to expand the branch network by 15% in lagging regions. Each of these branches to be operated by a minimum of six employees.
Bank Lending Requirements	Pawning business to be restricted to 5% of the loan portfolio. Minimum required lending to Agriculture Sector set at 10%, SME Sector at 5% and Women & Youth of 5% of the loan portfolio.
CBSL guarantee for deposits of registered Finance Companies	The Central Bank of Sri Lanka to issue a 100 % guarantee on all deposits held by registered finance companies.
Cap on interest rates offered by the Finance Companies	A cap on interest rates offered by the Finance Companies to prevent undue concentration of deposits ir one sector.
Dormant Account Balances	Proposed to transfer all balances lying in Dormant Accounts of banks to the Central Bank.
Revision of the Exchange Control Bill	A revised investor friendly Foreign Exchange Management Bill to be introduced.
Financial Institutions Restructuring Agency (FIRA)	Establishment of Financial Institutions Restructuring Agency (FIRA) to assist failing finance companies.

### Social and Network Capital

### Customers

Commercial Bank is a key partner in the socio-economic progress of each village, town, city or country we operate in and are an integral part of the community. Our business model is based on a deep understanding of the customer needs as we grow together – 'in step' with our customers.

### **Performance Highlights**



### **Customer Strategic Priorities**

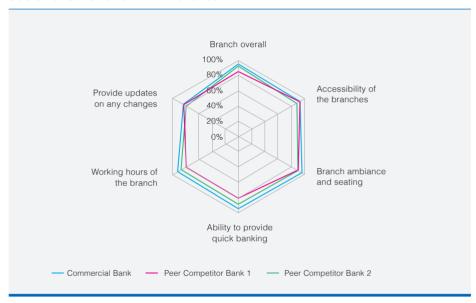
### **Prudent Growth**

### **Corporate Conscience**

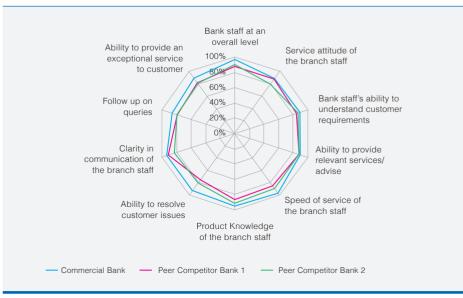
- · Customer satisfaction
- · Inclusive Banking
- Transparency of products and services
- Responsible lending

- Customer security and safety
- Safeguarding Customer confidence
- Financial literacy and capacity building

### **Customer Satisfaction with Branches**



### Customer Satisfaction with Bank Staff



### Customer Satisfaction

Customers drive our growth and are the front and centre of our business. Growth of our customer base also serves as a barometer of customer confidence and sustainable growth of our business. A growing network of customer touch points, connects us to our customers whilst enhancing accessibility of financial services. Increased hours of operations and investments in state-of-the-art technology, taking banking to the comfort of customers' offices and homes, enhances customer convenience, driving customer satisfaction.

The past few years demonstrated a set of gratifying results in terms of Customer Satisfaction, with Commercial Bank emerging highest across all key banks in the Truly Loyal customer segment percentage scores. The said scores are evidence that we have exceeded the norms in customer commitment and continuation of relationship building.

Our bi-annual brand health survey (Figure 26) too has indicated positive results on customer satisfaction amongst current Commercial Bank users, surpassing that of our competitors especially on extended banking hours, branch ambience, and the speed of service at branches. Furthermore, the knowledge of branch staff on products and services along with their ability to provide an exceptional service, followup on queries, ability to disseminate relevant information to customers and the ability to understand customer needs have gained a very high score, yet again surpassing that of peer banks.

We continued to enhanced customers' wealth through a range of innovative products, providing opportunities for investment and disbursing loans that empower their socio-economic progress with advice and guidance on managing transactions, whilst minimising risk.

### Inclusive Banking

A customer penetration rate of 13%, is testimony to the progress made in financial inclusion, strongly supported by 50% of branches located outside the principal province. The distribution of deposits (Graph 66) and growth of specialised products for women (Anagi Savings Accounts) and senior citizens (Udara Savings/Fixed Deposit Accounts) (Graph 67), also demonstrate our understanding of the requirements of

We create an incomparable

understanding the banking needs of our customers and offering

innovative tailored products

customer experience by

these customer segments and efforts to cater to their needs, including them in the country's socio-economic progress. Continuing with our efforts to cater to the needs of all our customers the Bank added 12 more branches to the list of branches equipped with wheel chair ramps bringing the total to 130 branches from 118 in 2014, facilitating our differently able clientele to access customer areas and ATMs. Visually impaired customers also have the ability to enlarge text on our online banking product empowering them to conduct their own banking transactions.

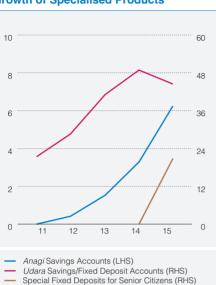
### **Deposits Distribution – 2015** DE A - Below Rs. 5,000 63% B - Rs. 5,000 -100,000 24% C - Rs. 100.000 - 500.000 9% D - Rs. 500,000 - Rs. 1 Mn. 2% E - Above Rs. 1 Mn. 2% Graph – 66

Selva Rajasooriyar

Personal Banking

Assistant General Manager





Rs. Bn.

→ Graph – 67

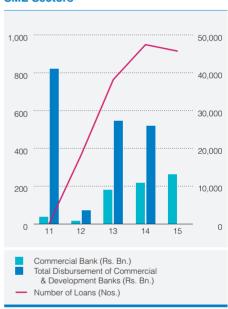
### Accessibility to Financial Services

The Bank has established a presence in the Northern and Eastern Provinces of the country which were ravaged by a 30-year ethnic conflict which ended in 2009. Our offices in these provinces are staffed with employees who are able to converse in all three official languages (Sinhala, Tamil and English) to ensure that they are able to understand the customers' requirements and also clearly explain the terms and conditions of our products in the customers' language of choice. Product information and marketing materials are also developed in all three languages to facilitate access to information in their language of choice. The lowest number of touch points in any province is 2 per 100,000 population and this number moves up to 5 in the Northern Province due to recent initiatives of the Bank to provide access to banking services.

Commercial Bank has recorded the highest disbursements to SME sectors in Sri Lanka, as reported in the Ministry of Finance Reports of 2013 and 2014 (Graph 68). Our widespread branch network and our robust Development Credit Department has been a resounding success in understanding, identifying and developing the needs of the people, offering agricultural and industrial loans at reasonable interest rates, repayment programmes to match the customer's exclusive cash flow constrains and minimum collateral.

### Disbursements to SME Sectors

Rs. Bn./Nos.



→ Graph – 68

Affordability of financial services is a key aspect of financial inclusion. Our customers have been the beneficiaries of the streamlining of operations, as we reviewed fees and interest rates to ensure affordability of financial services. We participate in 3 loan schemes operated by the CBSL, to enable our customers to gain favourable interest rates from these specialised loan schemes, of which over 2,500 customers received financial assistance amounting to Rs. 1,457 Mn. in 2015.

### Transparency of Products and Services

Our Customer Charter ensures that there is transparency in our fees and charges and that customers clearly understand the terms and conditions of the financial products and services used by them. Our friendly and courteous staff explain the products to customers in their language of choice, using flyers that can be retained by customers, which contain information regarding features of the products and their terms and conditions. Deposit rates, lending rates, exchange rates and tariffs and charges are published on our website and updated on a daily basis. Additionally, customers can obtain further clarifications from our Information Centre or any branch. The Complaints and Grievances procedure, is also set out on the website and displayed at branches including contact details of officials of the Bank and the Financial Ombudsman, who can also be applied to in the event efforts made by the Bank, prove unsatisfactory to the client.

### Responsible Lending

We are a conservative bank and we encourage our customers to be as conservative in managing their wealth. Consequently, we do not engage in promoting consumption loans, focussing instead on lending products that support wealth creation, such as home loans and business loans. Whether it is for retail or corporate customers, our front line employees are trained to understand customer needs and proffer advice accordingly in keeping with our Code of Conduct and Business Ethics. Screening of business loans to ensure compliance with our Social and Environmental Management Systems (SEMS) Policy, ensure that our customers reap the benefit of our expertise in this regard, whilst we ensure that projects financed by us are in compliance and defined with environmental and social criteria more fully explained on page 214

### Customer Security and Safety

Customer security and safety is a key priority for the Bank and is regulated by the Banking Act and subsequent Directions, issued by the CBSL in this regard. Measures taken by the Bank in this regard include:

- All employees take an oath of secrecy
- Confining employees' access to sensitive information through strict controls set in to information systems
- Specific restrictions on disclosure of account information to third parties
- Investments in securing customers online privacy and protection
- Regular compliance reviews and audits
- Certification on specific aspects, benchmarking international best practice

Commercial Bank has been the industry leader in customer protection, in full compliance with the 27001:2013 certification for the past 6 years and we go beyond these requirements, in ensuring the robustness and security of our technology platforms.

### Safeguarding of Customer Confidence

The Bank has strict internal controls in place that aim to curtail any form of corruption across the organisation, safeguarding customers' confidence on the Bank. Our efforts in this regard are implemented by the Inspection Department, which carries out onsite and online surveillances adopting a risk-based approach through which the scope and frequency of audits for each branch or department is established.

The Bank also has an ongoing programme that actively works to prevent money laundering and any activity that facilitates the financing of terrorism and other unlawful criminal activates. Our Anti-Money Laundering Unit, headed by the AML Compliance Officer, centrally monitors transactions and any alerts are promptly reported to the Financial Intelligence Unit of the CBSL.

### Financial Literacy and Capacity Building

We support our customers' growth through capacity building programmes, which build on needs identified through our engagement mechanisms. External bodies that provide specialised skills are identified by the Bank, using our social networks to partner in delivery of these programmes. During the year we conducted 15 such programmes covering 1,822 beneficiaries as depicted in table 29 below:

Location	Target Group	Programme Focus	No. of Beneficiaries	
Ambalantota and Hambantota	Rice millers	Financial literacy and Capacity building	26	
Anuradhapura	Entrepreneurs	Capacity building	179	
Bandarawela	Tea small holders Dairy farmers Vegetable farmers Financial literacy and Capacity building			
Elpitiya	Entrepreneurs	Capacity building	173	
Galenbindunuwewa	Paddy farmers	Financial literacy	120	
Hingurakgoda	Seed paddy farmers	Capacity building	119	
Kandy	Entrepreneurs	Capacity building	137	
Kattankudi	Dairy farmers	Financial literacy and Capacity building	139	
Kuliyapitiya	Entrepreneurs	Capacity building	124	
Kurunegala	Coconut growers	Capacity building	58	
Mullaitivu	Farmers Entrepreneurs	Financial literacy	130	
Nochchiyagama and Thambuttegama	Paddy farmers	Financial literacy	149	
Point Pedro	Small scale fishermen	Financial literacy and Capacity building	105	
Ratnapura	Tea small holders	Financial literacy and	145	
	Entrepreneurs	Capacity building		
Silawathurai and Muththarippu	Seaweed cultivators	Financial literacy and Capacity building	68	
Total Beneficiaries			1,822	

### **Business Partners**

Over our 95-year history we have developed strong relationships spanning the globe that support and enhance our ability to create value. Our approach is to develop win-win relationships that enable us to grow together, based on a common understanding of values that underpin our transactions. During the year, we have made payments over Rs. 4.0 Bn. to our business partners and engaged in a constructive manner, facilitating their growth. This accounts to over 90% of our total payments to suppliers during 2015.



### Management Approach

The Bank has an established process to ensure that we engage with business partners in a fair and transparent manner and that our business needs are met without compromise on agreed deliverables (Figure 28). It ensures that a thorough technical review, including social and environment aspects, are reviewed in addition to the financial review and areas of concern are addressed in ongoing dialogues. Commencing with the issue of a Request for Proposal (RFP) on internal approval of the business case, the procurement process ensures ongoing evaluation of our business partners, to maintain standards in-line with our evolving business needs as set in adjacent diagram.



The RFP issued to potential suppliers include the following requirements:

- Compliance with environmental standards
  - Restriction of hazardous substances directive
  - · Energy star rating
- Adherence to software piracy regulations, as per Intellectual Property Act No. 36 of 2003 and the Computer Crimes Act No. 24 of 2007
- Adherence to the 10th Principle of the United Nations Global Compact (UNGC)
- Adoption of health and safety standards for suppliers with workers at risk of injury or disease

Non adherence to these requirements, results in disqualification from the selection process and may lead to the removal of suppliers from the registered list of suppliers. Regular dialogue ensures that, areas of concern are identified and resolved wherever possible. However, exit clauses in contracts ensure that the Bank is able to terminate the relationships in extreme cases, where material issues remain unresolved.

Our engagement with suppliers maybe routine or ad hoc and also the level of dependency can vary significantly as some categories are critical to our operations. They can be broadly categorised according to these criteria as depicted below:

### **Our Business Partners**

### **Extending Our Reach**

- Correspondent Banks
- Franchise Partners
- Exchange Houses
- Agents

### **Critical to Operations**

- Utility Providers
- Travel and Transport
- Material Suppliers

### **Ongoing Support**

- Maintenance
- Software Suppliers
- Staff Welfare
- Communication
- Human Resource Providers
- Asset Suppliers
- Waste Management

### **Non-Routine Engagements**

- Premises
- Contractors
- Services

→ Figure – 29

# We uphold a zealous compliance culture with continuous process improvement and we assure confidentiality and integrity of customer data S. Prabagar Assistant General Manager Management Audit

### Extending Our Reach

A network of 50 correspondent banks, 4 franchise partners, 109 exchange houses and agents facilitate global connectivity across over 200 countries. Our correspondent banks include some of the world's largest financial institutions and are amongst the oldest relationships with 10 relationships spanning over 25 years. A complete list of our correspondent banks is given on page 418. Our Franchise partners include MasterCard, VISA, China UnionPay and Discover which enable us to connect to global payment platforms, facilitating trade and tourism locally and internationally. They are also key partners in product innovation, as we collaborate to introduce appropriate products for the country. Exchange houses and agents facilitate remittances to and from Sri Lankan and Bangladeshi citizens working overseas and are a vital link in this high growth business segment. As with other suppliers, these partners are selected carefully with detailed agreements, defining mutual obligations and performance is monitored by both parties to ensure compliance with agreed terms and conditions.

### Critical to Operations

These are suppliers with whom we engage frequently and whose services are required for business continuity. They include electricity, telecommunications, transport and material suppliers including those for standby arrangements with whom we have long relationships. We have identified emissions and health and safety of their workers as the key concerns with these providers and typically engage with transport providers to ensure that they comply with relevant regulatory requirements in this regard.

### Ongoing Support

We engage with these suppliers on a frequent basis, as they provide services that are necessary for the smooth functioning of our business covering a wide range of services. They also range from large corporates to SMEs and individuals. Sustainability challenges identified in this segment are depicted in Table 30.

As registered suppliers in this segment are subject to ongoing monitoring with a regular dialogue enabling discussion on areas of concern, we work with suppliers on the identified issues, encouraging adoption of best practice. It should be noted that compliance with all applicable regulations is a requirement across all suppliers.

### Ensuring the Well-being of Our Outsourced Staff

The Bank outsources non-critical functions to reputable agencies that meet our rigorous selection criteria. A well-documented screening process, ensures that areas of concern identified by the Bank are subject to high levels of scrutiny. These include compliance with labour laws, ensuring preservation of human rights, minimum pay, timely payments and payment of statutory levies. We also ensure that they get

leave, have reasonable working hours and that there is no forced or child labour. The Human Resources Department of the Bank is responsible for the screening of agencies, as they are well versed in the regulatory requirements and are able to guide agencies towards adopting increasingly higher standards in this regard. Additionally, the Security Department of the Bank confirms payment of minimum wage to all security personnel provided by agencies. Half yearly returns for Employees' Provident Fund and Employees' Trust Fund are checked by the Human Resource Department for all outsourced staff providers. The Bank's Internal Audit Department provides assurance on the functioning of processes in this regard.

### Non-Routine Engagements

These suppliers range from large scale corporates who provide premises to micro entrepreneurs who provide ancillary services. Suppliers in this category are less rigorously monitored for social and environmental concerns, except for contractors where we work together with them to ensure the health and safety of their workers.

Business Partner	Areas of Concern				
Maintenance	Labour Practices				
	Health and Safety of Workers				
	Effluents and Waste				
Human Resource Providers	Labour Practices				
	Human Rights				
	Health and Safety of Workers				
Waste Management	Effluents and Waste				

→ Table – 30



Rs. 4 Bn.
Value Added

During the year we created value over Rs. 4.0 Bn. to our business partners



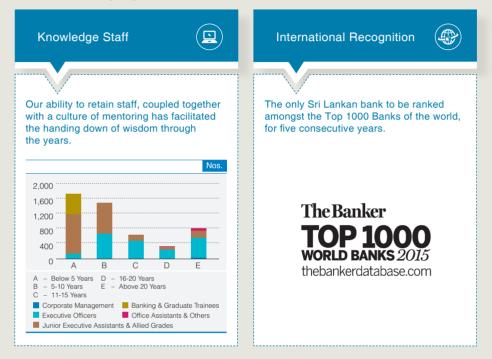
90%
Locally Based
Suppliers

This year too our payments to locally based suppliers exceeded 90%

### **Intellectual Capital**

Intellectual capital drives our growth and comprises the collective pool of knowledge, governance structures, systems and procedures and the culture of learning that has been carefully nurtured over the years. Ratings, rankings, awards and accolades bear testimony to growth of our intellectual capital, enhancing our brand value.

### **Performance Highlights**





A long-standing commitment to three key principles below, sets the tone for how we do business at Commercial Bank.

### Honesty and Integrity

All our transactions are above board and we take care to ensure that all our staff understand and abide by this key principle, throughout their careers with us. It means, that we take care to understand customer needs and guide them to the most appropriate solutions, ensuring that they fully understand the terms and conditions of our products.

### Transparency

We uphold the highest standards of transparency with regard to our own policies and actions, Government and regularity oversight, customer expectations and our dealings with business partners.

### Competitiveness

We remain consistently close to the market place, using objective research and through stakeholder engagement processes to identify emerging trends and changing customer preferences early. This gives us a head start on formulation of appropriate responses and delivery in the market place, enhancing our competitive edge.

### **Robust Governance Structures**

Our governance structures play a vital role in building intellectual capital providing strategic direction and ensuring rigorous review of performance against agreed goals. The Section on 'How We Govern' on pages 26 to 58 provides a comprehensive outline of the Bank's governance structures. Evolving over time and fit for purpose, they safeguard the Bank's reputation and risk profile on a daily basis, providing guidance on conduct of business throughout the organisation.

### Wise Counsel and Entrepreneurial Spirit

Our ability to retain staff, coupled together with a culture of mentoring, has facilitated the handing down of wisdom through the years. Learning from stories is a daily occurrence in the workplace, when brainstorming or when reinforcing the need to adhere to structures, systems and processes. Diversity in the workplace ensures that all teams have wise counsel and entrepreneurial spirit to drive our business forward in a dynamic sector. The table below is an analysis of our ability to retain staff and diversity in terms of gender and age:

Years of Service	Male	Female
Below 5	1,277	414
5-10	1,232	263
11-15	462	122
16-20	245	96
Above 20	495	345
	3,711	1,240

→ Table - 31



### Ratings, Rankings and Awards

We strive for excellence in all areas of our operations and competing inspires us to strive for higher goals and identify areas for further improvement. This is a brief review of international and national endorsements received during the year.

We strive to be the most preferred

trade solution provider in Sri Lanka

and technologically advanced

### The Banker TOP 1000 WORLD BANKS 2015thebankerdatabase.com

Only Sri Lankan bank to be ranked amongst the Top 1000 Banks of the World, for five years in a row in the prestigious rankings, published annually intelligence on the financial services by 'The Banker' magazine of the UK.

### THE ASIAN BANKER®

Adjudged 'The Strongest Bank in Sri Lanka in 2014' by The Asian Banker, a leading provider of strategic industry.



Adjudged the Best Bank in Sri Lanka in 2015 at the magazine's Asia Awards for Excellence presented in Hong Kong by Euromoney, widely considered one of the world's leading financial magazines.



Adjudged the 'Best Bank' in Sri Lanka in 2015 by Hong Kong based 'FinanceAsia' one of the most eminent financial publications in the region.



Our efforts to make operations more eco-friendly have been acknowledged internationally with the Award for 'Best Sustainability - Green Initiative' at the 2015 Asian Customer Engagement Forum (ACEF) Awards in Mumbai.



We won 5 Awards at the 2015 Annual Report Awards of The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) as follows:

- Edmund J. Cooray Memorial Trophy for the Best Annual Report among banking institutions
- Gold Award for Management Commentary
- Silver Award for Corporate Governance Disclosure
- Bronze Award for the Best Annual Report overall across all sectors
- Bronze for CSR Reporting

Rated the Most Respected Bank in Sri Lanka for the 11th consecutive year and the Second 'Most Respected' Corporate Entity in the country overall for the fifth successive year in 2015 LMD rankings of the Most Respected Entities in Sri Lanka.

A summary of the awards and accolades won by the Bank over the past decade is given on page 407.



Risijaya Srikantha Assistant General Manager International





### **5th**Top 1000 World Banks

Only Sri Lankan bank to be ranked amongst the Top 1000 Banks of the world for five years in a row



No. 1

Rated the most respected bank in Sri Lanka for the eleventh consecutive year.

### **Human Capital**

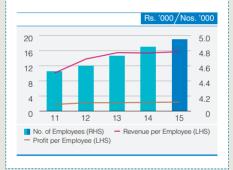
A winning team is key to our success in becoming the country's powerhouse in financial services. A passion for excellence, equal opportunity, commitment to developing our people and meritocracy are interwoven in to the Bank's culture ensuring that future leaders are nurtured from within who understand a culture that is unique to Commercial Bank.

### **Performance Highlights**

A High Performing Team



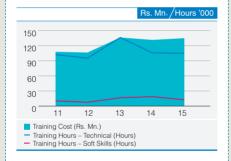
Employee productivity has increased both in terms of revenue per employee and profit per employee (before tax) as growth was achieved with minimal increase in the head count which is testimony to the performance of an exceptional team.



Committed to Developing Our People



A proven track record of attracting and developing talent enables us to build a unique culture with stories passed from mentors to mentees, enriching their experience and ensuring that we benefit from the many lessons learnt over the years. We invested Rs. 134.8 Mn. in training our team and covering over 120,000 training hours in 2015 although the value of our mentoring process, is not monetised.



Retention



We recognise that we need to retain people in order to develop them. Our employee value creation processes are designed to retain and develop them to progressively higher levels of performance, assisting them to realise their full potential. Our retention rate testifies this.





Our periodic employee survey results indicate high levels of employee engagement facilitating high levels of performance. This reflects the efficacy of internal communication and a conducive work environment for our people and is a key indicator of employee satisfaction.



Human Resources Awards



Bank's best practices on Human Resources Management were internationally recognised at the Asia's Best Employer Brand Awards – 2015, held in Singapore in August 2015, where the Bank was awarded the 'Asia's Best Employer Brand Award' as well as the 'Award for Talent Management'.





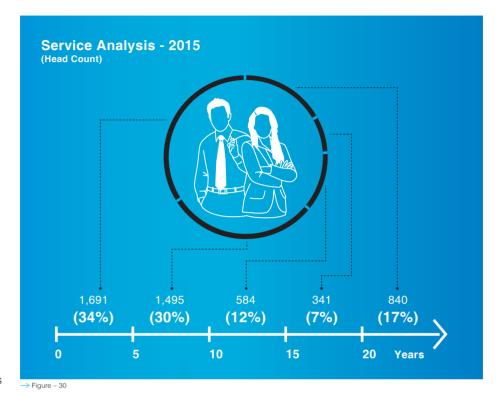
### **HR** Governance

A strong governance structure ensures that we balance the interests of our employees with the interests of other stakeholders. The Board is ultimately responsible for our People Strategy and are assisted in the discharge of their duties by the BHRRC. The Human Resources Department is in charge of implementing the people strategy and reports to the CEO and the BHRRC on its activities.

### **Employee Productivity**

As evinced from the graph on page 194, employee productivity has consistently increased both in terms of revenue per employee and profit per employee due to initiatives on lean management and increasing digitisation. It is a key strength of the Bank and a tribute to the effectiveness of the training and development programmes and high levels of engagement. It is noteworthy that there are no employee redundancies in an industry where global giants have been down-sizing head count in thousands of employees.

The Bank's employee value proposition is encapsulated in the diagram below:



### **Creating Value for Employees**

### **Employment and Benefits**

- Remuneration and Benefits
- Employee Retention

### **Training and Development**

- Professional and Skills Development
- Performance Evaluation and Rewards

### Opportunity

- Equal Opportunity Career Progression
- Diversity

### **Great Place to Work**

- Employee Engagement
- Grievances Mechanisms
- Employee Relations Work-Life Balance

### Dignity, Health and Safety

### **Freedom of Collective Bargaining**

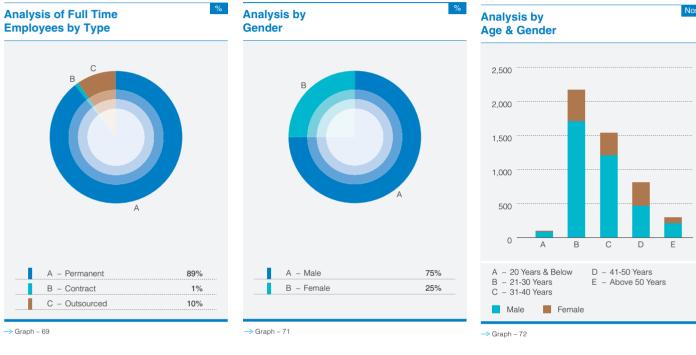
→ Figure – 31

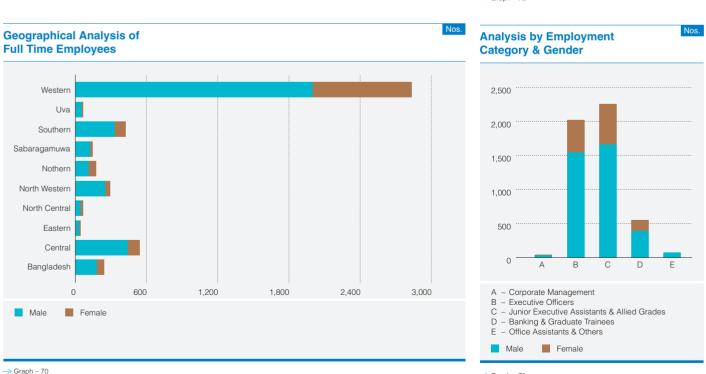
The HR policy framework is in compliance with the Shop and Office Employees Act and embraces international best practices. It clearly defines processes and procedures to drive the employee

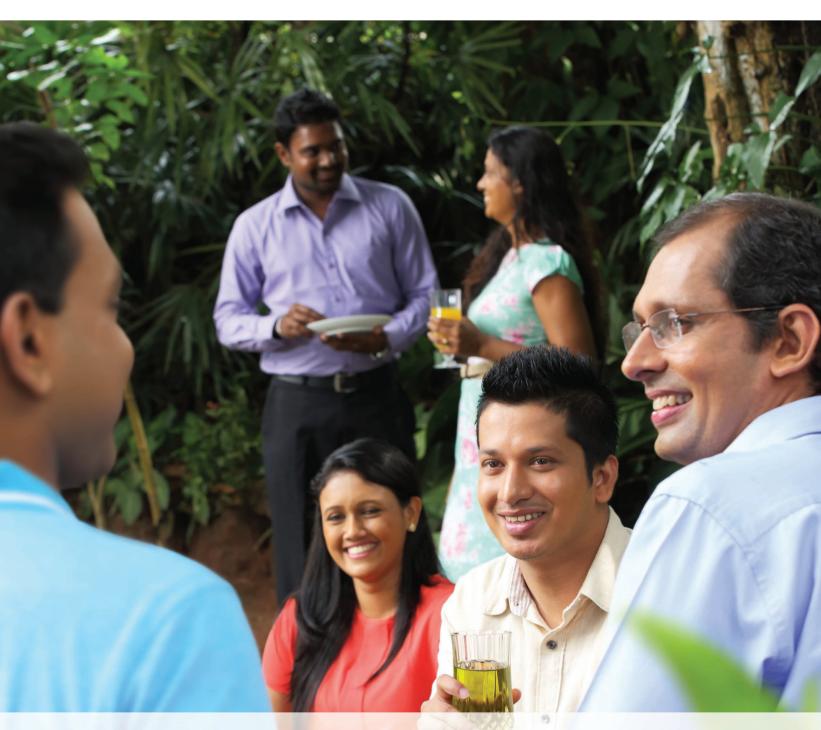
value creation process and the BHRRC receives regular reports on identified key performance indicators to assess the effectiveness of the same.

### **Team Profile**

Our team comprise 4,951 employees located in Sri Lanka, Bangladesh and other overseas locations. We are bound by common values which are reinforced through regular internal communications and camaraderie fostered through a variety of cross departmental activities. Our employees enjoy freedom of association and 83% are members of one of the two employee associations that represent their interests. The analysis below is a tribute to our diversity. (Graphs 69 to 73)









4,951 **Employees** A dedicated team to serve you



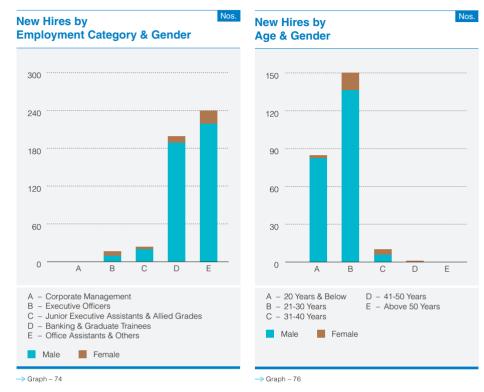
120,000 Training Hours

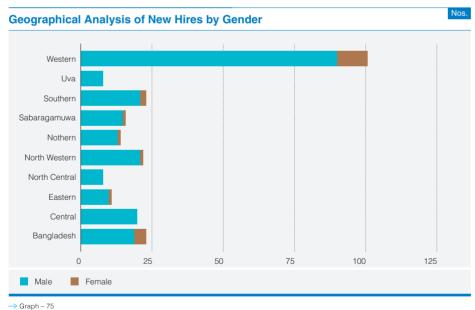
Over 120,000 hours of building a skilled team

### **Talent Acquisition**

As an equal opportunity employer, we recruit employees based on objective criteria applied in a consistent manner to select the candidate best suited for the Bank's business needs. The majority of our employees are recruited as Banking Trainees reaching positions of leadership through career progression. Whilst some specialised vacancies require mid-career recruitment, we seek to fill vacancies from our internal talent pool wherever possible. We also give preference to recruits from the countries we operate in and the majority of each team comprises nationals from the respective countries. A policy of secondment to other countries ensures that the Commercial Bank's culture and values are integrated into our overseas operations as well. Orientation programmes for all new recruits also serve to ensure familiarisation with the organisation's values, policies and procedures. The adjacent graphs (Graph 74 to 76) provides an analysis of new hires for 2015.

### Talent Acquisition for 2015





### **Remuneration and Benefits**

The Bank maintains an equitable remuneration structure that recognises the employee contributions and reward performance facilitating high levels of motivation and retention. Remuneration is made-up of guaranteed pay and performance based pay, incentivising high levels of productivity, and the fuller description of which appears in the section on 'How We Govern' on pages 26 to 58.

Guaranteed pay and benefits are determined with reference to periodic market surveys conducted in Sri Lanka and Bangladesh to identify trends in the banking and mercantile sectors. Further in Sri Lanka, collective agreements that cover specific employee categories in the industry are taken into consideration. Executive officers, including Executive Directors, receive incentives for performance exceeding mutually agreed benchmarks linked to the performance appraisal system which is keyed to a pre defined reward matrix. Employees who serve overseas as Business Promotion Officers receive remuneration linked to comparable roles in Sri Lanka supplemented by an allowance to cover additional expenses incurred abroad.

The Bank ensures that outsourced employees are remunerated according to the regulatory requirements including The full time employees recruited to the Bank receive the following benefits:

- Bonuses based on performance or decided on the collective bargaining agreement.
- Employee Share Option Scheme for Executive staff.
- Over time for work hours beyond stipulated work hours for non-executive staff.
- Fuel allowance, transport allowances, entertainment allowance and for certain staff categories the reimbursement of expenses incurred in performing official duties.
- Accommodation/house rent and/or subsidised transportation or special allowances for employees working at remote locations.
- Medical benefits including a special insurance coverage for critical illnesses and personal accident insurance scheme, spectacles, dentures and hearing aid allowance, annual health check-up for staff and spouse together with reimbursement of hospitalisation expenses and outdoor medical allowance.
- Financial support to employees who are having disabled children, in order to cover their routine medical expenses.
- Group life cover extended for permanent employees.
- Retirement benefits and commuted pension.

- Honorarium payment for employees who successfully complete banking studies at professional bodies recommended by the Bank and reimbursement of annual subscription of professional bodies.
- Staff loans at below-market interest rates.

We provide greater convenience to

customer perspectives and nurturing

customers through understanding

 Holiday bungalows and holiday allowances.

excellent relationships

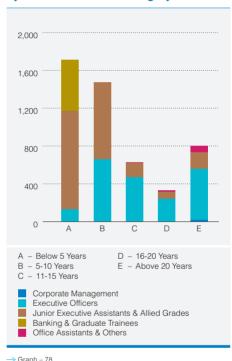




### **Employee Retention**

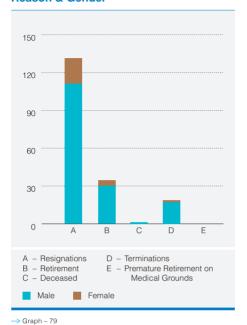
The Bank's track record of employee retention is enviable (Graph 78 and 80) and its success is attributed to a complex mix of culture, remuneration and benefits, training and development, high levels of employee engagement and a number of other factors.

### Service Analysis of Employees by Term of Service & Category

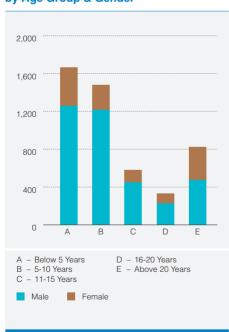


Employment separation processes comply fully with the applicable labour laws of the countries in which we operate and reasons for exit are tracked and monitored. An analysis of employee exits during the year is given in adjacent graphs. (Graphs 79, 81 and 82) Attrition rates are highest in employees below 30 years of age as they mostly seek opportunities overseas as gathered from exit interviews conducted with all employees who resign.

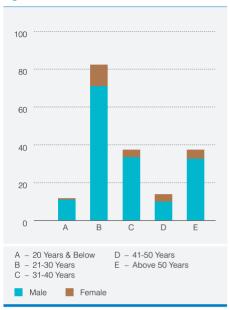
### Attrition Analysis by Reason & Gender



### Service Analysis of Employees by Age Group & Gender



### Attrition Analysis by Age & Gender

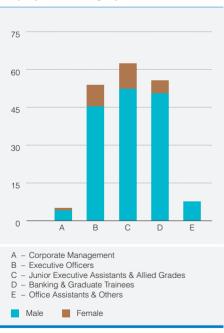


→ Graph – 81

Nos.

### Attrition Analysis by Employment Category & Gender

Nos.



→ Graph – 80

→ Graph – 82

### Training and Development

Our people are encouraged to continuously acquire knowledge, competencies and develop skills and to build attitudes that will add value to the Bank and to their personal life. A policy of giving preference to internal candidates and a transparent promotions process encourages both performance and self-development within the Bank which has a proven track record of producing leaders who are sought after by our peers in the Banking sector as well as other sectors. A culture of mentoring and learning provides valuable learning on the job at progressive levels of employment that cannot be monetised

but is a key component of our training and development value proposition. A Staff Development Centre (SDC) set-up for structured training caters to technical, leadership and soft skills training on a regular basis based on a training needs analysis that takes place alongside the performance evaluation process (Figure 32). Employee assessments based on written and oral examinations for promotions within non-executive and executive grades reinforces the need for continuous self-development. Based on the criticality of the respective purview of Key Management Personnel, the Bank arranges suitable executive coaching sessions with reputed overseas coaches.

Employees are provided the opportunity to participate in a wide range of programmes which include face-toface training conducted internally or externally, e-learning, hands on IT training, outward bound training for team building and overseas training supplemented by library facilities and support programmes for professional examinations and postgraduate qualifications. Additionally, the Bank is an



We focus on close monitoring of advances to reduce delinquency and maximise recoveries through ethical methods Assistant General Manager Credit Supervision & Recoveries

approved employer for professional bodies including The Institute of Chartered Accountants of Sri Lanka an affirmation of our high standards of training and development. Our investment in training is graphically analysed below (Graphs 83 to 86):

Hours

### Talent Development

## Average Training Hours by Employee Category and Gender 150 120 90 60 A B C D A - Corporate Management B - Executive Officers C - Junior Executive Assistants & Allied Grades D - Banking & Graduate Trainees Male Female

### Average Training Hours by Employee Category



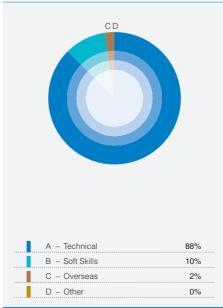
### → Graph – 85

### **Performance Evaluation**

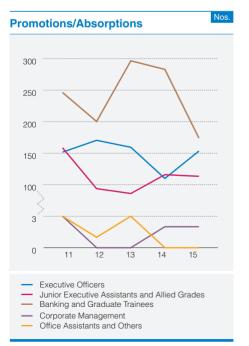
The Bank's performance evaluation process covers all employees and uses a combination of objective and subjective criteria which are mutually agreed by both the line manager and employee at the beginning of the year. It is a critical tool for effective employee engagement and development and is fully aligned to the business goals of the Bank. It serves to build and maintain a target driven culture which has served to spur our growth. Achievement of KPIs, job knowledge and experience, customer orientation, communication and interpersonal skills, creative thinking and special contributions made are some of the key aspects encapsulated into the performance evaluation. We achieve 100% coverage and also identify training needs in the process. Rewards are determined with reference to the grading achieved. During the year, we identified 268 persons for promotion through this process for vacancies that occurred during the year.



→ Graph – 83







→ Graph – 84

→ Graph – 86

→ Graph – 87

### Opportunity and Diversity

The Bank provides its employees opportunities for development and career progression. As an equal opportunity employer, the opportunities are filled considering objective criteria irrespective of gender, age, race or religion. Several key indicators are measured to ensure that we progress towards our diversity goals within the business needs of the Bank which are set out in the Team Profile on page 196.

• Gender - We recognise that female representation in our team is lower than the female representation in the national labour force. The Bank's need for transferability amongst its wide network of branches deter females when recruiting and later, in career progression. Cultural conventions present significant impediments to women and while we wish to provide every opportunity, business needs of the Bank remain paramount in selecting appropriate candidates for vacancies. However, upholding the principle of equality in remunerating our employees (Table 32), we are encouraged by the percentage of employees returning from maternity leave and those who remain in employment 12 months after returning to work as given in Table 33.

### Return to Work and Retention Rate after Maternity Leave

2015	2014	2013
1,240	1,226	1,180
53	54	65
53	54	64
53	54	63
54	63	64
100	100	98
100	100	100
	1,240 53 53 53 53 54 100	1,240     1,226       53     54       53     54       53     54       54     63       100     100

→ Table - 33

- Age As we seek to nurture leaders from within, it is predictable that we have fewer recruits at senior management levels. It is also typical that leadership positions are held by seasoned professionals who have a well-rounded experience in numerous aspects of banking.
- Ethnicity We have representation from all major ethnic groups in the country in our Corporate Management team and as we do not discriminate to maintain ratios, the result is a natural progression of recruitment from Bank's talent pools.

Just like an orchestra, we attune ourselves to match the expectations of the customers, which lead to lasting relationships



### Ratio of the Basis Salary and Remuneration

Employee Category	2015	2014	2013
Corporate Management	1:0.94	1:0.84	1:0.87
Executive Officers	1:1.09	1:0.93	1:1.98
Junior Executive Assistants & Allied Grades	1:1.10	1:0.91	1:0.85
Banking & Graduate Trainees	1:1.04	1:1.00	1:1.98





### **Great Place To Work**

The HR policies are framed to ensure that employees have a conducive environment to reach high levels of performance and realise their potential. High levels of employee engagement, regular dialogue with the employee associations, a healthy work life balance and grievance handling mechanisms enable us to identify employee concerns and effectively address them.

### **Employee Engagement**

Formal communication channels ensure that all employees are focussed on the vision, strategic goals and values of the Bank and are aware of significant changes in policies or governance structures through both written and electronic communications. All manuals including the Employee Code of Conduct and Business Ethics is available on the Intranet and also in hard copy for reference when required. Regular meetings within strategic business units also form a vital link in formal channels of communication.

Informal engagement is encouraged through recreational events that are organised at strategic business unit level, regional level and for the country entity as a whole. These events include annual trips for employee families where the Bank provides an allowance to all staff, celebration of festivals and sports tournaments where employees compete with friendly camaraderie. Employee participation levels at these events are high and the Bank makes a substantial contribution to subsidise the cost of these events.











### **Industrial Relations**

The Bank maintains healthy relationships with its employee associations, the Executive Association and the Ceylon Bank Employees Union having regular dialogue and giving due consideration when formulating the relevant policies and procedures, which have a mutual benefit to both the Bank and the employees. We ensure industrial harmony and encourage the resolution of disputes via a constructive process of negotiation.

### **Employees Participation in Trade Unions**



→ Graph – 88

Type of Change	Minimum Notice Period
Collective Bargaining	36 weeks
Transfers	2 weeks
Terminations	4-12 weeks
Retirements	3-4 weeks
Dismissal	Immediate
Voluntary Resignation Schemes	As specified in scheme

<sup>→</sup> Table - 34

### Dignity, Health and Safety

### Human Rights

Nos./%

All employees are treated with dignity and courtesy at the workplace nurturing a culture that has a high awareness of human rights and seeks to preserve appropriate values and practices in our operating environment. The Bank has pledged to uphold the ten the principals of the UN Global Compact and our employment practices reflect the standards hallowed in the Universal Declaration of Human Rights proclaimed by United Nations. These practices include minimum working age, child labour, working hours, elimination of any form of compulsory labour, health and safety in the work environment, procedures to eliminate sexual harassment and discrimination at workplace and collective bargaining principles.

Our Human Resource Department, business line heads, departmental heads and branch managers are made aware on their responsibility to uphold human rights at all times. They are expected to be vigilant and report promptly on any breach or violation in relation to human rights. The Bank's Whistle-blower Charter also mandates all staff members to report on potential human rights violation. Violators are subject to prompt disciplinary action including the dismissal of any staff member(s) found guilty.

The Bank's Inspection Department during the regular audits conducts periodic verifications to ensure that these human rights practices and procedures are being properly followed in line with the established policies. There have been no incidents of human rights violation reported during the year under review.

### Health and Safety

The mental and physical well-being of our employees is a key priority for the Bank. All permanent employees are covered under a comprehensive medical insurance scheme for both in-house medical treatment and reimbursement of outside medical costs. Employees are also entitled to claim expense of a full medical check-up upon reaching the age of forty years. We also refer employees who need counselling to suitable professional counsellors/institutions.

Our Bank branches are equipped with alarm systems, CCTV cameras and trained security personnel have been deployed to ensure the safety of our people and our clients. The Bank's Security Department conducts various training programmes for our people including fire drills and responding to various threats and identified dedicated teams within each business/service units of the Bank to supplement its work and provides them with a comprehensive training on how to respond to emergencies such as fire, robberies and natural disasters. During the year under review there has been no significant health and safety issues reported.

### Grievances

Our employees are encouraged to bring forward any grievances to ensure small problems from becoming big issues. The Bank has an open door policy when addressing urgent workplace issues to initiate immediate discussions. A "Speak Out" web-portal is monitored by the Human Resource Department where employees can air their concerns regarding workplace conditions, labour practices, potential violation of human rights, etc. Representative of the Human Resource Department also makes regular branch visits to address issues relating to their staff welfare.

### **Outsourcing Arrangements**

The Bank ensures that all its service providers providing man power are conforming to the labour standards and are upholding best practices and human rights. This is included as a condition in every agreement entered with such service providers and Bank also obtains conformation with regard to remittance of employee provident fund and trust fund contributions.

A Positive Impact - Economic Impact

### **A Positive Impact**

Our philosophy is to optimise positive impacts taking a long term view whilst minimising any negative impacts that may arise as a consequence of pursuing our strategic goals. We are aware that both positive and negative impacts must be measured and managed in order to understand the consequences of our actions. The Impact Report seeks to present a balanced review of our Economic, Social and Environmental impact.

### **Economic Impact**

As Sri Lanka's largest private sector Bank and Bangladesh's 3rd largest foreign bank, our economic impact on Sri Lanka is considerable whilst that of in Bangladesh is not significant given the lower footprint in that country. Our economic performance is discussed in 'Financial Capital Report' on pages 154 to 159. The table below gives our track record for adding value in our principal geographic locations.

### Direct Economic Value Generated and Distributed

	Sri Lanka Operation				Bangladesh Operation					
For the Year Ended December 31,	2015	2014	2013	2012	2011	2015	2014	2013	2012	2011
	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.
Source of Income										
Interest income	61,577	57,244	57,534	49,169	35,914	4,453	4,588	4,653	3,516	2,442
Foreign exchange profit	2,359	1,029	1,541	4,246	1,811	518	452	455	448	510
Commission income	4,952	4,405	3,876	3,253	2,977	422	426	374	345	348
Investment income	128	99	873	103	81	15	14	14	16	_
Other	3,018	4,242	3,722	2,201	1,715	426	253	118	98	61
	72,034	67,019	67,546	58,972	42,498	5,834	5,733	5,614	4,423	3,361
Distribution of Income										
To depositors/debenture holders as interest	34,080	32,812	34,617	28,148	18,452	1,605	1,798	2,262	1,682	1,198
To employees as emoluments	9,482	8,255	7,555	7,190	5,834	699	648	631	580	456
Depreciation set aside	1,104	1,119	881	987	699	38	82	55	48	49
Impairment charges	3,608	2,881	4,606	3,155	1,763	335	348	21	42	45
To providers of supplies and services	6,183	6,131	5,629	5,046	4,661	519	88	297	183	167
To Government as taxation (Incl. Deferred Tax)	7,062	6,185	5,813	5,357	3,946	1,186	1,170	297	827	596
- Income tax	4,054	3,386	3,768	3,370	2,418	1,186	1,170	297	827	596
- Special Value Added Tax	2,889	2,689	1,969	1,987	1,523	_	_	_	_	_
- Crop insurance levy	119	110	76	_	_	_	_	_	_	_
- Debits tax	_	_	_	_	5	_	_	_	_	_
To shareholders as dividends	5,695	5,630	5,519	5,418	4,905	_	_	_	_	_
To community	61	53	51	51	110	2.0	2.0	_	1	_
To reserves	4,759	3,953	3,539	3,620	2,128	1,450	1,597	1,387	1,060	850
	72,034	67,019	67,546	58,972	42,498	5,834	5,733	5,614	4,423	3,361

### **Economic Value Added (EVA)**

This is a measure of profitability based on the cost of total invested equity, EVA provides an indication of the true economic value created for shareholders, as opposed to accounting profits. One of the few champions of EVA in Sri Lanka, we are committed to delivering optimum and consistent value to our shareholders.

For the Year Ended December 31,	2015	2014	2013	2012	2011
	Rs. '000				
Invested Equity					
Shareholders' funds	70,340,804	70,511,730	60,943,999	52,577,000	43,765,665
Add: Provision for impairment	18,051,554	16,956,574	15,787,168	13,501,227	11,600,892
	88,392,358	87,468,304	76,731,167	66,078,227	55,366,557
Earnings					
Profit after taxation	11,903,224	11,180,181	10,445,511	10,098,329	7,882,869
Add: Impairment charges for loans and other losses	3,943,196	3,229,144	5,204,012	3,196,760	1,807,899
Less: Loan losses written-off	(2,427)	(27,314)	(99,024)	(4,906)	(23,775)
	15,843,993	14,382,011	15,550,499	13,290,183	9,666,993
Cost of equity* (%)	8.63	8.66	12.63	13.97	9.53
Cost of average equity	7,588,388	7,109,837	9,018,413	8,482,918	4,458,527
Economic value added	8,255,605	7,272,174	6,532,086	4,807,265	5,208,466

<sup>→</sup> Table – 36

### **Indirect Economic Impact**

The Bank provides long term funding for new projects or expansion of existing projects facilitating job creation and economic activity. All these funding are subject to social and environment screening as per the Bank's SEMS policy.

### **Supporting Policy Formulation**



The Bank is a member of the following organisations that support policy formulation by identifying areas of concern for the economy and undertaking studies and analysis to support recommendations made to policy makers.

Sri Lanka Banker's Association Institute of Bankers, Sri Lanka Ceylon Chamber of Commerce

National Chamber of Commerce

Association of Banking Sector Risk Professionals, Sri Lanka The Association of Compliance Officers of Banks, Sri Lanka

<sup>\*</sup>Based on 12 months weighted average Treasury Bill rate plus 2% for the risk premium

### **Social Impact**

We invest in communities to empower people and support their development as part of our normal business and also through the CSR Trust established in 2004. The CSR Trust receives up to 1% of our post tax profits and engages in activities which are completely altruistic with no expectation of a financial return to the Bank.

The integration of CSR endeavours in business operating activities of the Bank has been identified as highly essential to ensure sustainable development of an economy in a broader sense. In the financial sector several international initiatives such as United Nations Environment Programme's Finance Initiative, Global Reporting Initiative are underway to ensure the healthy adoption of CSR practices in routine business operations that the Bank very well adheres to.

### Inclusive Banking (Details on page 184) Developing SMEs & Micro Entrepreneurs (Details on page 185) Developing SMEs & Micro Entrepreneurs (Details on page 185) Developing SMEs & Micro Entrepreneurs (Details on page 185) Operationalisation of Social & Environmental Management Police (Details on page 214) CSR Trust Supporting Police Formulation

CSR Trust Fund Activities

→ Figure - 34

The Bank's CSR Trust was established in 2004 with the objective of generating measurable and sustainable social dividends for different seaments of society, in particular those which require empowerment. The Trust Deed clearly sets out the objectives, powers of the Trustees and eligibility criteria. The Bank, as decided by the Board of Directors, transfers up to 1% of its post tax profit annually as by funding for identified projects. Formal structures and processes are in place for governance of CSR Trust activities and a combination of cross departmental teams and dedicated resources are responsible for operationalising its vision. Strong commitment from the top management is a key driving force giving impetus for positive action. Formal communication lines have also been established facilitating participation by all strategic business units and maximising impact. This has proven particularly useful for replicating successes in other regions. The Bank's contributions to the CSR Trust and their utilisation over the past decade totals Rs. 393.86 Mn. and Rs. 303.76 Mn. respectively (Graphs 89 and 90).

→ Graph – 89



→ Graph – 90





### Over Rs. 100 Bn.

Growth in Loans and Advances (YoY)

For the first time in history Bank's Loan Book grew over Rs. 100 Bn.



49%

Leasing and Hire Purchase Growth

Leasing and Hire Purchase Portfolio grew by 49% in 2015

Education has been the focus of CSR Trust activities with over 60% of funds utilised in this segment and reflects our passion for empowering people through education. As a Bank whose vision is to be the most technologically advanced financial services organisation in Sri Lanka, the core of education powered by our CSR Trust focuses on inculcating IT knowledge amongst the younger school-going generation of the country whilst secondarily we focus on developing their English and Maths skills

and entrepreneurs. Health care has also received a significant proportion of funds supplementing facilities at Government Hospitals and other health care institutions. Keeping the future generations in mind, majority of health care projects funded by the Bank has benefited children and mothers. Disaster relief and preservation of cultural heritage also receive regular contributions. Apart from the key focus areas of the Trust

Healthcare

Education

→ Figure – 36

Settrarachehe\_

Delakshan Hettiararchchi

Assistant General Manager

Personal Banking III/SME

each region has been allocated budgets to engage in projects that are relevant to their localities. It is noteworthy that our staff from various cross sections of the Bank have volunteered their service to benefit the causes championed by the Bank. Estimated costs of the CSR unit staff who are engaged solely on CSR Trust activities amount to a further Rs. 6.146 Mn. which are not included in the cost of the contributions.

Others

Community

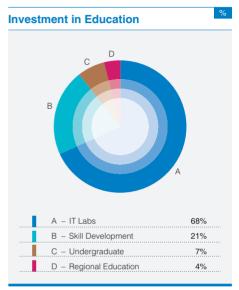
### Rs. 8.60 Mn. Rs. 27.88 Mn. Rs. 3.37 Mn. Rs. 4.89 Mn. to capacitate them to be in par with a tech-savvy and competitive workforce $(\bigcirc)$ $\bigcirc$ $\bigcirc$ $\bigcirc$ Furniture & Culture and IT Labs Community Equipment Heritage Rs. 19.02 Mn. Rs. 4.05 Mn. Rs. 2.80 Mn. Rs. 4.25 Mn. We focus on service excellence Renovation to which enables us to fall in line Skill Development Disaster Relief Innovation Facilities with our customers and our value Rs. 5.90 Mn. Rs. 0.84 Mn. Rs. 3.50 Mn. Rs. 0.44 Mn. proposition Undergraduate Others Environment Scholarships Rs. 0.13 Mn. Rs. 0.85 Mn. Rs. 1.85 Mn. Regional Education Rs. 1.11 Mn. Education

Access to education is a key priority for the Bank as we strongly believe that this will uplift societies minimising the disparity between provinces. We engage in supporting primary, secondary, vocational and tertiary education through innovative projects often collaborating with reputed partners to deliver projects that are fit for the purpose. The main area of focus in education is to empower children with IT knowledge, which is also a part of the national development road map. In 2015, 62% of the funds utilitised amounting to Rs. 27.88 Mn. was invested in 47 projects in IT, scholarships and other miscellaneous but worthy projects. During the year under review, CSR Trust completed 29 projects.

### IT Education

The CSR Trust continued its efforts to improve IT literacy levels among students on a national scale as it becomes an increasingly important skill sought after

by employers. To date we have donated 167 fully-equipped computer labs to schools across the country as part of this initiative. During the year Rs.19.02 Mn. was invested in IT education related CSR projects.



→ Graph – 91

The pilot project, linking 'Sipnena' the new educational website, with 10 schools in diverse regions such as Jaffna in the North, Beliatta and Matara in the South, Minneriya, Kegalle and Kalawana in the North Central and Sabaragamuwa, and Nawalapitiya in the hill country, has been launched by the Bank as the first phase of this initiative. It is expected to benefit over 13,800 school children.



Registered under the .lk and .com domains, the 'Sipnena' website will offer students free access to content carefully selected to support their educational needs, in line with local curricula, via the IT Labs donated by the Bank to these and 157 other schools around the country.

Commercial Bank has brought together the expertise of its own IT team, H-One – a leading IT Solutions company –, Microsoft Sri Lanka, the Service Learning teams of the University of Colombo, Headstart – a leading e-learning service provider – and the Bank's CSR Unit creating partnerships for empowering our youth.

One of the largest IT labs donated by the CSR Trust under its initiative is the lab at Sri Lanka College of Technology Colombo, the oldest technical college in Sri Lanka. The CSR Trust has disbursed Rs. 3.04 Mn. during the year for the completion of this project.



The Bank in partnership with CISCO Networking Academy offered a comprehensive 'IT Essentials' course for teachers and students free of charge, as part of its IT Education for Employment initiatives. Intitially, 12 teachers were trained at the CISCO Networking Centre at University of Moratuwa as a pilot project and awarded with CISCO Certified IT Instructor certificate on IT essentials programme. In 2015, 6 of these teachers from 3 schools went on to train 107 students for the CISCO IT Essentials course of which 59 students completed the entire course and sat for the final online examination. The 100% pass rate achieved by these students is a tribute to the dedication shown by the teachers.

Further, they will apply for the A+ certification which is intended for information technology professionals who have the equivalent of 500 hours of hands on experience.

### Providing 'Math Labs' to Schools

'Math Lab', founded by Mr. H. A. Dharmasiri – a former Government school teacher –, is an innovative concept that help stimulate and develop mathematical and analytical skills of school children. Over 70 different interactive mathematical games help grasp basic mathematical concepts in a friendly, yet competing environment, away from the monotony of the classroom.

The CSR Trust commenced this initiative as a pilot project involving four Government schools and a home for children with disabilities, providing full sets of mathematical games for Math Labs and conducting workshops for teachers. The CSR Trust also established Math Societies and more importantly mechanisms for monitoring and assessing the progress as part of the project.



### CISCO Equipment Provided to Employers' Federation of Ceylon

The Employers' Federation of Ceylon (EFC) commenced conducting Cisco Computer Network Associate Course (CCNA) free of charge for persons with disabilities in April 2015 with the objective of improving their employability. Supporting the cause the CSR Trust provided essential equipment needed to carryout hands on training. The EFC conducts this course free of charge.







15,000 Nos.

6

e-Statements

Converted nearly 15,000 customers to e-Statements



**20 Nos.** 

Automated Cash Deposit Terminals

We invested Rs. 36 Mn. on 20 more automated cash deposit terminals

### **Healthcare**



A Slit Lamp was donated to the National Eye Hospital supporting increased efficiency of the unit by reducing the patient turnaround time. Nearly 2,000 patients benefit from the clinic per month.

Supporting the construction of a waiting area of the Ipalogama Maternity Clinic where 50-60 mothers along with infants are examined per session

Donation of medical equipment and facilities to the paediatric ward and the infant care unit of the Base Hospital, Gampola. The hospital renders its services to remote areas such as Pussellawa, Kothmale and Ulapane covering a population of 128,500.

Provision of a laptop computer and a multimedia projector for the Stroke Rehabilitation Centre at the Base Hospital Valaichchenai to facilitate therapeutic treatments for the stroke survivors.



Provision of a storage facility to set up a Sub-Fertility Treatment Unit at the District Hospital, Kilinochchi, one of few such centres in the country, benefiting the community of the Northern Province.

### Community



Financial assistance was provided to install FED lights for the Basket Ball court in the Somascan Fathers Orphanage, Batticaloa. The Orphanage, a caring centre for children orphaned by the ethnic conflict and 2004 Tsunami, is using the game of basket ball as a mean of inculcating a sense of belongingness among the children.

A water filtering/dispensing unit was established at the Somawathiya Temple Premises to provide purified drinking water to the large number of pilgrims who visit the Temple.

Contribution towards helping earthquake victims of Nepal under an initiative of the Ceylon Chamber of Commerce to raise funds for disaster relief work in Nepal by the Asia Pacific Alliance for Disaster Management (APADM).



Provision of a computer and a photocopy machine each to improve the efficiency of the billing systems of two community based organisations, which supply water for 1,100 families in Attanakadawala and Pinipokuna in North Central province facilitating the sustainability of these two vital projects.

### **Others**



Reconstruction of 3 sections of the flight of steps of Sri Pada, with the support of the Civil Security Department attached to Sri Pada.

Sponsored the 'The Ray' award for invention, presented by the Ray Wijewardene Charitable Trust in collaboration with Sri Lanka Inventors Commission for the second time to encourage innovation and enterprise in areas of public interest. The Ray Award for 2015 was awarded for the innovative improvements introduced to the artificial prosthesis for the disabled.

Financial assistance was provided to the Biodiversity and Elephant Conservation Trust to publish a book on biodiversity of Sri Lanka to be freely distributed amongst schools children.

**Despite CSR Trust** mainly focuses on education it allocates funds and resources towards supporting the healthcare sector, improving the livelihood of the community, protection of the environment, preservation of the culture and heritage, etc. During the year 2015, the CSR Trust invested Rs.16.86 Mn. in a total of 31 projects of which 16 were completed.

A Positive Impact - Impact on Environment

### **Impact on Environment**

We are committed to measuring and minimising our carbon footprint and making a positive impact through projects that preserve or rejuvenate natural ecosystems. Our role as a provider of finance also carries with it a responsibility to ensure that projects financed by us assess and minimise negative environmental impacts and processes have been put in place to facilitate the discharge of this responsibility.

### **Environment Management Framework Managing Inputs Managing Outputs Financing** Screening Supporting Projects for Water & renewable Materials Energy Water Emissions Environmental Effluents energy Compliance

<sup>→</sup> Figure – 37



### Financing

We believe that our most significant contribution to minimising environmental impacts arises from our lending operations as we engage with customers to ensure that projects financed by us and the suppliers of goods and services that we recruit are in compliance with environmental regulations from the approval stage to the implementation as well as on an ongoing basis. A robust structure and a comprehensive policy framework supported by highly trained employees serve to operationalise our concern, embedding environmental screening into our mainstream lending operations. The Bank also actively supports and encourages customers to adopt technologies that support minimising their footprint through loan schemes specifically designed for the purpose with attractive rates, making a positive change.

### Screening Projects for Social and Environmental Compliance

All lending decisions are required to be aligned with the Social and Environmental Management System as well as applicable national laws and regulations on environmental and social issues. Every effort is made by the Bank to ensure:

 That proper review process is taken place for environmental impact.

- That the customers understand the policy commitments we uphold in the areas concern.
- And that financing is only given to projects that are designed, built, operated and maintained in a manner consistent with the Bank's policies and requirements.

The SEMS co-ordinator validates SEMS compliance on credit proposals of Rs. 100 Mn. and above to ensure compliance and is required to report to the Chief Manager of Risk and is also subject to the audit of the Bank's Inspection Department (Figure 38). Further, the Bank's lending officer makes periodic visits to financed sites to evaluate and ensure environmental and social regulations are complied with. All visits and discussions are documented for future reference and review.

The SEMS co-ordinator receives ongoing training to continuously update their required skills and the employees of the Bank are kept abreast with the Bank's policies and procedures on environmental protection.

SEMS Evaluations Validated by the SEMS Co-ordinator during the Year.

No. of Credit Proposals Evaluated - 4.232

> No. of Non-compliance Incidents Observed - Nil

→ Figure – 38

### Supporting Renewable Energy



The Bank supports the efforts of customers to make their businesses more eco-friendly through Green Development Loans at concessionary interest for Small and Medium Enterprises (SMEs) and entrepreneurs who wish to invest in energy saving, energy efficiency or off-grid renewable energy projects, including investments in solar power. Commercial Bank's Green Development Loans are available to organisations who are willing to standards by improving their waste management systems or by installing wastewater treatment plants, air pollution control systems, solid waste recycling/treatment plants or sound pollution control systems. During the year we financed 6 projects disbursing Rs. 159.22 Mn. in Green Development Loans whilst a further Rs. 386.18 Mn. was disbursed for renewable energy projects that supply power to the national grid, minimising the country's emissions.

### Managing Our Inputs

We recognise that managing consumption and eliminating waste is key to sustainability of the planet and our own organisation. Managing our cost income ratio is a key strategic priority and managing inputs is a key component of identified goals for materials and energy which are significant. Water is less significant for our operations but awareness created over the years ensures inclusion of the same in to our processes.

Commercial Bank's Procurement Department plays a fundamental role in the day-to-day procurement of goods and services by way of third party suppliers. The Bank has a Supplier Code of Conduct that is applicable to all parties with commercial dealings to support the basic principles such as the ethical

nature of the business ranging from the environmentally accredited materials that the suppliers use to transparent, fair and honest dealings in finances and employees in their respective companies. ensuring that environmental and social standards are adhered to, across their value chain

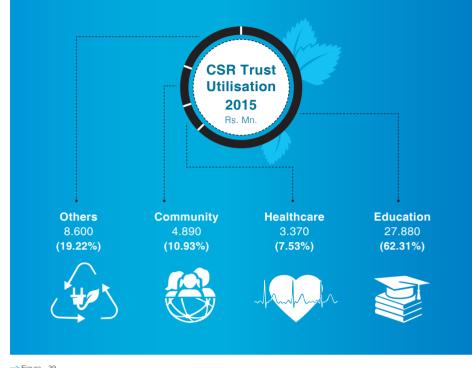
### Materials

The Bank's consumption of natural resources is mainly paper material and we have continued our efforts in finding alternative methods to reduce consumption and wastage. We engaged with our customers through our branch network and through national media to create awareness and empowering them to choose to go green. Their response has been encouraging and we continue to promote Green Banking to reduce our environmental footprint.





We also invested Rs. 36 Mn. on 20 more units of a new generation automated cash deposit terminal that completely eliminates the use of paper under the Green Banking Programme. Dispensing with deposit slips and envelopes, the new machine has a stacker that can accept and count up to 200 notes at a go, enabling customers to make deposits of up to Rs. 200,000 per deposit at a time into savings or current accounts, 24 hours of the day. The same machine can also be used to pay dues on Commercial Bank Credit Cards.



→ Figure – 39

Risk Governance embedded in the Corporate DNA enabled the Bank in driving its strategic goals in a sustainable manner



- The completion of the final phase of the implementation of the biometric attendance system resulting in the discontinuation of the previous paper based administrative system
- The Bank's ATM system being programmed to ask the customer whether or not a printed receipt for the transaction is required
- Converting over 100,000 customers to online banking and over 200,000 mobile banking over the past three years
- Converting nearly 15,000 customers to e-statements

We have also made conscious choices to reduce the amount of paper used in our operations and choosing post-consumer recycled paper more often.

Kapila Hettihamu Chief Risk Officer

### Energy



Solar Panels at Narahenpita Branch

2015 marked a milestone for the Bank as we converted 4 branches to solar power generating 40 kW of power at Balangoda, Borella, Maharagama and Narahenpita at an investment of Rs.10 Mn.

We have commissioned the conversion of 5 more branches at Kollupitiva. City Office, Main Street, Gampaha and Nugegoda which will increase our solar power generation capacity to 240 kWh in 2016. At least 5 more branches will convert to solar power in 2016 enhancing our renewable power generation capability. Solar power is utilised mainly to provide lighting and charge the uninterrupted power supply units of the branch. Our Green Banking concepts extend to the design of our branches as well with new branches using more natural lighting and energy efficient lighting and equipment. These initiatives inspire our customers to invest in renewable energy in addition to minimising our carbon footprint.

In terms of our branch interior and exterior signage, we have instigated photo-cell technology extended through solar energy that powers exterior signage when necessary.

We are conscious of the need to ensure that our ATMs and IT equipment are energy efficient and only procure equipment with Energy Star 5 ratings which are compliant with the RoHS standards. We also give preference to ATMs that function without air conditioning. As noted above, we are increasingly looking beyond energy requirements to ensure that equipment procured will also eliminate use of paper increasing the rigour of our procurement standards for equipment.

Despite the expansion in our branch network as a result of opening of 7 new touch points the total energy consumption recorded a decline compared to the last year evincing the effectiveness of our green banking initiatives. Thus our per capita energy consumption for customer also decreased.

# 58 56 54 52 50 11 12 13 14 15

→ Graph - 92

### Water

Bank's water consumption is mainly limited to drinking water and water used for sanitary purposes. Our employees are continuously encouraged to preserve these natural resources. On going awareness programmes and notices are displayed for this purpose.

### **Managing Our Outputs**

Our philosophy is to eliminate waste in all forms based on the conviction that it is good for our long term sustainability and that of everybody. Controlling inputs is a key strategy for managing inputs as is the concept of reusing and recycling. As we have minimal effluents our policies and efforts are centred on management of emissions and waste.

### Emissions

Direct emissions (Scope 1) generated by the Bank are negligible and comprising mainly of emissions from motor vehicles owned by the Bank used by senior executives. Scope 2 emissions comprise emissions generated from purchased electricity for which the inputs are reported above together with the initiatives taken to reduce the consumption. Scope 3 emissions are not reported as it is not material to our operations.

### Effluents and Waste

The key areas of concern in managing outputs are disposal of e-waste and recycling paper. Bank employees are continuously kept up to date and trained to ensure that they are aware of the Bank's initiatives to keep our environment free from pollution and the entire business process; from suppliers to employees to customers are evaluated to find ways and means of minimising effluents and wastage.

E-waste is managed through agreements with vendors of IT equipment who follow internationally recognised disposal practices which are monitored by the Logistics/Procurement and Information Technology Departments monitor these compliances.

### Materiality Mapping

		Aspect Boundary						
		Inte	rnal		Externa	l	Ma	nteriality
Aspect	Significance to Bank's Operations	Sri Lanka	Bangladesh	Customers	Communities	Suppliers	To the Bank	To the Stakeholder
Economic								
Economic performance	High	*	*				High	High
2. Market presence	High	*					High	High
3. Indirect economic impact	Moderate			*			Moderate	High
4. Procurement practices	Moderate	*					Moderate	High
Environmental								
5. Materials	Low							
6. Energy	Moderate	*	*				High	Moderate
7. Water	Low							
8. Biodiversity	Low							
9. Emissions	Low							
10. Effluents and waste	Moderate	*				*	Low	— ———— High
11. Products and services	Moderate			*			High	High
12. Compliance	Low							
13. Transport	Low							
14. Overall	Low							
15. Supplier environment assessment	Moderate					*	High	Low
16. Environment grievance mechanisms	Low							
Social: Labour Practices and Decent Work								
17. Employment	High	*	*				High	High
Labour/management relations	High	<u>*</u>	*			*	High	High
Cabournaragement relations     Occupational health and safety	Moderate	<u></u>	*				Moderate	Moderate
20. Training and education	High	<u></u>	<u></u>				High	High
21. Diversity and equal opportunity	High	<u></u>	*				High	High
22. Equal remuneration for women and men	High	<u></u>	<u>*</u>					High
23. Supplier assessment for labour practices						*	High High	Low
	High	*	*					High
24. Labour practices grievance mechanisms	High						High	_ <del>nigii</del>
Social: Human Rights								
25. Investment	Moderate	*					Moderate	Moderate
26. Non-discrimination	High	*	*				High	High
27. Freedom of association and collective bargaining	High	*	*				High	High
28. Child labour	High	*	*				High	High
29. Forced or compulsory labour	High	*	*				High	High
30. Security practices	Moderate						Moderate	Moderate
31. Indigenous rights	Low							
32. Assessment	High						High	High
33. Supplier human rights assessment	High						High	High
34. Human rights grievance mechanisms	High						High	High High

		Aspect Boundary						
		Inte	ernal	E	Externa	d	– Ma	ateriality
Aspect	Significance to Bank's Operations	Sri Lanka	Bangladesh	Customers	Communities	Suppliers	To the Bank	To the Stakeholder
Social: Society								
35. Local communities	Moderate	*			*		Moderate	High
36. Anti-corruption	High	*					High	High
37. Public policy	Low							
38. Anti-competitive behaviour	Low							
39. Compliance	High	*	*				High	High
40. Supplier assessment for impacts on society	Moderate					*	High	Low
41. Grievance mechanisms for impacts on society	Low							
Social: Product Responsibility								
42. Customer health and safety	Low							
43. Product and service labelling	High	*	*				High	High
44. Marketing communications	High	*	*				High	High
45. Customer privacy	High	*	*				High	High
46. Compliance	High	*	*				High	High
47. Product portfolio	High	*	*				High	Low
48. Audit	High	*	*				High	Low
49. Active ownership	Low							
Other Topics								
50. Bank's CSR activities	Moderate	*	*				Moderate	Moderate
51 Financial literacy	Moderate				*		Moderate	Moderate
52 Risk management	High	*	*				High	High
53 Innovation	High	*	*				High	Low
54 Channel migration	High	*	*				High	Moderate

There were neither material restatement of information provided in earlier reports nor any material change in the scope nor in the aspect boundaries of the report with regard to reporting on sustainability impacts of the Bank.

GRI Content Index: "In accordance" – Core

Strategy and Anales           G4-1         State           Organisational F           G4-3         Nam           G4-4         Prim           G4-5         Loc           G4-6         Coulom           G4-7         Nate           G4-9         Sca           G4-10         Total           brol         Great           G4-11         Perec           G4-12         Org           G4-13         Sign           G4-14         Exp           or or         Org           G4-15         Exte           or or         Org           G4-16         Mer           Identified Materi         G4-17           G4-18         Proc           G4-19         Mat           G4-20         Asp           G4-21         Asp           G4-22         Exp           reas           G4-23         Sign           Rep           Stakeholder         Eng	tement from the Chairman	13  4 161,169 Inner back cover 10 Ownership – 104 Legal Form – Inner Back Cover 10 6 and 7  196 205 188 219 26 10 207	Assurance
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+94 - 11 244 6058

+94 - 11 254 1249

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### **FOCUS ON VALUE CREATION**

→ Independent Assurance Report on Sustainability Reporting - KPMG



KPMG Tel (Chartered Accountants) Fax 32A, Sir Mohamed Macan Markar Mawatha, P. O. Box 186, Colombo 00300. Sri Lanka. Internet : www.lk.kpmg.com

### **INDEPENDENT ASSURANCE** REPORT TO COMMERCIAL BANK OF CEYLON PLC

We have been engaged by the directors of Commercial Bank of Cevlon PLC ("Company") to provide reasonable assurance and limited assurance in respect of the Assured Sustainability Parameters as identified below for the year ended 31 December 2015. The Assured Sustainability Parameters are included in the Commercial Bank of Ceylon PLC's annual report for the year ended 31 December 2015 (the "Report").

The Reasonable Assurance Sustainability Parameters covered by our reasonable assurance engagement are:

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### Our conclusions:

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

### Reasonable Assurance Sustainability Parameters

In our opinion, the Reasonable Assurance Sustainability Parameters, as defined above, for the year ended 31 December 2015 are, in all material respects, are prepared and presented in accordance with the Global Reporting Initiative (GRI) G4 Content Index Guidelines.

### Limited Assurance Sustainability **Parameters**

Based on the limited assurance procedures performed and the evidence obtained, as described below, nothing has come to our attention that causes us to believe that the Limited Assurance Sustainability Parameters, as defined above, for the year ended 31 December 2015, have not in all material respects, been prepared and presented in accordance with the GRI G4 Content Index Guidelines.

### Management's responsibility

Management are responsible for the preparation and presentation of the Reasonable Assurance Sustainability Parameters and the Limited Assurance Sustainability Parameters in accordance with the GRIG4 Content Index Guidelines.

These responsibilities includes establishing such internal controls as management determines are necessary to enable the preparation of the Reasonable Assurance Sustainability Parameters and the Limited Assurance Sustainability Parameters that are free from material misstatement whether due to fraud or error.

Management is responsible for preventing and detecting fraud and for identifying and ensuring that the Company complies with laws and regulations applicable to its activities.

Management is also responsible for ensuring that staff involved with the preparation and presentation of the description and Report are properly trained, information systems are properly updated and that any changes in reporting encompass all significant business units.

### Our responsibility

Our responsibility is to express a reasonable assurance conclusion on the Company's preparation and presentation of the Reasonable Assurance Sustainability Parameters and a limited assurance conclusion on the preparation and presentation of the Limited Assurance Sustainability Parameters included in the Report, as defined above.

We conducted our assurance engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by the Institute of Chartered Accountants of Sri Lanka.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity,

### **FOCUS ON VALUE CREATION**

Independent Assurance Report on Sustainability Reporting – KPMG

objectivity, professional competence and due care, confidentiality and professional behaviour.

SLSAE 3000 requires that we plan and perform the engagement to obtain reasonable assurance about whether the Reasonable Assurance Sustainability Parameters are free from material misstatement and limited assurance about whether the Limited Assurance Sustainability Parameters are free from material misstatement.

# Reasonable assurance over Reasonable Assurance Sustainability Parameters

The procedures selected in our reasonable assurance engagement depend on our judgment, including the assessment of the risks of material misstatement of the Reasonable Assurance Sustainability Parameters whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Reasonable Assurance Sustainability Parameters in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Company's internal control over the preparation and presentation of the Report.

Our engagement also included assessing the appropriateness of the Reasonable Assurance Sustainability Parameters, the suitability of the criteria, being the GRI G4 Content Index Guidelines, used by the Company in preparing and presenting the Reasonable Assurance Sustainability Parameters within the Sustainability Report, obtaining an understanding of the compilation of the financial and nonfinancial information to the sources from which it was obtained, evaluating the reasonableness of estimates made by the Company and re-computation of the calculations of the Reasonable Assurance Sustainability Parameters.

# Limited assurance on the Assured Sustainability Parameters

Our limited assurance engagement on the Limited Assurance Sustainability Parameters consisted of making enquiries, primarily of persons responsible for the preparation of the Limited Assurance Sustainability Parameters, and applying analytical and other procedures, as appropriate. These procedures included:

- interviews with senior management and relevant staff at corporate and selected site level concerning sustainability strategy and policies for material issues, and the implementation of these across the business;
- enquiries of management to gain an understanding of the Company's processes for determining material issues for the Company's key stakeholder groups;
- enquiries of relevant staff at corporate and selected site level responsible for the preparation of the Limited Assurance Sustainability Parameters;
- enquiries about the design and implementation of the systems and methods used to collect and report the Limited Assurance Sustainability Parameters, including the aggregation of the reported information;
- comparing the Limited Assurance Sustainability Parameters to relevant underlying sources on a sample basis to determine whether all the relevant information has been appropriately included in the Report;
- reading the Limited Assurance
   Sustainability Parameters presented in
   the Report to determine whether they
   are in line with our overall knowledge of,
   and experience with, the sustainability
   performance of the Company;
- reading the remainder of the Report to determine whether there are any material misstatements of fact or material inconsistencies based on our understanding obtained as part of our assurance engagement.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained has a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the Limited Assurance Sustainability Parameters.

### Purpose of our report

In accordance with the terms of our engagement, this assurance report has been prepared for the Company for the purpose of assisting the Directors in determining whether the Company's Reasonable and Limited Assurance Sustainability Parameters are prepared and presented in accordance with the GRI G4 Content Index Guidelines and for no other purpose or in any other context.

### Restriction of use of our report

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company, for any purpose or in any other context. Any party other than the Company who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Company for our work, for this independent assurance report, or for the conclusions we have reached.

CHARTERED ACCOUNTANTS
Colombo

February 24, 2016

### → Key Performance Indicators (KPIs) – 2015

Key Sustainability Aspects	Key Performance Indicators Verified	Page Reference in the Report
Economic	Financial and non-financial highlights	6 & 7
	Direct economic value generated and distributed	206
	Economic Value Added (EVA)	207
Environment	Reduction of energy consumption (Sri Lankan operation)	217
Labour Practice and Decent Work	Total number and rates of new employee hires by age group and gender (Sri Lankan operation)	198
	Total number of employees by employment contract and gender and by significant location (Sri Lankan operation)	196
	Return to work and retention rate after maturity leave	203
	Training hours by type of programme, by employee category and gender	202
	Composition of the Board and employee ranks by category	34 & 196
	Equal remuneration for women and men: basic salary ratio by employee category	203
	Employee turnover by reason for separation (Sri Lankan operation)	200
	Total number and percentage of employee attrition by age group and gender (Sri Lankan operation)	200
	Service analysis of employees by category	200
	Age analysis of employees by category	200
	Composition of main Board and Sub-Committees as at December 31, 2015	34
Society	Access points in low populated or economically disadvantaged areas	184
	Fighting against corruption through audits – Investigations carried out by the Inspection Department	185
Product Responsibility	Products designed to benefit society-loans and lease facilities granted to the agricultural and microfinance sector during 2015	185
	Loans granted for renewable energy projects by source of energy	215
Other Topics	CSR Trust Fund initiatives	208
	Bank's contribution to CSR Trust Fund in 2015	208

Independent Assurance Statement on ← Non-Financial Reporting – DNV GL

### **DNV-GL**

### Introduction

DNV GL represented by DNV GL Business Assurance Lanka (Private) Limited has been commissioned by the management of Commercial Bank of Ceylon PLC ('Commercial Bank' or 'the Bank') to carry out an independent assurance engagement (Type 2, Moderate level) for the non-financial - qualitative and quantitative information (sustainability performance) reported in Commercial Bank's printed Annual Report 2015 ('the Report'). The sustainability performance reported in the Report is prepared based on the 'in accordance' - Core reporting option of the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines Version 4 (GRI G4) and GRI's Financial Services Sector Disclosures. This engagement focused on verification of sustainability performance disclosed in the Report, and underlying management system and reporting processes. The engagement was carried out against AccountAbility's AA1000 Assurance Standard 2008 (AA1000AS) the DNV Verification Protocol for Sustainability Reporting ('VeriSustain'- available on request from www.dnvgl.com).

The intended users of this assurance statement are the management of Commercial Bank ('the management'). The management is responsible for all information provided in the Report as well as the processes for collecting, analyzing and reporting the information presented in the report. Our responsibility in performing this work is regarding the verification of the sustainability performance reported in the printed Annual Report 2015 only, in accordance with the scope of work agreed with the management of the Commercial Bank. The assurance engagement is based on the assumption that the data and information provided to us is complete, sufficient and true. We disclaim any liability or responsibility to a third party for decisions, whether investment or otherwise, based on this assurance statement. Our assurance engagement was planned and carried out in February 2016.

# Scope, Aspect Boundary and Limitations of Assurance

The scope of assurance included the review of sustainability performance covering the economic, environment and social performance reported in the Annual Report 2015. In particular the assurance engagement included:

- The verification of the qualitative and quantitative sustainability performance reported in the Annual Report prepared by the Commercial Bank based on the GRI G4 guidelines, covering economic, environmental and social performance for the activities undertaken by Commercial Bank over the reporting period 1st January 2015 to 31st December 2015 and reported in this Report;
- Review of the policies, initiatives, practices and performance related to the Bank's sustainability performance, and reported in Commercial Bank's printed Annual Report 2015 as well as references made in the Report;
- Evaluation of the systems and processes the company has in place for adherence to reporting principles set out in GRI G4;
- Evaluation of the disclosed information in the Report - both General and Specific Standard Disclosures – for 'in accordance' – Core reporting requirements of GRI G4;
- Evaluation with respect to the AccountAbility principles and specified performance information, for a Type 2, moderate level of assurance, in accordance with the requirements of AA1000AS (2008):
  - information relating to the issues, responses, performance data, case studies and underlying systems for the management of such information and data;
  - information relating to materiality assessment and stakeholder engagement processes;
- Confirmation of the fulfillment of GRI G4's 'in accordance' – Core criteria, as declared by Commercial Bank, including adherence to GRI G4 Reporting Principles and Standard Disclosures.

During the assurance process, we did not come across limitations to the scope of the agreed assurance engagement. The reporting boundary of sustainability performance covers banking and associated operations in Sri Lanka and Bangladesh, including selected supply chain activities as set out in the Report in the section 'About the Report'. The Report does not include performance data and information related to the activities of Commercial Bank's four subsidiaries -Commercial Development Co. PLC, ONEzero Co. Ltd., Serendib Finance Finance Ltd. and Commex Sri Lanka SRL and the operations of its two associates, Equity Investments Lanka Ltd. and Commercial Insurance Brokers (Pvt.) Ltd... as the results of their operations are not significant (<1% revenue) compared to the overall results of the group.

The Aspect Boundary is based on internal and external materiality assessment covering the banking and associated operations in Sri Lanka and Bangladesh, including selected supply chain activities (refer the section 'About the Report' and Appendices I and II). The reported data on economic performance, expenditure towards Corporate Social Responsibility (CSR) and other financial data are based on audited financial statements issued by the Company's statutory auditors. No external stakeholders were interviewed as part of this assurance engagement.

### **Verification Methodology**

This assurance engagement was planned and carried out in accordance with the AA1000AS (2008) i.e. Type 2, Moderate and VeriSustain. The report has been evaluated against the following criteria:

- Adherence to the principles of Inclusivity, Materiality and Responsiveness, as well as Reliability of specified sustainability performance information, as set out in the AA1000AS (2008);
- Application of the principle of materiality as per GRI G4;
- Adherence to additional principles of Completeness and Neutrality, as set out in DNV GL's Protocol;

Independent Assurance Report on Sustainability Reporting – DNVGL

The GRI G4 requirements –
 'in accordance' – Core.

During the assurance engagement, we have taken a risk-based approach, meaning we concentrated our verification efforts on the issues of high material relevance to Commercial Bank's business and its stakeholders. We have verified the statements and claims made in the Report and assessed the robustness of the underlying data management system, information flow and controls. In doing so, we have:

- Reviewed the approach to stakeholder engagement and its materiality determination process;
- Verified the sustainability-related statements and claims made in the Report and assessed the robustness of the data management system, information flow and controls:
- Examined and reviewed documents, data and other information made available by the Commercial Bank and visited the Head office at Colombo and two branch offices at Colombo;
- Conducted interviews with key representatives including data owners and decision-makers from different functions of the Commercial Bank;
- Performed sample-based reviews of the mechanisms for implementing the sustainability related policies, as described in the Report;
- Performed sample-based checks of the processes for generating, gathering and managing the quantitative data and qualitative information included in the Report.

### Conclusions

Commercial Bank has implemented management systems with sustainability as the focus, to manage its key sustainability parameters. The Bank's sustainability performance reported in the Annual Report is prepared based on GRI G4 Reporting Principles and Standard Disclosures for its 'in accordance' – Core option. Further, the Bank has aligned the Report to the International <IR> Framework of the International Integrated Reporting Council (IIRC) including its

Guiding Principles and Content Elements, covering Commercial Bank's business model and value creation process for a sustainable business.

In our opinion, based on the scope of this assurance engagement, the sustainability performance including the referenced information presented in Commercial Bank's printed Annual report – 2014 a fair representation of the sustainability related strategies, management system and performance and meets the general content requirements of the GRI G4 i.e.,

- General Standard Disclosures: We are of the opinion that the reported disclosures generally meet the GRI G4 reporting requirements for 'in accordance' – Core based on GRI G4.
- Specific Standard Disclosures: We are of the opinion that the reported disclosures generally meet the GRI G4 reporting requirement for 'in accordance' Core based on GRI G4 and the Financial Services Sector Disclosures covering generic 'Disclosures on Management Approach' (DMA) and 'Performance Indicators' for identified material Aspects as below:

### Economic

- Economic Performance G4-EC1;
- Market Presence G4-EC5, G4-EC6;
- Indirect Economic Impacts G4-EC7, G4-EC8;
- Procurement Practices G4-EC9

### **Environmental**

- Energy G4-EN6;
- Effluents and Waste G4-EN23;
- Products and Services G4-EN27;
- Supplier Environmental Assessment -G4-EN32;

### Social

### Labour Practices and Decent Work

- Employment G4-LA1, G4-LA2, G4-LA3:
- Labour/Management Relations -G4-LA4;
- Training and Education G4-LA9, G4-LA10, G4-LA11;

### **DNV-GL**

- Diversity and Equal Opportunity -G4-LA12;
- Equal Remuneration for Women and Men - G4-LA13:
- Supplier Assessment for Labour Practices - G4-LA14;
- Labour Practices and Grievance Mechanisms - G4-LA16;

### **Human Rights**

- Non-Discrimination G4-HR3;
- Freedom of Association and Collective Bargaining -G4-HR4;
- Child Labour G4-HR5;
- Forced or Compulsory Labour -G4-HR6;
- Supplier Human Rights Assessment -G4-HR10;
- Human Rights Grievance Mechanisms -G4-HR12;

### Society

- Local Communities G4-S01, FS13, FS14;
- Anti-Corruption G4-SO5;
- Compliance G4-SO8;
- Supplier Assessment for Impacts on Society - G4-SO9;

### **Product Responsibility**

- Product and Service Labeling -G4-PR3, G4-PR4, G4-PR5;
- Marketing Communications G4-PR7;
- Customer Privacy G4-PR8;
- Compliance G4-PR9;
- Product Portfolio FS7, FS8.

We have evaluated the Report's adherence to the following principles on a scale of 'Good', 'Acceptable' and 'Needs Improvement':

### AA1000AS (2008) Principles

Inclusivity: Commercial Bank has formal and informal engagement mechanisms in place for identifying and engaging with key stakeholders, and identifying and responding to key sustainability challenges. The material issues emerging from stakeholder engagement processes were collected and prioritized, and the

Independent Assurance Report on Sustainability Reporting – DNVGL

**DNV-GL** 

results are fairly reflected in the Report. In our opinion, the level at which the Report adheres to this principle is "Good".

Materiality: The Bank has carried out a materiality assessment exercise by evaluating the Bank's value creation processes, sustainability context and issues identified through stakeholder engagement processes. The process of materiality assessment has been carried out based on requirements of GRI G4 and Financial Services Sector Disclosures, and considers aspects and topics that are internal and external to the organization. The materiality of Aspects is fairly explained in the Report along with the management and monitoring systems. In our opinion, the level at which the Report adheres to this principles is "Good".

Responsiveness: We consider that the response to key stakeholder concerns, through the Bank's policies and management systems including governance are fairly reflected in the Report. In our opinion, the level at which the Report adheres to this principle is "Good".

Reliability: The majority of data and information verified at Head office and at branch sites at Colombo were found to be fairly accurate. Some of the data inaccuracies identified during the verification process were found to be attributable to transcription, interpretation and aggregation errors and the errors have been corrected. Hence in accordance with the AA1000AS (2008) requirements for a Type 2, moderate level assurance engagement, we conclude that the specified sustainability data and information presented in the Report is reliable and acceptable. In our opinion, the level at which the Report adheres to this principle is "Good".

# Specific Evaluation of the Information on Sustainability Performances

We consider the methodology and process for gathering information developed by the Commercial Bank, for its sustainability performance reporting is appropriate and the qualitative and quantitative data included in the Report, was found to be identifiable and traceable; the personnel responsible was able to demonstrate the origin and interpretation of the data and its reliability. We observed that the Report presents a faithful description of the reported sustainability activities for the reporting period.

# Additional principles as per DNV GL's VeriSustain

**Completeness:** The Report has fairly attempted to disclose General and Specific Standard Disclosures including the disclosure on management approach covering the sustainability strategy, management approach, monitoring systems and sustainability performances indicators against the GRI G4 – 'in accordance' – Core. In our opinion, the level at which the Report adheres to this principle is "Good".

**Neutrality:** The disclosures related to sustainability issues and performances are reported in a neutral tone, in terms of content and presentation. In our opinion, the level at which the Report adheres to the principle of Neutrality is "Good".

Opportunities for Improvement
The following is an excerpt from the
observations and further opportunities for
improvement reported to the management
of Commercial Bank and are not considered
for drawing our conclusion on the Report;
however, they are generally consistent with
the Management's objectives:

- Commercial Bank may further disclose its key goals and targets related the short, medium and long term with regard to identified material Aspects and topics within the Report.
- Disclosures on sustainability opportunities, impacts and strategy to mitigate impacts and risks related to Commercial Bank's international operations with significant operational or financial control and influence may be carried out, to further improve completeness of reported disclosures.

### Our Competence and Independence

We are a global provider of sustainability services, with qualified environmental and social assurance specialists working in over 100 countries. We were not involved in the preparation of any statements or data included in the Report except for this Assurance Statement. DNV GL maintains complete impartiality toward any people interviewed.

For DNV GL

Rathika De Silva Country Head DNV GL Business Assurance Lanka (Private) Limited, Colombo, Sri Lanka

Koran

Kiran Radhakrishnan
Project Manager
Associate Assessor
DNV GL Business Assurance India Private
Limited, India

Kindrimar

Nandkumar Vadakepatth Assurance Reviewer Regional Sustainability Manager – India, Sri Lanka and Bangladesh DNV GL Business Assurance India Private Limited, India

February 24, 2016, Colombo, Sri Lanka.



### GRI Indicators – 5 Year Summary

Indicator		Unit of Measure	2015	2014	2013	2012	2011
EC1	Direct economic value (Sri Lanka only, details of Bangladesh operation appears on page 206):						
	- Generated	Rs. Mn.	72,034	67,019	67,546	58,972	42,498
	- Distributed	Rs. Mn.	67,275	63,066	64,007	55,352	40,370
	- Retained	Rs. Mn.	4,759	3,953	3,539	3,620	2,128
	Economic Value Added	Rs. Mn.	8,256	7,272	6,532	4,807	5,208
EC5	Ratio of standard entry		Above	Above	Above	Above	Above
	level wage		minimum	minimum	minimum	minimum	minimum
EC6	Proportion of senior management from local community						
	- Sri Lanka	%	100.00	100.00	100.00	100.00	100.00
	- Bangladesh	%	98.81	98.58	98.58	98.51	98.99
EC7	Funds disbursed to SMEs, Argi businesses, Micro financing	Rs. Bn.	260	220	182	16	37
EC8	Financial literacy and capacity building programmes - No. of programmes	Nos.	15	9	6	5	4
	- No. of participants	Nos.	1,822	382	574	580	284
EN6	Energy consumption	Gigajoules	55.877	55.944	55,080	58,446	Unavailable
	Waste disposal	Gigajoules	33,677	55,944	33,060	30,440	Ullavallable
EN23	- e-waste	V a	NII	Nil	NEL	10.000	الطوائوريوا
		Kg.	Nil		Nil		Unavailable
EN27	- Paper  Credit proposal over Rs.100 Mn. screened through SEMs	Kg.	98,155	3,063		Unavailable	
EN32	Percentage of new suppliers screened – Environment	%	100.00	100.00	100.00	100.00	100.00
LA1	New employee hires						
	- Male	Nos.	225	236	228	122	311
	- Female	Nos.	21	93	103	108	65
	Attrition						
	- Male	Nos.	158	159	106	6	28
	- Female	Nos.	49	44	43	4	1
LA2	Benefits provided to full-time employees		Qualitative d			<u> </u>	<u> </u>
LA3	Return to work maternity leave				ar harda yar		
2, 10	- Retrun to work ratio	%	100.00	100.00	98.00	100.00	100.00
	- Retention ratio	%	100.00	100.00	100.00	100.00	100.00
LA4	Minimum notice period	,,,	Qualitative d			100.00	100.00
LA8	Health and safety topics covered				er page 205		
LAO LA9	Average training hours		Quantative U	130103016 161	or page 200		
LAU	- Male	Hours	25.82	25.68	34.85	22.98	06.47
	- Male - Female						26.47
1 440		Hours	19.59	27.14	25.68	21.41	22.26
LA10	Skill development programmes	Hours	10,581	7,382	16,686	18,816	12,512
LA11	Percentage of employees receiving performance evaluations	%	100.00	100.00	100.00	100.00	100.00
LA12	Diversity and equal opportunity		Qualitative d	isclosure ref	er page 203		

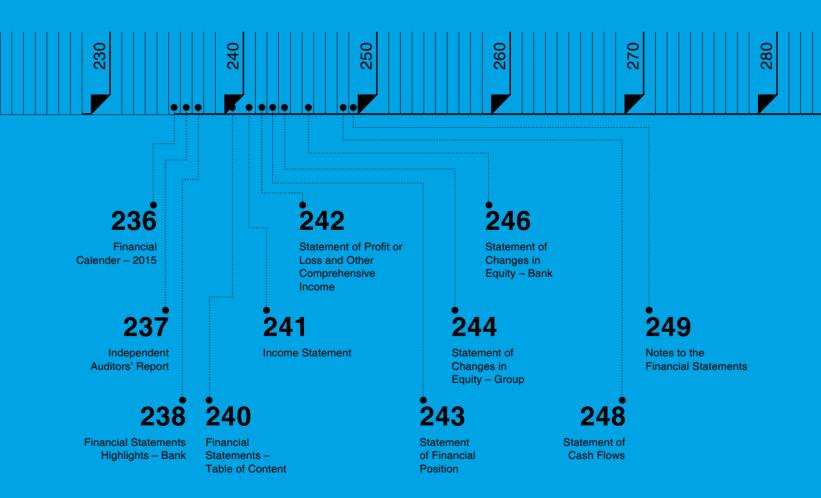
Indicator		Unit of Measure	2015	2014	2013	2012	2011
LA13	Remuneration ratio women to men						
	- Corporate Management	X:Y	1:0.94	1:0.84	1:0.87	1:0.97	1:1.10
	- Executive Officers	X:Y	1:1.09	1:0.93	1:0.98	1:0.96	1:0.97
	- Junior Executive Assistants						
	and Allied Grades	X:Y	1:1.10	1:0.91	1:0.85	1:0.88	1:0.88
	- Banking and Graduate Trainees	X:Y	1:1.04	1:1.00	1:0.98	1:1.06	1:0.96
	- Office Assistants and Other	X:Y	1 : N/A	1 : N/A	1 : N/A	1 : N/A	1 : N/A
LA14	Percentage of new suppliers screened – Labour practises	%	100.00	100.00	100.00	100.00	100.00
LA16	Number of significant grievances on labour practices filed and resolved	Nos.	Nil	Nil	Nil	Nil	Nil
HR3	Number of significant incidents of discrimination	Nos.	Nil	Nil	Nil	Nil	Nil
HR4	Percentage of employees in trade unions	%	83.91	83.48	82.17	76.40	77.41
	Operations with risk of violation of right to exercise freedom of association	Nos.	Nil	Nil	Nil	Nil	Nil
HR5	Number of significant incidents of child labour	Nos.	Nil	Nil	Nil	Nil	Nil
HR6	Number of significant incidents of forced or compulsory labour	Nos.	Nil	Nil	Nil	Nil	Nil
HR10	Percentage of new suppliers screened – Human Rights	%	100.00	100.00	100.00	100.00	100.00
HR12	Number of significant grievances on Human Rights	Nos.	Nil	Nil	Nil	Nil	Nil
SO1	Operations with local community engagement		Qualitative dis	sclosure refer	pages 208 to	213	
FS13	Performance in Northern and Eastern Provinces				-		
	-Deposits	Rs. Mn.	39,565	33,755	29,443	26,408	22,812
	-Advances	Rs. Mn.	10,476	8,715	11,570	14,332	13,794
	-Number of Branches	Nos.	27	24	24	23	21
	-Number of ATMs	Nos.	57	54	52	50	46
FS14	Initiatives to improve access to financial services						
S05	Number of alerts reported to FIU of CBSL	Nos.	21	11	10	12	-
SO8	Non-compliance with laws and regulations (Sri Lanka only)						
	- Monetary value	Rs.'000s	-	-	-	-	-
	- No. of monetory sanctions	Nos.	Nil	Nil	Nil	Nil	Nil
SO9	Percentage of new suppliers screened – Impacts on society	%	-	-	-	-	-
PR3	Information required on product and service labelling		Qualitativo di	sclosure refer	pago 185		
PR4	Non-compliance with regulations on product		Quantative UI	ooloouie leiel	page 100		
	and service labelling	Nos.	Nil	Nil	Nil	Nil	Nil
PR5	Results of marketing survey		Graphical dis	closure refer	page 183		
PR7	Non-compliance with regulations on marketing communication	Nos.	Nil	Nil	Nil	Nil	Nil
							Nil

GRI Indicators – 5 Year Summary

Indicator		Unit of Measure	2015	2014	2013	2012	2011
PR9	Non-compliance with laws and regulations on provision and use of products and services	Nos.	Nil	Nil	Nil	Nil	Nil
FS1-5	Policies, procedures and process for managing environmental and social components and their associated risks applicable on products and services offered	C	Qualitative dis	closure refer	page 214		
FS6	Portfolio of business lines by segments		Refer Note 61 Operating Se		ial Statement	ts on page 36	4 for
FS7	Products portfolios of						
	- Industrial	Rs. Mn.	39,539	25,950	18,868	18,089	16,145
	- Agriculture	Rs. Mn.	4,997	3,385	2,398	2,110	1,637
	- Microfinance	Rs. Mn.	708	777	968	1,305	1,197
FS8	Portfolio of loans granted for renewable energy projects	Rs. Mn.					
	- Wind	Rs. Mn.	1,835	2,101	1,091		
	- Solar	Rs. Mn.		-	46		
	- Hydro	Rs. Mn.	876	819	1,263		
	- Bio-mass	Rs. Mn.	131	_	_		
FS9	Coverage and frequency of audits						
	- Onsite audits	Nos.	265	264	232	203	192
	- Online audits	Nos.	216	213	242	230	113

# **Financial Reports**

Audited Financial Statements together with the Independent Auditors' Report



Financial Calender – 2015

	2015	2016
Final Dividend for the previous year paid/payable	On April 09, 2015	On April 11, 2016
Interim Dividend for the year paid/payable	On December 18, 2015	in the second half 2016
Annual Report and Accounts for the year signed/to be signed	On February 24, 2016	in February 2017
Annual General Meeting to be held	On March 31, 2016	in March 2017
Final Dividend for the year to be proposed	On March 31, 2016	in March 2017
Final Dividend for the year to be paid	On April 11, 2016	in April 2017

# Submission of the Interim Financial Statements in Terms of the Rule 7.4 of the Colombo Stock Exchange and as per the Requirements of the Central Bank of Sri Lanka

	2015 Submitted on	2016 To be submitted on or before
For the 3 months ended March 31 (unaudited)	May 13, 2015	May 13, 2016
For the 3 (unaudited) and 6 months (audited) ended June 30	August 12, 2015	August 15, 2016
For the 3 and 9 months ended September 30 (unaudited)	November 12, 2015	November 15, 2016
For the 3 months (unaudited) and year (audited) ended December 31	February 24, 2016	February 28, 2017



February 28

Consolidated Results



March 10
Annual Report
Release



March 31
Annual General
Meeting



May 13
Interim Report –
Quarter 1



August 12
Interim Report –
Quarter 2



November 12
Interim Report –
Quarter 3



KPMG (Chartered Accountants) 32A, Sir Mohamed Macan Markar Mawatha, P. O. Box 186, Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426 Fax : +94 - 11 244 5872 +94 - 11 244 6058 +94 - 11 254 1249

+ 94 - 11 230 7345 Internet : www.lk.kpmg.com

### To the Shareholders of Commercial Bank of Ceylon PLC

### **Report on the Financial Statements**

We have audited the accompanying Financial Statements of Commercial Bank of Ceylon PLC, ('the Company'), and the Consolidated Financial Statements of the Company and its subsidiaries ('Group'), which comprise the statement of financial position as at December 31, 2015 and the income statement, statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information set out on pages 241 to 404 of this Annual Report.

## Board's Responsibility for the Financial Statements

The Board of Directors ('Board') is responsible for the preparation of these Financial Statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as Board determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the Auditors' judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the Auditor considers internal control relevant to the entity's preparation of the Financial Statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the financial position of the Group as at December 31, 2015 and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

# Report on Other Legal and Regulatory Regulrements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

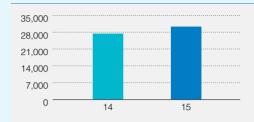
- (a) The basis of opinion and scope and limitations of the audit are as stated above
- (b) In our opinion:
  - We have obtained all the information and explanations that were required for the audit and as far as appears from our examination, proper accounting records have been kept by the Company,
  - The Financial Statements of the Company give a true and fair view of its financial position as at December 31, 2015, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
  - The Financial Statements of the Company and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 07 of 2007.

**Chartered Accountants** 

Colombo February 24, 2016

### Financial Statements Highlights - Bank



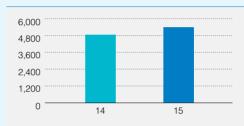


11.47% 个

2015: Rs. 30,345 Mn.

2014: Rs. 27,222 Mn.

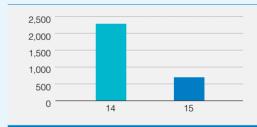
### **Net Fees & Commission Income**



11.24% ↑ 2015: Rs. 5,374 Mn.

2014: Rs. 4,831 Mn.

### **Net Gains/Losses from Financial Investment**



**69.46%** *↓* 

2015: Rs. 694 Mn.

2014: Rs. 2,273 Mn.

### **Loans & Receivable to Other Customers**

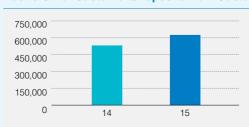


25.33% 个

2015: Rs. 508,115 Mn.

2014: Rs. 405,431 Mn.

### **Due to Other Customers/Deposits from Customers**



17.90% ↑ 2015: Rs. 624,102 Mn.

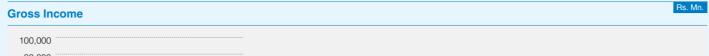
2014: Rs. 529,361 Mn.

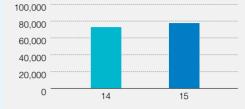
Rs. Mn.

Rs. Mn.

Rs. Mn.

Rs. Mn.





**7.03%** ↑ 2015: Rs. 77,868 Mn. 2014: Rs. 72,752 Mn.

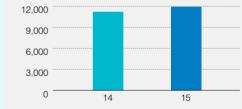
Rs. Mn.



**8.94%** ↑ 2015: Rs. 17,144 Mn. 2014: Rs. 15,736 Mn.

Profit After Tax

12,000



14

15

0

**6.47%** ↑ 2015: Rs. 11,903 Mn. 2014: Rs. 11,180 Mn.

15
12
9
6.09% ↑ 2015: Rs. 13.59
2014: Rs. 12.81



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			GROUP			BANK	
For the year ended December 31,	Note	2015 Rs. '000	2014 Rs. '000	Change %	2015 Rs. '000	2014 Rs. '000	Change %
Gross income	11	78,225,397	72,848,203	7.38	77,867,952	72,752,229	7.03
Interest income		66,339,317	61,932,876	7.11	66,030,456	61,832,018	6.79
Less: Interest expenses		35,771,967	34,613,052	3.35	35,685,172	34,610,179	3.11
Net interest income	12	30,567,350	27,319,824	11.89	30,345,284	27,221,839	11.47
Fees and commission income		6,329,900	5,613,684	12.76	6,275,276	5,592,744	12.20
Less: Fees and commission expenses		919,590	764,322	20.31	901,190	761,527	18.34
Net fees and commission income	13	5,410,310	4,849,362	11.57	5,374,086	4,831,217	11.24
Net gains/(losses) from trading	14	813,376	(305,492)	366.25	813,376	(305,492)	366.25
Net gains/(losses) from financial instruments designated at fair value through profit or loss		_	_	_	_	_	_
Net gains/(losses) from financial investments	15	693,987	2,272,575	(69.46)	693,933	2,272,575	(69.46)
Other income (net)	16	4,048,817	3,334,560	21.42	4,054,911	3,360,384	20.67
Total operating income		41,533,840	37,470,829	10.84	41,281,590	37,380,523	10.44
Less: Impairment charges for loans and other losses	17	4,099,738	3,208,638	27.77	3,943,196	3,229,144	22.11
Net operating income		37,434,102	34,262,191	9.26	37,338,394	34,151,379	9.33
Less: Expenses							
Personnel expenses	18	10,260,750	8,956,323	14.56	10,180,537	8,903,048	14.35
Depreciation and amortisation	19	1,206,172	1,262,000	(4.42)	1,141,804	1,200,546	(4.89)
Other operating expenses	20	5,954,483	5,501,963	8.22	5,983,088	5,622,578	6.41
Total operating expenses		17,421,405	15,720,286	10.82	17,305,429	15,726,172	10.04
Operating profit before Value Added Tax (VAT) and Nation Building Tax (NBT)		20,012,697	18,541,905	7.93	20,032,965	18,425,207	8.73
Less: Value Added Tax (VAT) on financial services and Nation Building Tax (NBT)		2,890,224	2,688,551	7.50	2,889,355	2,688,991	7.45
Operating Profit after Value Added Tax (VAT) and Nation Building Tax (NBT)		17,122,473	15,853,354	8.01	17,143,610	15,736,216	8.94
Share of profits of associates, net of tax		13,638	6,563	107.80	_	_	_
Profit before tax		17,136,111	15,859,917	8.05	17,143,610	15,736,216	8.94
Less: Income tax expense	21	5,276,851	4,617,124	14.29	5,240,386	4,556,035	15.02
Profit for the year		11,859,260	11,242,793	5.48	11,903,224	11,180,181	6.47
Profit Attributable to:							
Equity holders of the Bank		11,855,172	11,238,892	5.48	11,903,224	11,180,181	6.47
Non-controlling interest		4,088	3,901	4.79	_		_
Profit for the year		11,859,260	11,242,793	5.48	11,903,224	11,180,181	6.47
Earnings per Share							
Basic earnings per ordinary share (Rs.)	22	13.53	12.87	5.13	13.59	12.81	6.09
Diluted earnings per ordinary share (Rs.)	22	13.51	12.82	5.38	13.57	12.75	6.43

Statement of Profit or Loss and Other Comprehensive Income

		GROUP			BANK			
For the year ended December 31,	2015 Rs. '000	2014 Rs. '000	Change %	2015 Rs. '000	2014 Rs. '000	Change %		
Profit for the year	11,859,260	11,242,793	5.48	11,903,224	11,180,181	6.47		
Other comprehensive income, net of tax								
Items that will never be reclassified to profit or loss								
Net actuarial gains/(losses) on defined benefit plans	(62,272)	(60,828)	(2.37)	(68,714)	(60,667)	(13.26)		
Remeasurement of defined benefit liability/(asset)	(65,150)	(84,484)	22.88	(74,097)	(84,259)	12.06		
Less: Deferred tax charge/(reversal) on actuarial gains/(losses)	(2,878)	(23,656)	87.83	(5,383)	(23,592)	77.18		
Net change in revaluation surplus	_	1,638,518	_	_	1,500,805	_		
Changes in revaluation surplus/(deficit)	_	1,812,757	_	_	1,621,489	_		
Less: Deferred tax charge/(reversal) on revaluation surplus	_	174,239	_	_	120,684	_		
Items that are or may be reclassified to profit or loss  Net gains/(losses) arising from translating the Financial Statements of the foreign operation  Net fair value gains/(losses) on remeasuring	886,677	(60,430)	1,567.28	888,844	(57,151)	1,655.26		
financial investments – available-for-sale	(6,690,945)	681,002	(1,082.51)	(6,690,945)	681,011	(1,082.50)		
Sri Lanka Government Securities	(6,733,881)	640,437	(1,151.45)	(6,733,881)	640,446	(1,151.44)		
Fair value gains/(losses) arose during the year, net of tax	(6,625,162)	2,247,787	(394.74)	(6,625,162)	2,247,796	(394.74)		
Fair value gains/(losses) realised and recycled to the Income Statement on disposal, net of tax	(108,719)	(1,607,350)	93.24	(108,719)	(1,607,350)	93.24		
Equity Securities	42,936	40,565	5.84	42,936	40,565	5.84		
Fair value gains/(losses) arose during the year, net of tax	42,936	40,565	5.84	42,936	40,565	5.84		
Fair value gains/(losses) realised and recycled to the Income Statement on disposal, net of tax	_	_	_	_	-	_		
Share of other comprehensive income of associates, net of tax	(8,689)	6,402	(235.72)	_	_	_		
Other comprehensive income for the year, net of tax	(5,875,229)	2,204,664	(366.49)	(5,870,815)	2,063,998	(384.44)		
Total comprehensive income for the year	5,984,031	13,447,457	(55.50)	6,032,409	13,244,179	(54.45)		
Attributable to:								
Equity holders of the Bank	5,979,574	13,436,055	(55.50)	6,032,409	13,244,179	(54.45)		
Non-controlling interest	4,457	11,402	(60.91)	_		_		
Total comprehensive income for the year	5,984,031	13,447,457	(55.50)	6,032,409	13,244,179	(54.45)		

			GROUP			BANK	
As at December 31,	Note	2015	2014	Change	2015	2014	Change
		Rs. '000	Rs. '000	%	Rs. '000	Rs. '000	%
Assets							
Cash and cash equivalents	26	20,107,076	20,621,778	(2.50)	20,043,512	20,591,867	(2.66)
Balances with Central Banks	27	28,221,017	19,633,746	43.74	28,221,017	19,633,746	43.74
Placements with banks	28	17,193,539	14,507,861	18.51	17,193,539	14,507,861	18.51
Securities purchased under resale agreements		8,002,100	41,198,266	(80.58)	8,002,100	41,198,266	(80.58)
Derivative financial assets	29	4,118,169	459,510	796.21	4,118,169	459,510	796.21
Other financial instruments – Held-for-trading	30	7,656,349	6,326,636	21.02	7,656,349	6,326,636	21.02
Loans and receivables to banks	31	601,106	551,066	9.08	601,106	551,066	9.08
Loans and receivables to other customers	32	509,923,128	406,531,089	25.43	508,115,127	405,431,457	25.33
Financial investments – Available-for-sale	33	204,261,934	214,225,017	(4.65)	204,244,289	214,208,370	(4.65)
Financial investments – Held-to-maturity		_	_		_	_	
Financial investments – Loans and receivables	34	57,724,369	50,436,064	14.45	57,724,369	50,436,064	14.45
Investments in subsidiaries	35			_	1,237,146	1,211,000	2.16
Investments in associates	36	104,503	106,287	(1.68)	44,331	44,331	_
Property, plant & equipment	37	11,181,433	11,134,861	0.42	9,968,985	9,953,091	0.16
Intangible assets	38	884,034	856,230	3.25	465,960	439,128	6.11
Leasehold property	39	107,420	108,872	(1.33)	74,478	75,420	(1.25)
Other assets	40	12,097,017	10,560,430	14.55	12,094,591	10,541,817	14.73
Total assets		882,183,194	797,257,713	10.65	879,805,068	795,609,630	10.58
Liabilities							
Due to banks	41	31,789,396	25,669,025	23.84	30,319,119	25,260,976	20.02
Derivative financial liabilities	42	1,890,770	1,193,139	58.47	1,890,770	1,193,139	58.47
Securities sold under repurchase agreements		112,249,703	124,391,042	(9.76)	112,384,812	124,564,499	(9.78)
Other financial liabilities – Held-for-trading		-	-	(0.70)	-	-	(0.70)
Due to other customers/deposits from customers	43	624,021,217	529,266,588	17.90	624,101,810	529,361,484	17.90
Other borrowings	44	9,985,637	11,636,583	(14.19)	9,985,637	11,636,583	(14.19)
Current tax liabilities	45	3,025,662	2,037,388	48.51	3,001,984	1,997,990	50.25
Deferred tax liabilities	46	467,632	2,876,199	(83.74)	230,615	2,573,760	(91.04)
Other provisions	47	1,874	1,874	(00.74)	1,874	1,874	(01.04)
Other liabilities	48	15,749,184	17,669,903	(10.87)	15,548,159	17,443,531	(10.87)
Due to subsidiaries	49	-	-	- (10.01)	26,212	19,289	35.89
Subordinated liabilities	50	11,988,272	11,262,573	6.44	11,973,272	11,044,775	8.41
Total liabilities		811,169,347	726,004,314	11.73	809,464,264	725,097,900	11.64
Equity		011,100,017	7.20,00 1,01 1		000,101,201	120,001,000	
Stated capital	51	23,254,605	21,457,501	8.38	23,254,605	21,457,501	8.38
Statutory reserves	51	4,922,367	4,327,103	13.76	4,922,264	4,327,103	13.75
Retained earnings	53	4,922,367	4,327,103	1.12	4,388,867	4,327,103	3.07
Other reserves	55	38,318,860	41,002,819	(6.55)	37,775,068	40,468,839	(6.66)
Total equity attributable to equity holders of the Bank		70,963,639	71,205,835	(0.34)	70,340,804	70,511,730	(0.24)
Non-controlling interest		50,208	47,564	5.56	70,340,804	70,511,730	(0.24)
Total equity		71,013,847	71,253,399	(0.34)	70,340,804	70,511,730	(0.24)
Total liabilities and equity		882,183,194	71,253,399	10.65	879,805,068	795,609,630	10.58
Contingent liabilities and commitments	57	521,232,320	352,453,452	47.89	521,232,320	352,453,452	47.89
Net assets value per ordinary share (Rs.)	58	80.93	82.24	(1.59)	80.22	81.44	(1.50)

The Notes appearing on pages 249 to 404 form an integral part of these Financial Statements.

### Certification

These Financial Statements have been prepared in compliance with requirements of the Companies Act No. 07 of 2007.

L.W.P. Indrajith

Assistant General Manager - Finance

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,

K.G.D.D. Dheerasinghe

Chairman

February 24, 2016 Colombo M.P. Jayawardena Deputy Chairman J. Durairatnam
Managing Director

Mrs. J.R. Gamage Company Secretary

### Statement of Changes in Equity – Group

		Statutory	atutory Reserves	
	Stated	Statutory	Primary Dealer	
	Capital	Reserve	Special Risk	
	Rs. '000	Fund Rs. '000	Reserve Rs. '000	
Palance on at January 01, 2014				
Balance as at January 01, 2014  Total comprehensive income for the year 2014	19,586,813	3,768,094	266,520	
Profit for the year				
Other comprehensive income, net of tax  Net actuarial gains/(losses) on defined benefit plans				
Share of other comprehensive income of associates, net of tax  Net change in revaluation surplus				
			- <del>-</del>	
Net fair value gains/(losses) on re-measuring financial investments – available-for-sale				
Net gains/(losses) arising from translating the financial statements of foreign operations  Tatal comprehensive income for the year 2014			- <u>-</u>	
Total comprehensive income for the year 2014				
Transactions with owners recognised directly in equity, contributions and distributions to owners				
Issue of ordinary shares under Employee Share Option Plan [Refer Note 51]	340,763			
Dividends to equity holders	1,529,925	_		
Second interim dividend for 2013 [Refer Note 23]	_	_	_	
Final cash dividend for 2013	_	_	_	
Final dividend for 2013 satisfied in the form of issue and allotment of new shares [Refer Note 51]	1,529,925	_	_	
First interim dividend for 2014 [Refer Note 23]	_	_	_	
Deferred tax effect on pre-acquisition reserves	_	_	_	
Re-classification of retained earnings to available-for-sale reserve		_	_	
Transfers during the year [Refer Notes 53 and 55]		559,009	_	
Transfers to general reserve [Refer Notes 53 and 55]		_	(266,520)	
Total transactions with equity holders	1,870,688	559,009	(266,520)	
Balance as at January 01, 2015	21,457,501	4,327,103	_	
Super Gain Tax for the year of assessment 2013/14 [Refer Note 54]		_	_	
Balance as at January 01, 2015 – Adjusted	21,457,501	4,327,103	_	
Total comprehensive income for the year 2015				
Profit for the year	_	_	_	
Other comprehensive income, net of tax				
Net actuarial gains/(losses) on defined benefit plans				
Share of other comprehensive income of associates, net of tax				
Net fair value gains/(losses) on re-measuring financial investments available-for-sale				
Net gains/(losses) arising from translating the Financial Statements of foreign operations				
Total comprehensive income for the year 2015				
·				
Transactions with owners, recognised directly in equity, contributions and distributions to owners	007.004			
Issue of ordinary shares under Employee Share Option Plan [Refer Note 51]	237,304			
Dividends to equity holders	1,559,800			
Second interim dividend for 2014 [Refer Note 23]	_			
Final cash dividend for 2014	-			
Final dividend for 2014 satisfied in the form of issue and allotment of new shares [Refer Note 51]	1,559,800			
First interim dividend for 2015 [Refer Note 23]				
Share-based payment transactions [Refer Note 55.6]				
Re-statement of deferred tax on revaluation gains				
Profit due to change in ownership				
Movement due to change in ownership				
Transfers during the year [Refer Notes 53 and 55]		595,264		
	1,797,104	595,264	_	
Total transactions with equity holders  Balance as at December 31, 2015	23,254,605	4,922,367		

			Other Reserves						
Retained	Revaluation	Available-	Foreign Currency	Investment	General	Employee	Shareholders'	Non-	Total
Earnings	Reserve	for-Sale	Translation	Fund	Reserve	Share Option	Funds	Controlling	Equity
		Reserve	Reserve	Account		Reserve		Interest	
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
4,359,632	4,615,947	2,023,468	(393,758)	4,838,693	22,380,819		61,446,228	38,778	61,485,006
 11 000 000							11 000 000	2.001	11 040 700
11,238,892	1 621 012	681,002	(60, 420)				11,238,892	3,901	11,242,793
(54,422)	1,631,013	001,002	(60,430)				2,197,163	7,501	2,204,664 (60,828)
 · · · · · · · · · · · · · · · · · · ·			_				(60,824) 6,402	(4)	6,402
6,402	1,631,013		_				1,631,013	7,505	1,638,518
_	1,031,013	681,002	_				681,002	7,303	681,002
_		001,002	(60,430)				(60,430)	_	(60,430)
 11,184,470	1,631,013	681,002	(60,430)				13,436,055	11,402	13,447,457
11,104,470	1,031,013	001,002	(60,430)				13,430,033	11,402	15,447,457
							340,763		340,763
 (5,547,136)							(4,017,211)	(2,616)	(4,019,827)
(849,148)							(849,148)	_	(849,148)
(1,699,917)							(1,699,917)	_	(1,699,917)
(1,699,917)							(169,992)	(1,308)	(171,300)
(1,298,154)							(1,298,154)	(1,308)	(1,299,462)
(31,099)		31,099							
(5,547,455)	_			388,446	4,600,000			_	
				(5,227,139)	5,493,659				
(11,125,690)		31,099		(4,838,693)	10,093,659		(3,676,448)	(2,616)	(3,679,064)
4,418,412	6,246,960	2,735,569	(454,188)		32,474,478		71,205,835	47,564	71,253,399
(2,608,469)	_						(2,608,469)	(1,503)	(2,609,972)
1,809,943	6,246,960	2,735,569	(454,188)		32,474,478		68,597,366	46,061	68,643,427
11,855,172	_	_	_	_	_	_	11,855,172	4,088	11,859,260
(71,330)	_	(6,690,945)	886,677	_		_	(5,875,598)	369	(5,875,229)
(62,641)	_	_	_	_			(62,641)	369	(62,272)
(8,689)	_	_	_				(8,689)	_	(8,689)
_	_	(6,690,945)	_	_			(6,690,945)	_	(6,690,945)
_	_	_	886,677	_			886,677	_	886,677
11,783,842	_	(6,690,945)	886,677	_	_	_	5,979,574	4,457	5,984,031
_	_	_	_	_	_	_	237,304	_	237,304
(5,647,414)							(4,087,614)		(4,090,884)
(865,943)							(865,943)	(3,270)	(865,943)
(1,733,110)							(1,733,110)	(1,962)	(1,735,072)
 (1,733,110)							(173,310)	(1,308)	(173,310)
(1,010,201)						223,330	223,330		
	13,710							 585	223,330 14,295
 2,344	13,710						<u>13,710</u> 2,344		2,344
	(1,731)								
(C11)		_	_	_	_	_	(2,375)	2,375	_
(644)					2 885 000				
(3,480,264)	_				2,885,000	223 330	(3.613.301)	(310)	(3.613.611)
·			432,489		2,885,000 2,885,000 35,359,478	223,330 223,330	(3,613,301) 70,963,639	(310) 50,208	(3,613,611) 71,013,847

### Statement of Changes in Equity – Bank

			Statutory Reserves		
	Stated Capital	Statutory Reserve	Primary Dealer Special Risk		
		Fund	Reserve		
	Rs. '000	Rs. '000	Rs. '000		
Balance as at January 01, 2014	19,586,813	3,768,094	266,520		
Total comprehensive income for the year 2014					
Profit for the year					
Other comprehensive income, net of tax					
Net actuarial gains/(losses) on defined benefit plans	_	_	_		
Net change in revaluation surplus					
Net fair value gains/(losses) on re-measuring financial investments – available-for-sale					
Net gains/(losses) arising from translating the financial statements of the foreign operation	_	_	_		
Total comprehensive income for the year 2014					
Transactions with owners, recognised directly in equity, contributions and distributions to owners					
Issue of ordinary shares under Employee Share Option Plan [Refer Note 51]	340,763	_	_		
Dividends to equity holders	1,529,925				
Second interim dividend for 2013 [Refer Note 23]	_	_			
Final cash dividend for 2013	_	_	_		
Final dividend for 2013 satisfied in the form of issue and allotment of new shares [Refer Note 51]	1,529,925	_	_		
First interim dividend for 2014 [Refer Note 23]	_				
Transfers during the year [Refer Notes 53 and 55]	_	559,009			
Transfers to general reserve [Refer Note 53 and 55]			(266,520)		
Total transactions with equity holders	1,870,688	559,009	(266,520)		
Balance as at January 01, 2015	21,457,501	4,327,103			
Super Gain Tax for the year of assessment 2013/14 [ Refer Note 54]					
Balance as at January 01, 2015 – Adjusted	21,457,501	4,327,103			
Total comprehensive income for the year 2015					
Profit for the year	_	_	_		
Other comprehensive income, net of tax					
Net actuarial gains/(losses) on defined benefit plans					
Net fair value gains/(losses) on re-measuring financial investments – available-for-sale					
Net gains/(losses) arising from translating the financial statements of the foreign operation					
Total comprehensive income for the year 2015					
Transactions with owners, recognised directly in equity, contributions and distributions to owners					
Issue of ordinary shares under Employee Share Option Plan [Refer Note 51]	237,304	_	_		
Dividends to equity holders	1,559,800				
Second interim dividend for 2014 [Refer Note 23]	-				
Final cash dividend for 2014	_				
Final dividend for 2014 satisfied in the form of issue and allotment of new shares [Refer Note 51]	1,559,800				
First interim dividend for 2015 [Refer Note 23]	-				
Share-based payment transactions [Refer Note 55.6]	_				
Transfers during the year [Refer Notes 53 and 55]		595,161			
	1,797,104	595,161			
Total transactions with equity holders	1,737.104				

			Other Reserves						
Retained Earnings	Revaluation Reserve	Available- for-Sale	Foreign Currency Translation	Investment Fund	General Reserve	Employee Share Option	Shareholders' Funds	Non- Controlling	Total Equity
Rs. '000	Rs. '000	Reserve Rs. '000	Reserve Rs. '000	Account Rs. '000	Rs. '000	Reserve Rs. '000	Rs. '000	Interest Rs. '000	Rs. '000
4,233,364	4,222,054	2,054,567	(406,925)	4,838,693	22,380,819		60,943,999	_	60,943,999
11,180,181							11,180,181	_	11,180,181
(60,667)	1,500,805	681,011	(57,151)				2,063,998		2,063,998
(60,667)	-	_					(60,667)	_	(60,667
	1,500,805	_					1,500,805		1,500,805
	-	681,011					681,011	_	681,011
	-	_	(57,151)				(57,151)	_	(57,151
11,119,514	1,500,805	681,011	(57,151)				13,244,179		13,244,179
	-						340,763	_	340,763
(5,547,136)	_						(4,017,211)	_	(4,017,211
(849,148)	-	_		-	_	_	(849,148)	-	(849,148
(1,699,917)	_	-	_	_	_	_	(1,699,917)	-	(1,699,91
(1,699,917)	_	_	_	_	_	_	(169,992)	_	(169,99
(1,298,154)	_	_	_	_	_	_	(1,298,154)	-	(1,298,15
(5,547,455)	_			388,446	4,600,000	_	_	_	_
	_	_	_	(5,227,139)	5,493,659	_	_	_	_
(11,094,591)	_	_		(4,838,693)	10,093,659		(3,676,448)	-	(3,676,44
4,258,287	5,722,859	2,735,578	(464,076)	_	32,474,478	_	70,511,730	-	70,511,73
(2,576,355)							(2,576,355)	_	(2,576,35
1,681,932	5,722,859	2,735,578	(464,076)	_	32,474,478	_	67,935,375	_	67,935,37
11,903,224	_	_	_	_	_	_	11,903,224	_	11,903,22
(68,714)	_	(6,690,945)	888,844	_		_	(5,870,815)	_	(5,870,81
(68,714)	_	_	_	_		_	(68,714)	_	(68,71
_	_	(6,690,945)	_	_			(6,690,945)	_	(6,690,94
_	_	_	888,844	_			888,844	_	888,84
11,834,510	_	(6,690,945)	888,844	_			6,032,409	_	6,032,40
				_			237,304	_	237,30
(5,647,414)							(4,087,614)	_	(4,087,61
(865,943)	_	_		_		_	(865,943)	_	(865,94
(1,733,110)	_	_		_		_	(1,733,110)	_	(1,733,11
(1,733,110)	_	_		_		_	(173,310)	_	(173,31
(1,315,251)	_	_		_	_	_	(1,315,251)	-	(1,315,25
	_	_	_	_		223,330	223,330	_	223,33
(3,480,161)	_	_	_	_	2,885,000	_	_	_	_
(9,127,575)	-	-		-	2,885,000	223,330	(3,626,980)	-	(3,626,98
4,388,867	5,722,859	(3,955,367)	424,768	_	35,359,478	223,330	70,340,804	_	70,340,80

### → Statement of Cash Flows

		GROUP		BANK	
For the year ended December 31,	Note	2015	2014	2015	2014
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash Flows from Operating Activities					
Profit before income tax		17,136,111	15,859,917	17,143,610	15,736,216
Adjustments for:					
Non-cash items included in profits before tax	63	5,876,455	3,570,044	5,649,818	3,521,810
Change in operating assets	64	(96,006,694)	(176,123,060)	(95,120,734)	(176,656,168)
Change in operating liabilities	65	85,616,406	177,867,627	84,528,958	178,481,088
Losses on sale of property, plant & equipment	16	1,334	2,144	6,505	4,916
Share of profits in associates, net of tax	36	(13,638)	(6,563)	_	_
Dividend income from subsidiaries and associates	16	6,733	851	(87,830)	(70,383)
Interest expense on subordinated liabilities	12.2	823,267	766,101	786,953	752,781
Net unrealised gains/(losses) arising from translating the Financial Statements of foreign operations		000 077	(60, 400)	000 044	(57.454)
<u> </u>	55.4	886,677	(60,430)	888,844	(57,151)
Profit due to change in ownership		(05.000)	(74.407)	(2,344)	(70.075)
Benefits paid on defined benefit plans		(95,682)	(74,497)	(92,505)	(73,675)
Income taxes paid Super gain tax paid	45	(3,376,261)	(3,036,746)	(3,271,753)	(2,988,916)
		(2,609,972)	- 40.705.000	(2,576,355)	- 10.050.510
Net cash from operating activities		8,244,736	18,765,388	7,853,167	18,650,518
Cash Flows from Investing Activities					
Net purchase of property, plant & equipment		(1,086,405)	(1,072,322)	(986,735)	(989,864)
Proceeds from sale of property, plant & equipment		20,377	33,391	9,206	13,649
Purchase of financial investments		(4,148,255)	(6,868,493)	(4,148,255)	(6,868,493)
Proceeds from sale and maturity of financial investments		1,523,244	964,499	1,523,244	964,499
Net purchase of intangible assets		(208,168)	(144,494)	(205,811)	(144,417)
Proceeds from the change in ownership		3,127	_	3,127	_
Net cash flow from investment in subsidiaries and associates		_	_	(63,152)	(34,795)
Acquisition of a subsidiary, net of cash acquired	35.2.4	_	(891,470)	-	(916,046)
Dividends received from investments in subsidiaries and associates		_	_	87,830	70,383
Net cash used in investing activities		(3,896,080)	(7,978,889)	(3,780,546)	(7,905,084)
Cash Flows from Financing Activities					
Net proceeds from issue of ordinary voting shares	51	237,304	340,763	237,304	340,763
Repayment of subordinated liabilities	50	(200,000)	_	_	_
Interest paid on subordinated liabilities		(809,778)	(749,190)	(770,666)	(738,668)
Dividend paid to non-controlling interest	56	(3,270)	(2,616)	_	_
Dividend paid to shareholders of the Bank		(4,087,614)	(4,017,211)	(4,087,614)	(4,017,211)
Net cash used in financing activities		(4,863,358)	(4,428,254)	(4,620,976)	(4,415,116)
Net increase/(decrease) in cash and cash equivalents		(514,702)	6,358,245	(548,355)	6,330,318
Cash and cash equivalents as at January 01,		20,621,778	14,263,533	20,591,867	14,261,549
Cash and cash equivalents as at December 31,	26	20,107,076	20,621,778	20,043,512	20,591,867

### 1. Reporting Entity

### 1.1 Corporate Information

Commercial Bank of Ceylon PLC (the 'Bank') is a public limited liability company listed on the Colombo Stock Exchange, incorporated on June 25, 1969 under the Companies Ordinance No. 51 of 1938, and domiciled in Sri Lanka. It is a licensed commercial bank regulated under the Banking Act No. 30 of 1988 and amendments thereto. The Bank was re-registered under the Companies Act No. 07 of 2007 on January 23, 2008,

under the Company Registration No. PQ 116. The registered office of the Bank is situated at 'Commercial House', No. 21, Sir Razik Fareed Mawatha, Colombo 01, Sri Lanka. The ordinary shares of the Bank have a primary listing on the Colombo Stock Exchange.

The staff strength of the Bank as at December 31, 2015 was 4,951 (4,852 as at December 31, 2014).

Corporate information is given in the inner back cover of this Annual Report.

### 1.2 Consolidated Financial Statements

The Consolidated Financial Statements as at and for the year ended December 31, 2015, comprise the Bank (Parent Company) and its Subsidiaries (together referred to as the 'Group' and individually as 'Group entities') and the Group's interest in its Associates.

The Bank does not have an identifiable parent of its own. The Bank is the ultimate parent of the Group.

### 1.3 Principal Business Activities, Nature of Operations and Ownership by the Bank in its Subsidiaries and Associates

Entity	Principal Business Activities	Ownership as at December 31, 2015	Ownership as at December 31, 2014	
Bank	Providing a comprehensive range of financial services encompassing accepting deposits, personal banking, trade financing, offshore banking, resident and non-resident foreign currency operations, travel related services, corporate and retail credit, syndicated financing, project financing, development banking, lease financing, hire purchase financing, rural credit, issuing of local and international debit and credit cards, tele-banking, internet banking, mobile banking, money remittance facilities, dealing in Government Securities and treasury-related products, salary remittance package, bullion trading, export and domestic factoring, pawning, margin trading, e-Banking services, bancassurance and Islamic banking products and services, etc.	N/A	N/A	
Subsidiaries				
Commercial Development Company PLC	Property development and related ancillary services and outsourcing of staff for non-critical functions of the Bank.	94.28% (*)	94.55%	
ONEzero Company Ltd.	Providing IT-related services.	100.00%	100.00%	
Commex Sri Lanka S.R.L.	Acting as an agent to the Bank for opening of accounts, providing money transfer services, issuance and encashment of foreign currencies and travellers cheques, collecting applications for credit facilities and handling of ATM cards, etc. The commercial operations of this company are yet to be commenced.	100.00%	100.00%	
Serendib Finance Ltd. (formerly known as Indra Finance Ltd.)	Providing financial services including leasing, hire purchase, loans, etc.	100.00%	100.00% (**)	
Associates				
Equity Investments Lanka Ltd.	Fund management	22.92%	22.92%	
Commercial Insurance Brokers (Pvt) Ltd.	Insurance brokering	18.86% (***	18.91% (***)	

<sup>(\*)</sup> The Board of Directors of the Bank resolved to reduce the shareholding of Commercial Development Company PLC, (in which the Bank had a stake of 94.55%) to comply with the requirements of the Listing Rule No. 7.13 of the Colombo Stock Exchange on Minimum Public Holding. Accordingly, the Bank disposed a part of shares through the Colombo Stock Exchange and reduced the shareholding in the above company to 94.28% by December 31, 2015 and is in the process of taking steps to dispose the required number of shares to adhere to the requirements of the Listing Rules.

<sup>(\*\*)</sup> As per the Financial Sector Consolidation Road Map of the Central Bank of Sri Lanka, the Bank acquired 100% stake in Serendib Finance Ltd. on September 01, 2014.

<sup>(\*\*\*) 20%</sup> stake of Commercial Insurance Brokers (Pvt) Ltd. is held by Commercial Development Company PLC, a 94.28% owned Subsidiary of the Bank, which is listed on the Colombo Stock Exchange. The Bank has a significant influence over financial and operating activities of Commercial Insurance Brokers (Pvt) Ltd. though it effectively holds only 18.86%.

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

### 2. Basis of Accounting

### 2.1 Statement of Compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank, have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRSs and LKASs), laid down by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange. These Financial Statements, except for information on cash flows have been prepared following the accrual basis of accounting.

These SLFRSs and LKASs are available at www.casrilanka.com.

The Group did not adopt any inappropriate accounting treatments, which are not in compliance with the requirements of the SLFRSs and LKASs regulations governing the preparation and presentation of the Financial Statements.

Details of the Group's Significant Accounting Policies followed during the year are given in Notes 5 to 9 on pages 257 to 268.

The formats used in the preparation of the Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the Central Bank of Sri Lanka for the preparation, presentation and publication of Annual Audited Financial Statements of Licensed Commercial Banks.

# 2.2 Responsibility for Financial Statements

The Board of Directors of the Bank is responsible for the preparation and presentation of the Financial Statements of the Group and the Bank as per the provisions of the Companies Act No. 07 of 2007 and SLFRSs and LKASs.

The Board of Directors acknowledges their responsibility for Financial Statements as set out in the 'Annual Report of the Board of Directors', 'Statement of Directors' Responsibility' and the certification on the Statement of Financial Position on pages 76, 86 and 243, respectively.

These Financial Statements include the following components:

 an Income Statement and a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Group and the Bank for the year under review. Refer pages 241 and 242;

- a Statement of Financial Position providing the information on the financial position of the Group and the Bank as at the year-end. Refer page 243;
- a Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Group and the Bank. Refer pages 244 to 247:
- a Statement of Cash Flows providing the information to the users, on the ability of the Group and the Bank to generate cash and cash equivalents and utilisation of those cash flows.
   Refer page 248.
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information. Refer pages 249 to 404.

# 2.3 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Group and the Bank for the year ended December 31, 2015 (including comparatives for 2014), were approved and authorised for issue by the Board of Directors in accordance with Resolution of the Directors on February 24, 2016.

### 2.4 Basis of Measurement

The Financial Statements of the Group have been prepared on the historical cost basis except for the following material items stated in the Statement of Financial Position.

Items	Basis of Measurement	Note No./s	Page/s
Held-for-trading financial instruments including financial derivatives	Fair Value	29 & 30	296-299
Financial investments – Available-for-sale	Fair Value	33	307-312
Land and buildings	Measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation	37	320-332
Defined benefit obligation	Liability for defined benefit obligations is recognised as the present value of the defined benefit obligation, less net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses	48	342-348

# 2.5 Going Concern Basis of Accounting

The Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the 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 of the Group continue to be prepared on a going concern basis.

# 2.6 Functional and Presentation Currency

Items included in the Financial Statements of the Group are measured using the currency of the primary economic environment in which the Bank operates (the Functional Currency).

Each entity in the Group determines its own functional currency and items included in the Financial Statements of these entities are measured using that Functional Currency. There was no change in the Group's Presentation and Functional Currency during the year under review.

These Financial Statements are presented in Sri Lankan Rupees, the Group's Functional and Presentation Currency.

The information presented in US Dollars in the Section on 'Supplementary Information' on pages 408 and 409 does not form part of the Financial Statements and is made available solely for the information of stakeholders.

# 2.7 Presentation of Financial Statements

The assets and liabilities of the Group presented in the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern.

No adjustments have been made for inflationary factors affecting the Financial Statements.

An analysis on recovery or settlement within 12 months and after more than 12 months from the Reporting date is presented in Note 60 on pages 362 to 363.

#### 2.8 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Income Statement, unless required or permitted by an Accounting Standard or Interpretation (issued by the International Financial Reporting Interpretations Committee and Standard Interpretation Committee) and as specifically disclosed in the Accounting Policies of the Bank.

### 2.9 Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately, unless they are immaterial as permitted by the Sri Lanka Accounting Standard – LKAS 1 on 'Presentation of Financial Statements'.

# 2.10 Rounding

The amounts in the Financial Statements have been rounded-off to the nearest Rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard – LKAS 1 on 'Presentation of Financial Statements'.

# 2.11 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

# 2.12 Use of Judgements and Estimates

In preparing the Financial Statements of the Group in conformity with SLFRSs and LKASs, the Management has made judgements, estimates and assumptions which affect the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

The most significant areas of estimation uncertainty and critical judgements, in applying Accounting Policies that have most significant effect on the amounts recognised in the Financial Statements of the Group are as follows:

### A. Judgement

# 2.12.1 Determination of Control Over Investees

Management applies its judgement to determine whether the control indicators set out in Note 5.1.3 indicate that the Group controls the investees.

# B. Assumptions and Estimation uncertainties

# 2.12.2 Fair Value of Financial Instruments

The determination of fair values of financial assets and financial liabilities recorded on the Statement of Financial Position, for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The Group measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. Methodologies used for valuation of financial instruments and fair value hierarchy are stated in Note 25 on pages 289 to 293.

# 2.12.3 Financial Assets and Liabilities Classification

The Significant Accounting Policies of the Group provide scope for assets and liabilities to be classified at inception into different accounting categories under certain circumstances.

- In classifying financial assets or liabilities at 'Fair value through profit or loss', the Group has determined that it has met the criteria for this designation set out in Notes 6.1.3.1 and 6.1.4.1 on pages 259 and 260.
- In classifying financial assets as 'Held-to-maturity', the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by Note 6.1.3.5 on page 260.

# 2.12.4 Impairment Losses on Loans and Receivables

The Group reviews its individually significant loans and advances at each Reporting date to assess whether an impairment loss should be provided in the Income Statement. In particular, the Management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the provisions made.

The individual impairment provision applies to financial assets evaluated individually for impairment and is based on Management's best estimate of the present value of the future cash flows that are expected to be received. In estimating these cash flows, Management makes judgements about a borrower's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable.

A collective impairment provision is established for:

- groups of homogeneous loans and advances that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired

The collective provision for groups of homogeneous loans is established using statistical methods (such as, net flow rate methodology, risk migration analysis) 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 at the Reporting date. The loss rates are regularly reviewed against actual loss experience.

In assessing the need for collective impairment, Management considers factors such as credit quality (for example, loan to collateral ratio, level of restructured performing loans), portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions (including policy rates, inflation, growth in Gross Domestic Product, sovereign rating, etc).

The accuracy of the provision depends on the model assumptions and parameters used in determining the collective provision.

Refer Note 6.1.10.1 on page 262 for details.

# 2.12.5 Impairment of Financial Investments – Available-for-Sale

The Group reviews the debt securities classified as available-for-sale investments at each Reporting date to assess whether they are impaired. This requires similar judgements as applied on the individual assessment of loans and advances.

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost along with

the historical share price movements, duration and extent up to which the fair value of an investment is less than its cost.

Refer Note 6.1.10.2 on page 262 for details.

# 2.12.6 Impairment Losses on Non-Financial Assets

The Group assesses whether there are any indicators of impairment for an asset or a Cash-Generating Unit (CGU) at each Reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the 'Value in use' of such individual assets or the CGUs. Estimating 'Value in use' requires the Management to make an estimate of the expected future cash flows from the asset or the CGU and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Group to make estimates about expected future cash flows and discount rates and hence, they are subject to uncertainty.

Refer Note 6.6 on page 264 for details.

# 2.12.7 Revaluation of Property, Plant & Equipment

The Group measures land and buildings at revalued amounts with changes in fair value being recognised in Equity through Other Comprehensive Income (OCI). The Group engaged independent professional valuers to assess fair value of land and buildings as at December 31, 2014. The key assumptions used to determine the fair value of the land and building and sensitivity analyses are provided in Note 37.5 (b) on pages 326 to 330.

# 2.12.8 Useful Life-time of the Property, Plant & Equipment

The Group reviews the residual values, useful lives and methods of depreciation of Property, Plant & Equipment 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.

### 2.12.9 Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available and can be utilised against such tax losses. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future taxplanning strategies.

Refer Note 8.2 on page 268 for details.

### 2.12.10 Defined Benefit Obligation

The cost of the defined benefit plans is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases, etc. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

Refer Note 48 on pages 342 to 348 for the assumptions used.

### 2.12.11 Provisions for Liabilities, Commitments and Contingencies

The Group receives legal claims in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due processes in respective legal jurisdictions.

Information about significant areas of estimation uncertainty and critical judgements in applying Accounting Policies other than those stated above that have significant effects on the amounts recognised in the Consolidated Financial Statements are described in Notes 6.9 to 6.15 on page 267.

### 2.13 Events After the Reporting Date

Events after the Reporting date are those events, favourable and unfavourable, that occur between the Reporting date and the date when the Financial Statements are authorised for issue.

In this regard, all material and important events that occurred after the Reporting period have been considered and appropriate disclosures are made in Note 68 on page 404 where necessary.

## 3. Financial Risk Management

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to;

#### Credit Risk

The risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations and by monitoring exposures in relation to such limits.

### Market Risk

The risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios and manages each of those portfolios separately.

The market risk for the trading portfolio is monitored and managed closely.

### Liquidity Risk

The risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

To limit this risk, Management has arranged for diversified funding sources in addition to its core deposit base and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding, if required.

# **Operational Risk**

The risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks.

Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

### Bank's Risk Management Framework

The Board of Directors of the Bank has the overall responsibility for the establishment and oversight of the Bank's Risk Management Framework.

The Risk Management Policy of the Bank translates overall risk appetite on business activities in a holistic approach to provide the guidance required for convergence of strategic and risk perspectives of the Bank.

The Risk Management Policy Framework constitutes the Credit Policy, Lending Guidelines, ALM Policy including Liquidity Risk Policy, Foreign Exchange Policy, Operational Risk Policy, IT Risk Management Policy, Market Risk Management Policy, Stress Testing Policy, etc. which have been firmly established to provide control and guidance for decision-making throughout the Bank in an uniform manner.

The Committee structure embedded to the system acts as a fact finding and decision-making authority through meaningful discussions of multiple points of view. The Risk Management committees effectively deliberate on matters at hand to provide guidance to the business lines with a view to managing risk in accordance with the strategic goals and risk appetite of the Bank.

The Board of Directors of the Bank has formed a mandatory Sub-Committee namely, the Board Integrated Risk Management Committee (BIRMC) as per Banking Act Direction No. 11 of 2007 on Corporate Governance. The performance of the Committee and the duties and roles of members are reviewed by the Board annually.

The meetings of the Executive Integrated Risk Management Committee (EIRMC) are conducted on a monthly basis to discuss Credit and Operational risk matters of the Bank while priority is given for liquidity and market risks at the ALCO meetings that convene at least once a fortnight.

In addition, the Risk Management
Department carries out semi-annual
Bank-wide risk assessment function
focusing on adherence to laws,
regulations and regulatory guidelines
as well as internal controls and
approved policies. A dedicated
Compliance Department is entrusted
with the responsibility of monitoring these
requirements on an ongoing basis.

Further, the Management Audit function of the Bank independently monitors and evaluates the risk management function of the Bank and provides their views on adequacy of the Risk Management Framework to the Board Audit Committee.

# Bank's Financial Risk Management Framework



### Management of Credit Risk

Lending Guidelines of the Bank formulated in consultation with Lending Units provides expected granularity of credit assessment, risk grading, their acceptability of collateral, etc. as well as limits on exposures and concentration levels to various sectors, counter parties, geographies and segments.

A robust risk grading system incorporating Basel requirement of facility rating and counterparty ratings is adopted by the Bank for evaluation of credit proposals. This risk grading framework consists of 10 grades of varying degrees of risk as an indicator for the Lending Officers to evaluate and arrive at suitable risk-reward trade-offs in their propositions. These risk grades are reviewed by the Integrated Risk Management Department regularly.

Portfolio level credit risk analyses are taken up at monthly EIRMC as well as quarterly BIRMC meetings. Individual credit proposals evaluated by the Lending Officers are approved by the Authorising Officers within the hierarchy in Delegated Authority Levels whilst ensuring a minimum of four eyes principle when approving any lending proposals. Escalation of approving levels occurs based on exposure levels as well as final risk ratings of borrowers.

The Executive Credit Committee (ECC) and the Board Credit Committee (BCC) are entrusted with high value approval of facilities while the Board will be the ultimate authority for approving facilities beyond predetermined threshold levels.

Deliberations take place at BCC level on facilities taken up for approval within the specified threshold and recommendation for approval of the Board based on quantum of exposures proposed is exercised. The Risk Management Department provides risk approval for individual proposals above predetermined threshold levels, consequent to a rigorous independent risk evaluation guided by Credit Policy, Lending Guidelines and circular instructions within a limit framework stemming from risk appetite of the Bank.

### Management of Liquidity Risk

Market Risk Management Policy and the ALCO Policy of the Bank approved by the Board of Directors set the tone for managing liquidity risk of the Bank. Liquidity risk of the Bank is given utmost priority when managing a wide range of other risks due to the fact that it is considered as the most critical risk for any financial institution.

The Bank's Treasury Department is entrusted with managing liquidity of the Bank on real-time basis to ensure smooth functioning of business activities at all other business units of the Bank.

Having access to a substantial stable Current Account and Savings Account (CASA) base due to its wide branch network and the top of the mind perception created in the depositors in general, for stability provides immense strength to the Bank in managing liquidity.

Having high quality liquid assets at the disposal of the Bank is another plus factor for the Bank. The strength of such was amply reflected in the new Basel III parallel computation the Bank carries out for arriving at Liquidity Coverage Ratio as per the CBSL Guidelines that recorded very healthy results as compared to regulatory minimum threshold levels.

Contingency funding plans available, constant monitoring of salient liquidity ratios and scenario based stress testing being carried out regularly, provide the sense of Bank with required indicators enabling the Bank to take proactive measures that could provide time to overcome any adverse liquidity position on a future date.

# Management of Market Risk

Market Risk Policy, ALCO Policy and Foreign Exchange Risk Policy are the three main policies that constitute the framework governing the Market Risk Management function of the Bank.

Due to the business model adopted by the Bank exposure to equity and commodity risk was kept at bay throughout the year.

However, Interest Rate Risk arising from the Banking Book as well as Trading Book and Foreign Exchange Risk arising from dealing in currencies other than local currency, continued to expose the Bank to associated risk elements.

Low interest scenarios experienced by the country during the period, impacted the financial market in Sri Lanka mainly through shrinking Net Interest Margin. Interest Rates of the Banking Book was subjected to varying degrees of rate shocks to identify impact on earnings perspective in such rate scenarios. The results reflected predictions which assisted the Bank in formulating strategies to manage the financial position in an effective manner with the limited choices available.

Trading Book too was subjected to Value at Risk (VaR) framework as described in the section on 'Managing Risk at Commercial Bank' on pages 112 to 144. The Bank also carried out sensitivity analysis on a regular basis to ascertain the impact on portfolios maintained, mainly in Government Securities and marking-to-market such portfolios to reflect fair value for decision-making process.

Foreign exchange positions were maintained within the regulatory framework in a market where much stability was observed in the major currency that the Bank deals in, i.e. US Dollars. The positions were subjected to sensitivity analysis to provide insight to possible losses/gains arising from currency appreciation/depreciation, respectively as the reporting currency of the Bank being Sri Lankan Rupees.

### **Operational Risk Management**

Sound Operational Risk Management practices are embedded into the work process through Bank's culture, internal policy framework and as per regulatory requirements.

Circular instructions and Operational Risk Management Policy play a major part in bringing together business practices with accepted benchmarks to ensure minimum disruption to processes, personnel, technology and infrastructure.

Internal control framework and Audit function with firmly established 'three lines of defences' serve the Bank to manage Operational Risk at current acceptable levels.

Risk and Control Self-Assessment (RCSA) framework is adopted to identify risks involved in business activities of the Bank and to implement appropriate mitigatory measures after assessing criticality of such risks.

IT Risk of the Bank is managed through strict monitoring of Key IT Risk Indicators while Vulnerability Assessment and Penetration Tests are being carried out by both internal and external parties at regular intervals to identify the relevant risks.

Refer Note 67 on pages 374 to 404 for 'Financial risk review'.

A detailed write up on how the risk management is carried out within the Bank's Risk Management Framework with due consideration given to factors such as governance, identification, assessment, monitoring, reporting and mitigation are discussed in detail in the section on 'Managing Risk at Commercial Bank' on pages 112 to 144. The said write-up on 'Managing Risk at Commercial Bank' does not form part of the Financial Statement.

### 4. Fair Value Measurement

'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. 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.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a 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. External professional valuers are involved for valuation of significant assets such as land and building.

An analysis of fair value measurement of financial and non-financial assets and liabilities is provided in Note 25 on pages 289 to 293.

### Significant Accounting Policies

The Accounting Policies set out below have been applied consistently to all periods presented in the Financial Statements of the Group, unless otherwise indicated.

These Accounting Policies have been applied consistently by Group entities.

Set out below is an index of Significant Accounting Policies, the details of which are available on the pages that follow:

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# 5. Significant Accounting Policies – General

### 5.1 Basis of Consolidation

The Group's Financial Statements comprise consolidation of the Financial Statements of the Bank, its Subsidiaries in terms of the Sri Lanka Accounting Standard - SLFRS 10 on 'Consolidated 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 on 'Investments in Associates'. The Bank's Financial Statements comprise the amalgamation of the Financial Statements of the Domestic Banking Unit, the Off-Shore Banking Centre and the international operations of the Bank.

#### 5.1.1 Business Combinations

Business combinations are accounted for using the acquisition method when control is transferred to the Group (Refer Note 5.1.3 below). The consideration transferred in the acquisition and identifiable net assets acquired are measured at fair value. Any goodwill that arises is tested annually for impairment (Refer Note 6.6 on page 264). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

### 5.1.2 Non-Controlling Interests (NCI)

Details of NCI are given in Note 56 on page 358.

#### 5.1.3 Subsidiaries

Details of the Bank's Subsidiaries and their contingencies are set out in Notes 35 and 57.4 (a) on pages 314 to 317 and 360.

The summarised financial information of all its Subsidiaries including total assets, total liabilities, revenue, profit or loss and the dividend paid, business address, etc. are given in the Section on 'Group Structure' on page 406.

# 5.1.4 Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### 5.1.5 Loss of Control

When the Group loses control over a Subsidiary, it derecognises the assets and liabilities of the Subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in the Income Statement. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Subsequently, it is accounted for as an Associate or in accordance with the Group's Accounting Policy for financial instruments depending on the level of influence retained.

### 5.1.6 Associates

Details of Associates together with their fair values and the Group's share of contingent liabilities of such Associates are set out in Notes 36 and 57.4 (b) on pages 317 and 360.

The Financial Statements of all Associates in the Group have a common financial year which ends on December 31.

There are no significant restrictions on the ability of the Associates to transfer funds to the Parent (the Bank) in the form of cash dividend or repayment of loans and advances.

Summarised financial information of all Associates of the Bank together with the Bank's interests are given in the section on 'Group Structure' on page 406.

### 5.1.7 Material Gains or Losses, Provisional Values or Error Corrections

There were no material gains or losses, provisional values or error corrections recognised during the year in respect of business combinations that took place in previous periods.

### 5.2 Foreign Currency

### 5.2.1 Foreign Currency Translations

The Group's Consolidated Financial Statements are presented in Sri Lankan Rupees, which is also the Bank's Functional Currency. The Financial Statements of the Off-Shore Banking Centre of the Bank and the Financial Statements of the Foreign Operations of the Bank have been translated into the Group's Presentation Currency as explained under Notes 5.2.3 and 5.2.4 below:

# 5.2.2 Foreign Currency Transactions and Balances

Foreign currency transactions are translated into the Functional Currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates of the transactions. In this regard, the Bank's practice is to use the middle rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the Reporting date are retranslated to the Functional Currency at the middle exchange rate of the Functional Currency ruling at the Reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the Functional Currency at the beginning of the year adjusted for effective interest and payments during the year and the amortised cost in foreign currency translated at the exchange rate at the Reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the Functional Currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in OCI. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

# 5.2.3 Transactions of the Off-Shore Banking Centre

These are recorded in accordance with Note 5.2.2 above, except the application of the annual weighted average exchange rate for translation of the Income Statement and the Statement of Profit or Loss and Other Comprehensive Income. Net gains and losses are dealt through the Profit or Loss.

### 5.2.4 Foreign Operations

The results and financial position of overseas operations that have a Functional Currency different from the Bank's Presentation Currency are translated into the Bank's Presentation Currency as follows:

- Assets and liabilities are translated at the rates of exchange ruling at the Reporting date.
- Income and expenses are translated at the average exchange rate for the period, unless this average rate is not a reasonable approximation of the rate prevailing at the transaction date, in which case income and expenses are translated at the exchange rates ruling at the transaction date.
- All resulting exchange differences are recognised in the OCI and accumulated in the Foreign Currency Translation Reserve (Translation Reserve), which is a separate component of Equity, except to the extent that the translation difference is allocated to the NCI.

When a Foreign Operation is disposed or the control is lost, the cumulative amount in the Translation Reserve related to that foreign operation is reclassified to profit or loss. If the Group disposes of only part of its interest in a subsidiary that includes a Foreign Operation while retaining control, then the relevant proportion of the cumulative amount of the Translation Reserve is reattributed to NCI.

Goodwill arising on the acquisition of a Foreign Operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the Foreign Operation and are translated at the exchange rates ruling at the Reporting date.

# 6. Significant Accounting Policies - Recognition of Assets and Liabilities

# 6.1 Financial Instruments – Initial Recognition, Classification and Subsequent Measurement

### 6.1.1 Date of Recognition

The Group initially recognises loans and advances, deposits and subordinated liabilities, etc. on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

# 6.1.2 Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the Management's intention in acquiring them. (Please refer Notes 6.1.3 and 6.1.4 for further details on classification of financial instruments).

All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial assets and financial liabilities at fair value through profit or loss as per the Sri Lanka

Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through the Income Statement.

### 6.1.2.1 'Day 1' Profit or Loss on Employee Below Market Loans

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 recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Interest Income and Personnel Expenses'. 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 profit or loss when the inputs become observable, or when the instrument is derecognised. The 'Day 1 loss' arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter.

Refer Note 7.1 on page 267.

# 6.1.3 Classification and Subsequent Measurement of Financial Assets

Group classifies financial assets into one of the following categories:

- Financial assets at fair value through profit or loss, and within this category as –
  - · held for trading; or
  - designated at fair value through profit or loss.
- Loans and receivables;
- Held-to-maturity;
- Available-for-sale

The subsequent measurement of financial assets depends on their classification.

Please refer Note 24 on pages 285 to 288 for details on different types of financial assets recognised on the Statement of Financial Position.

# 6.1.3.1 Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss which are discussed in Notes 6.1.3.1.1 and 6.1.3.1.2 below:

6.1.3.1.1 Financial Assets – Held-for-Trading Details of 'Financial assets - Held-for-trading' are given in Note 30 on pages 296 to 299.

Derivatives Recorded at Fair Value through Profit or Loss

Details of 'Derivative financial assets' recorded at fair value through profit or loss are given in Note 29 on page 296.

# 6.1.3.1.2 Financial Assets Designated at Fair Value through Profit or Loss

The Group designates financial assets at fair value through profit or loss in the following circumstances:

- the assets are managed, evaluated and reported internally at fair value; or
- the designation eliminates or significantly reduces an accounting mismatch, which would otherwise have arisen; or
- the asset contains an embedded derivative that significantly modifies the cash flows which would otherwise have been required under the contract.

Financial assets designated at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit or loss'. Interest earned is accrued in 'Interest Income', using the EIR, while dividend income is recorded in 'other operating income' when the right to receive the payment has been established.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

6.1.3.2 Loans and Receivables to Banks and Other Customers

Loans and receivable to banks and other customers include amounts due from banks, loans & advances and lease receivable of the Group.

Details of 'Loans and receivables to banks and other customers' are given in Notes 31 and 32 on pages 299 to 307.

6.1.3.2.1 Securities Purchased Under Resale Agreements (Reverse Repos)

Details of 'Securities purchased under resale agreements' are given in the Statement of Financial Position on page 243.

6.1.3.3 Other Financial Investments Classified as Loans and Receivables Details of 'Financial investments - Loans and receivables' are given in Note 34 on pages 312 to 314.

6.1.3.4 Financial Investments – Available-for-Sale

Details of 'Financial investments – Available-for-sale' are given in Note 33 on pages 307 to 312.

6.1.3.5 Financial Investments – Held-to-Maturity

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the 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' while the losses arising from impairment of such investments are recognised in 'Impairment charges for loans and other losses' in the Income Statement.

If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances permitted in the Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

The Group has not designated any financial instrument as held-to-maturity financial investment as at the Reporting date.

6.1.3.6 Cash and Cash Equivalents

Details of 'Cash and cash equivalents' are given in Note 26 to the Financial Statements on page 294.

6.1.3.7 Balances with Central Banks Details of 'Balances with Central Banks' are given in Note 27 to the Financial Statements on pages 294 and 295.

# 6.1.4 Classification and Subsequent Measurement of Financial Liabilities

Group classifies financial liabilities into one of the following categories:

- Financial liabilities at fair value through profit or loss, and within this category as –
  - Held-for-trading, or
  - Designated at fair value through profit or loss.
- Financial liabilities at amortised cost.

The subsequent measurement of financial liabilities depends on their classification.

Please refer Notes 6.1.4.1 and 6.1.4.2 as detailed below:

6.1.4.1 Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Refer Notes 6.1.4.1.1 and 6.1.4.1.2 below:

6.1.4.1.1 Financial Liabilities Held-for-Trading Details of 'Derivative financial liabilities' are given in Note 42 on page 336.

6.1.4.1.2 Financial Liabilities Designated at Fair Value through Profit or Loss

Financial liabilities designated at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit or loss'. Interest paid/payable is accrued in 'Interest expense', using the EIR.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

# 6.1.4.2 Financial Liabilities at Amortised Cost

Financial instruments issued by the Group that are not designated at fair value through profit or loss are classified as liabilities under 'Due to banks', 'Securities sold under repurchase agreements', or 'Subordinated liabilities' as appropriate, 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.

After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The EIR amortisation is included in 'Interest expenses' in the Income Statement. Gains and losses too are recognised in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

6.1.4.2.1 Due to Banks

Details of the 'Due to banks' are given in Note 41 on page 335.

6.1.4.2.2 Due to Other Customers/Deposits from Customers

Details of 'Due to other customers/ deposits from customers' are given in Note 43 on pages 336 and 337.

6.1.4.2.3 Subordinated Liabilities' are

Details of 'Subordinated liabilities' are given in Note 50 on pages 349 and 350.

6.1.4.2.4 Securities Sold Under Repurchase Agreements (Repos)

Details of 'Securities sold under repurchase agreements (Repos)' are given in the Statements of the Financial Position on page 243.

# 6.1.5 Reclassification of Financial Assets and Liabilities

The Group reclassifies nonderivative financial assets out of the 'held-for-trading' category and into the 'available-for-sale', 'loans and receivables', or 'held-to-maturity' categories as permitted by the Sri Lanka Accounting Standard - LKAS 39 on 'Financial Instruments: Recognition and Measurement'. Further, in certain circumstances, the Group is permitted to reclassify financial instruments out of the 'available-for-sale' category and into the 'loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification. which becomes the new amortised cost.

For a financial asset with a fixed maturity reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the asset using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. In the case of a financial asset that does

not have a fixed maturity, the gain or loss is recognised in the profit or loss when such financial asset is sold or disposed off. If the financial asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to profit or loss.

The Group may reclassify a non-derivative trading asset out of the 'held-for-trading' category and into the 'loans and receivables' category, if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of the Management and is determined on an instrument-by-instrument basis.

The Group does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. Further, the Group does not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated as at fair value through profit or loss.

# 6.1.6 Derecognition of Financial Assets and Financial Liabilities

### 6.1.6.1 Financial Assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its Statement of Financial Position, but retains either all or substantially all risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions because the Group retains all or substantially all risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised, if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

### 6.1.6.2 Financial Liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

### 6.1.7 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

#### 6.1.8 Amortised Cost Measurement

An 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

# 6.1.9 Fair Value of Financial Instruments

Fair value measurement of financial instruments including the fair value hierarchy is explained in the Note 25 on pages 289 to 293.

# 6.1.10 Identification and Measurement of Impairment of Financial Assets

At each Reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include –

- significant financial difficulty of the borrower or issuer,
- reschedulement of credit facilities,
- default or delinquency by a borrower,
- restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider,
- indications that a borrower or issuer will enter bankruptcy,
- the disappearance of an active market for a security, or
- other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group or economic conditions that correlate with defaults in the Group.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is considered as an objective evidence of impairment.

6.1.10.1 Impairment of Financial Assets Carried at Amortised Cost
Details of the individual and collective assessment of impairments are given in Note 17 on pages 276 and 277.

6.1.10.2 Impairment of Financial Investments – Available-for-Sale For available-for-sale financial investments, the Group assesses at each Reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income is based

on the reduced carrying amount/impaired balance and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income on such assets too is recorded within 'Interest income'.

In the case of equity investments classified as available-for-sale. objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. In general, the Group considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may be appropriate. Where there is evidence of impairment, the cumulative impairment loss on that investment previously recognised in Equity through the OCI is removed from Equity and charged to profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, then such impairment loss is reversed through profit or loss; otherwise, any increase in fair value is recognised through OCI. Any subsequent recovery in the fair value of an available-for-sale equity instrument is always recognised in OCI.

The Group writes-off certain financial investments – available-for-sale, either partially or in full and any related provision for impairment losses, when the Group determines that there is no realistic prospect of recovery.

# 6.2 Non-Current Assets Held for Sale and Disposal Groups

The Group intends to recover the value of Non-current Assets and disposal groups classified as held for sale as at the Reporting date principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is

highly probable and the asset or disposal group is available for immediate sale in its present condition, Management has committed to the sale and the sale is expected to have been completed within one year from the date of classification.

As per the Sri Lanka Accounting Standard - SLFRS 5 on 'Non-current Assets Held for Sale and Discontinued Operations', these assets are measured at the lower of the carrying amount and fair value, less costs to sell. Thereafter, the Group assesses at each Reporting date or more frequently if events or changes in circumstances indicate that the investment or a group of investment is impaired. The Group recognises an impairment loss for any initial or subsequent write down of the assets to fair value less costs to sell and also recognises a gain for any subsequent increase in fair value less costs to sell of an asset, only to the extent of the cumulative impairment losses that have been recognised previously. As a result, once classified, the Group neither amortises nor depreciates the assets classified as held for sale.

In the Income Statement of the Reporting period and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a NCI in a subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the Income Statement.

#### 6.3 Leases

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

### 6.3.1 Operating Leases

6.3.1.1 Operating Leases – Group as a Lessee

Leases that do not transfer to the Group substantially all risks and benefits incidental to ownership of the leased assets are operating leases. Operating lease payments are recognised as an expense in the Income Statement on a straight line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they are incurred.

# 6.3.1.2 Operating Leases – Group as a Lessor

Leases where the Group does not transfer substantially all risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Contingent rents are recognised as revenue in the period in which they are earned.

Details of 'Operating leases' are given in Note 66 on page 373.

### 6.3.2 Finance Leases

6.3.2.1 Finance Leases – Group as a Lessee

Finance leases that transfer substantially all risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the

lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

6.3.2.2 Finance Leases – Group as a Lessor

When the Group is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in 'loans and advances to banks' or 'loans and advances to other customers', as appropriate. The finance income receivable is recognised in 'interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

# 6.4 Property, Plant & Equipment

Details of 'Property, plant & equipment' are given in Note 37 on pages 320 to 332.

### 6.4.1 Depreciation

Details of 'Depreciation' are given in Note 19 on pages 278 and 279

### 6.4.2 Borrowing Costs

As per the Sri Lanka Accounting Standard – LKAS 23 on 'Borrowing Costs', the Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the profit or loss in the period in which they occur.

### 6.5 Intangible Assets

Details of 'Intangible assets' are given in Note 38 on pages 332 to 334.

Amortisation recognised during the year in respect of intangible assets is included under the item of 'Amortisation of intangible assets' under 'Depreciation and amortisation' in profit or loss.

Refer Note 19 on pages 278 and 279.

# Intangible Assets with Indefinite Useful Lives

Intangible assets with indefinite useful lives are not amortised but are tested for impairment annually either individually or at the CGU level as appropriate, when circumstances indicate that the carrying value is impaired. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The Group does not have intangible assets with indefinite useful lives.

### 6.5.1 Derecognition of Intangible Assets

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their use. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceed and the carrying amount of the asset and are recognised in profit or loss.

The Group has only acquired intangible assets, a list of which with the reconciliation of carrying amounts, accumulated amortisation at the beginning and at the end of the periods is given in Note 38 on pages 332 to 334.

A summary of Accounting Policies applied for the Group's Intangible Assets is as follows:

# 6.6 Impairment of Non-Financial Assets

At each Reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 6.7 Dividends Payable

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are recommended and declared by the Board of Directors and approved by the shareholders. Interim dividends are deducted from Equity when they are declared and no longer at the discretion of the Bank.

Intangible Assets	Useful Life	Amortisation Method Used	Internally Generated/Acquired	Impairment Testing
Computer Software	5 years	Amortised on a straight line basis over the useful life	Acquired	When indicators of impairment arise.  The amortisation method is reviewed at each Reporting date
Goodwill	N/A	N/A	Acquired in a Business Combination	Annually or more frequently if events or changes in circumstances indicate that the carrying value may have been impaired

Dividends for the year that are approved after the Reporting date are not provided for and are disclosed as an event after the Reporting period in accordance with the Sri Lanka Accounting Standard – LKAS 10 on 'Events after the Reporting Period' in Note 68.1 on page 404.

#### 6.8 Employee Benefits

#### 6.8.1 Defined Benefit Plans (DBPs)

A Defined Benefit Plan is a post-employment benefit plan other than a Defined Contribution Plan as defined in the Sri Lanka Accounting Standard – LKAS 19 on 'Employee Benefits'.

6.8.1.1 Defined Benefit Pension Plans 6.8.1.1.1 Description of the Plans and Employee Groups Covered

The Bank operates three types of Defined Benefit Pension Plans for its employees as described below:

(a) The Bank has an approved Pension Fund, which was established in 1992. As per the Deed of Trust, only those employees who were less than 45 years of age as at January 01, 1992 were covered by the Pension Fund in order to leave a minimum contribution for a period of 10 years before they are eligible to draw pension from the Pension Fund. Further, only the employees who joined the Bank on or before December 31, 2001, were in pensionable service of the Bank.

During 2006, the Bank offered a restructured pension scheme to convert the Defined Benefit Plan (DBP) to a Defined Contribution Plan (DCP) for the pensionable employees of the Bank and over 99% of them accepted it. As a result, the above Pension Fund now covers only those employees who did not opt for the restructured pension scheme and those employees who were covered by the Pension Fund previously but retired before the restructured pension scheme came into effect.

- (b) Provision for pensions has been made for those employees who retired on or before December 31, 2001, and on whose behalf the Bank could not make contributions to the Retirement Pension Fund for more than 10 years. This liability although not funded has been provided for in full in the Financial Statements.
- (c) Provision has been made in the Financial Statements for Retirement Gratuity from the first year of service for all employees who joined the Bank on or after January 01, 2002, as they are not in pensionable service of the Bank under either the DBP or DCP. However, if any of these employees resigns before retirement, the Bank is liable to pay gratuity to such employees. This liability although not funded has been provided for in full in the Financial Statements.

The Subsidiaries of the Bank do not operate Pension Funds.

The Bank's net obligation in respect of Defined Benefit Pension Plans is calculated separately for each plan by using the Projected Unit Credit Actuarial Valuation Method, as per the Sri Lanka Accounting Standard – LKAS 19 on 'Employee Benefits'. This method involves estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value as detailed in Note 48 on page 342 to 348.

The past service cost is recognised as an expense on a straight-line basis over the period until the benefits become vested. If the benefits are already vested following the introduction of, or changes to, a pension plan, past service cost is recognised immediately.

6.8.1.1.2 Recognition of Actuarial Gains or Losses

Actuarial gains or losses are recognised in the OCI in the period in which they arise.

6.8.1.1.3 Recognition of Retirement Benefit Obligation

The defined benefit asset or liability comprises the present value of the defined benefit obligation, less past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Amounts recognised in profit or loss as expenses on DBPs and provisions made on DBPs together with valuation methods are given in Notes 18 and 48 on pages 277 & 278 and 342 to 348 respectively.

### 6.8.2 Defined Contribution Plans (DCPs)

A Defined Contribution Plan is a post-employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay a further amount. Obligations to DCPs are recognised in the profit or loss as incurred. The Group has three such plans as explained in Notes 6.8.2.1, 6.8.2.2 and 6.8.2.3.

Amounts recognised in profit or loss as expenses on DCPs are given in Note 18 on pages 277 and 278.

# 6.8.2.1 Defined Contribution Pension Plan

As explained in Note 6.8.1.1.1(a), during 2006, the Bank restructured its pension scheme which was a DBP to a DCP. This restructured plan was offered on a voluntary basis to the eligible employees of the Bank. The scheme provides for lump sum payments instead of commuted/monthly pensions to the eligible employees at the point of their separation, in return for surrendering their pension rights. The lump sum offered consisted of a past service package and a future service package. The shortfall on account

of the past service package in excess of the funds available in the Pension Fund was borne by the Bank in 2006.

The future service package includes monthly contributions to be made by the Bank for the employees who accepted the offer, to be made during their remaining period of service, at predetermined contribution rates to be applied on their salaries, which are estimated to increase for this purpose at 10% p.a. based on the salary levels that prevailed as at the date of implementation of this scheme. In addition, interest to be earned on the assets of the DCP is also allocated to the employees who opted for the restructured scheme.

The assets of this Fund are held separately from those of the Bank and are independently administered by the Trustees as per the provisions of the Trust Deed.

6.8.2.2 Employees' Provident Fund
The Bank and employees contribute to
an approved Private Provident Fund at
12% and 8% respectively, on the salaries
of each employee. Other entities of the
Group and their employees contribute at
the same percentages as above to the
Employees' Provident Fund managed by
the Central Bank of Sri Lanka.

6.8.2.3 Employees' Trust Fund
The Bank and other entities of the Group
contribute at the rate of 3% of the salaries
of each employee to the Employees' Trust
Fund managed by the Central Bank of
Sri Lanka.

# 6.8.3 Other Long Term Employee Benefits

The Group's net obligation in respect of long term employee benefits other than pension plans is the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any related assets is

deducted. The discount rate used as the yield at the Reporting date is the current market rate that has been extrapolated to reflect long-term rate of discount based on market rates of interest on short term Corporate/Government Bonds and anticipated long term rate of inflation. The calculation is performed using the Projected Unit Credit Method. Any actuarial gains and losses are recognised in profit or loss in the period in which they arise.

The Group does not have any other long term employee benefit plans.

### 6.8.4 Terminal Benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the Reporting date, then they are discounted.

### 6.8.5 Short Term Employee Benefits

Short term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid 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.

#### 6.8.6 Equity Compensation Benefits

Share-based payment arrangements in which the Group receives services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group. Senior Executive Employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). The Group does not operate any cash-settled share-based payment transactions.

The Group applies the requirements of the Sri Lanka Accounting Standard - SLFRS 2 on 'Share-based Payment' in accounting for equity settled share-based payment transactions, if any, that were granted after January 01, 2012 and had not vested at the same date. As per the Sri Lanka Accounting Standard - SLFRS 2 on 'Share-based Payment', on the grant date fair value of equity-settled share-based payment awards (i.e., share options) granted to employees is recognised as personnel expense, with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met, so that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The Employee Share Option Plan – 2015, which was granted during the year is subjected to the above accounting treatment.

However, the Employee Share Option Plan – 2008 which was granted prior to January 1, 2012, the effective date of the SLFRS 2 was not subjected to the above accounting treatment and the proceeds received during the year by the Group in consideration for shares issued were accounted for as Stated Capital within equity.

The details of Employee Share Option Plans are given in Note 51.2 and 52 on pages 351 and 353.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted Earnings per Share as disclosed in Note 22.2 on page 283.

#### 6.9 Other Liabilities

Details of 'Other liabilities' are given in Note 48 on page 342.

#### 6.10 Provisions

Details of 'Other provisions' are given in Note 47 on page 341.

### 6.11 Restructuring

Provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses arising on such restructuring are not provided for.

The Group does not have any provision for restructuring as at the Reporting date.

### 6.12 Onerous Contracts

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 at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

The Group does not have any onerous contracts as at the Reporting date.

# 6.13 Financial Guarantees and Loan Commitments

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

#### 6.14 Commitments

All discernible risks are accounted for in determining the amount of known liabilities as explained in Note 6.9 above.

Details of the commitments are given in Notes 57.2 and 57.3 to the Financial Statements on pages 359 and 360.

# 6.15 Contingent Liabilities and Commitments

A detailed list of 'Contingent liabilities and commitments' and 'Litigation against the Bank and the Group' are given in Notes 57 and 59 on pages 358 to 361.

# 6.16 Stated Capital and Reserves

Details of the 'Stated capital and reserves' are given in Notes 51, 53, 54 and 55 to the Financial Statements on pages 350 to 357.

### 6.17 Earnings Per Share (EPS)

Details of 'Basic and Diluted EPS' are given in Note 22 on pages 282 and 283.

### 6.18 Operating Segments

Details of 'Operating segments' are given in Note 61 on pages 364 to 366.

## 6.19 Fiduciary Assets

The Bank provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in these Financial Statements as they do not belong to the Bank.

# 7. Significant Accounting Policies – Recognition of Income and Expenses

Details of 'income and expenses' are given in Notes 11 to 20 on pages 270 to 280.

### 7.1 Interest Income and Expense

Details of 'Interest income and expenses' are given in Note 12 on pages 270 to 272.

# 7.2 Fees and Commission Income and Expense

Details of 'Commission income and expenses' are given in Note 13 on pages 272 to 273.

### 7.3 Net Gains/(Losses) from Trading

Details of 'Net gains/(losses) from trading' are given in Note 14 on page 274.

#### 7.4 Dividend Income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Details of 'Dividend income' is given in Notes 14,15 and 16 on pages 274 and 275.

### 7.5 Lease Income

In terms of the provisions of the Sri Lanka Accounting Standard – LKAS 17 on 'Leases', the recognition of income on finance leases is accounted for based on a pattern reflecting a constant periodic rate of return on capital outstanding.

The excess of aggregate lease rentals receivable over the cost of the leased assets constitutes the total unearned lease income at the commencement of a lease. The unearned lease income included in the lease rentals receivable is recognised in profit or loss over the term of the lease commencing from the month in which the lease is executed using EIR.

### 7.6 Lease Payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest expense on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

### 7.7 Rental Income and Expenses

Rental income and expense are recognised in the profit or loss on an accrual basis.

# 8. Significant Accounting Policies – Income Tax Expense

#### 8.1 Current Taxation

Details of 'Income tax expense' are given in Note 21 on pages 280 to 282.

### 8.2 Deferred Taxation

Details of 'Deferred tax assets and liabilities' are given in Note 46 on pages 338 to 341.

# 8.3 Tax Exposures

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities. Such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

### 8.4 Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from April 01, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

# 8.5 Withholding Tax on Dividends Distributed by the Bank, Subsidiaries and Associates

# 8.5.1 Withholding Tax on Dividends Distributed by the Bank

Withholding tax that arises from the distribution of dividends by the Bank is recognised at the time the liability to pay the related dividend is recognised.

# 8.5.2 Withholding Tax on Dividends Distributed by the Subsidiaries and Associates

Dividends received by the Bank from its Subsidiaries and Associates, have attracted a 10% deduction at source.

### 8.6 Economic Service Charge (ESC)

As per the provisions of the Finance Act No. 11 of 2004, and amendments thereto, the ESC was introduced with effect from April 01, 2004. Currently, the ESC is payable at 0.25% on 'Exempt Turnover' and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the five subsequent years.

# 8.7 Value Added Tax on Financial Services

The value base for the computation of value added tax on financial services is calculated by adjusting the depreciation computed on rates prescribed by the Department of Inland Revenue to the accounting profit before Income Tax and emoluments payable. Emoluments payable include benefits in money and not in money including contribution or provision relating to terminal benefits.

# 8.8 Nation Building Tax on Financial Services (NBT)

With effect from January 01, 2014, NBT of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 09 of 2009. NBT is chargeable on the same base used for calculation of VAT on financial services as explained in Note 8.7 above.

The amount of Value Added Tax and NBT charged in determining the profit or loss for the period is given in the Income Statement on page 241.

# 9. Significant Accounting Policies – Statement of Cash Flows

#### 9.1 Statement of Cash Flows

The Statement of Cash Flows has been prepared by using the 'Indirect Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard – LKAS 7 on 'Statement of Cash Flows'. Cash and cash equivalents comprise of short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents as referred to in the Statement of Cash Flows are comprised of those items as explained in Note 26 on page 294.

The Statement of Cash Flows is given on pages 248.

# 10. New Accounting Standards Issued But Not Yet Effective

A number of new standards and amendments to standards, which have been issued but not yet effective as at the Reporting date, have not been applied in preparing these Consolidated Financial Statements. Accordingly, the following Accounting Standards have not been applied in preparing these Financial Statements and the Group plans to apply these standards on the respective effective dates.

Accounting Standard	Summary of the Requirements	Possible Impact on Consolidated Financial Statements
SLFRS 9 – 'Financial Instruments'	SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 - Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected	The Group/Bank, is assessing the potential impact on its Consolidated Financial Statements resulting from the application of SLFRS 9.
	credit loss model for calculating impairment on financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.	Given the nature of the Group/Bank's operations, this standard is expected to have a pervasive impact on the Group's Financial Statements. In particular,
	Effective date of SLFRS 9 has been deferred till January 01, 2018.	calculation of impairment of financial instruments on an expected credit loss model is expected to result in an increase in the overall level of impairment allowances.
SLFRS 15 –  'Revenue from Contracts with Customers'	SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 on 'Revenue' and LKAS 11 on 'Construction Contracts'.	The Group/Bank is assessing the potential impact on its Consolidated Financial Statements resulting from the application of SLFRS 15.
	SLFRS 15 is effective for annual reporting periods beginning on or after January 01, 2017.	
Equity Method in Separate Financial Statements	The amendments to LKAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate Financial Statements.	The Group/Bank is assessing the potential impact on its Consolidated Financial Statements resulting from the application of amended LKAS 27.
(Amendment to LKAS 27)	The amendment is effective for annual reporting periods beginning on or after January 01, 2016.	

The following new Accounting Standards are not expected to have a significant impact on the Financial Statements of the Group.

Regulatory Deferral Assets (SLFRS 14) – Effective date January 01, 2016.

Investment Entities: Applying the Consolidation Exception (Amendments to SLFRS 10, SLFRS 12 and LKAS 28) – Effective date January 01, 2016.

Accounting for Acquisitions of Interests in Joint Operations (Amendments to SLFRS 11) – Effective date January 01, 2016.

Disclosure Initiative (Amendment to LKAS 1 – 'Presentation of Financial Statements') – Effective date January 01, 2016.

### 11. Gross Income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group/Bank and the revenue can be reliably measured.

	GR	OUP	ВА	NK
For the year ended December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest income [Refer Note 12.1]	66,339,317	61,932,876	66,030,456	61,832,018
Fees and commission income [Refer Note 13.1]	6,329,900	5,613,684	6,275,276	5,592,744
Net gains/(losses) from trading [Refer Note 14]	813,376	(305,492)	813,376	(305,492)
Net gains/(losses) from financial investments [Refer Note 15]	693,987	2,272,575	693,933	2,272,575
Other income (net) [Refer Note 16]	4,048,817	3,334,560	4,054,911	3,360,384
Total	78,225,397	72,848,203	77,867,952	72,752,229

#### 12. Net Interest Income

Interest income and expense are recognised in profit or loss using the EIR method. The 'effective interest rate' 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 effective interest rate, the Group estimates future cash flows, considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the EIR includes transaction costs and fees and points 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.

Interest income and expense presented in the Income Statement include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated using EIR method;
- Held-for-trading calculated using EIR method;
- Interest on available-for-sale investment securities calculated using EIR method;
- The effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense, if any; and
- The effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk, if any.

	GROUP		BANK	
For the year ended December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest income [Refer Note 12.1]	66,339,317	61,932,876	66,030,456	61,832,018
Less: Interest expenses [Refer Note 12.2]	35,771,967	34,613,052	35,685,172	34,610,179
Net interest income	30,567,350	27,319,824	30,345,284	27,221,839



# 12.1 Interest Income

	GRO	OUP	BA	NK
For the year ended December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and cash equivalents	88,573	49,874	88,270	49,775
Balances with Central Banks	336,040	30,082	336,040	30,082
Placements with banks	158,645	136,051	158,645	136,051
Securities purchased under resale agreements	665,897	2,046,020	665,897	2,046,020
Financial instruments – Held-for-trading	681,464	349,330	681,464	349,330
Derivative financial instruments	_	_	_	_
Other financial instruments	681,464	349,330	681,464	349,330
Loans and receivables to other customers	43,540,368	41,123,317	43,231,336	41,020,125
Financial investments – Available-for-sale	17,549,260	15,449,780	17,548,160	15,449,334
Financial investments – Loans and receivables	3,052,231	2,467,574	3,052,231	2,467,574
Interest income from impaired loans and receivables to other customers	265,347	278,878	265,347	278,878
Other interest income	1,492	1,970	3,066	4,849
Total interest income	66,339,317	61,932,876	66,030,456	61,832,018

# 12.2 Interest Expenses

	GRO	OUP	BA	BANK	
For the year ended December 31,	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Due to banks	593,651	648,876	527,983	640,487	
Securities sold under repurchase agreements	7,876,715	4,927,205	7,886,186	4,940,789	
Due to other customers/Deposits from customers	26,034,412	27,652,070	26,040,128	27,657,322	
Refinance borrowings	253,502	393,787	253,502	393,787	
Foreign currency borrowings	190,420	225,013	190,420	225,013	
Subordinated liabilities	823,267	766,101	786,953	752,781	
Total interest expenses	35.771.967	34,613,052	35,685,172	34,610,179	

### 12.3 Net Interest Income from Government Securities

Interest Income and Interest Expenses on Government Securities given in the Notes 12.3 (a) and 12.3 (b) below have been extracted from Interest Income and Interest Expenses given in Notes 12.1 and 12.2, respectively and disclosed separately, as required by the Guidelines issued by the Central Bank of Sri Lanka.

### 12.3 (a) Net Interest Income from Sri Lanka Government Securities

2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
	Rs. '000	Rs. '000	Rs. '000
19,303,078	18,119,028	19,301,977	18,118,582
7,883,079	5,204,286	7,892,551	5,217,870
11,419,999	12,914,742	11,409,426	12,900,712
	7,883,079	<b>7,883,079</b> 5,204,286	<b>7,883,079</b> 5,204,286 <b>7,892,551</b>

### **Notional Tax Credit on Secondary Market Transactions**

As per the Section 137 of the Inland Revenue Act No. 10 of 2006 and amendments thereto, Net Interest Income of the Group/Bank derived from secondary market transactions in Government Securities, Treasury Bills or Treasury Bonds (Interest income accrued or received on outright or reverse repurchase transactions on Government Securities, Treasury Bills or Bonds less interest expenses on repurchase transactions with such Government Securities, Treasury Bills or Bonds from which such interest income was earned) for the period January 01, 2015 to December 31, 2015 has been grossed up by Rs. 900.495 Mn. (2014 – Rs. 1,080.686 Mn.) and Rs. 899.563 Mn. (2014 – Rs. 1,079.038 Mn.) by the Group and the Bank respectively as the notional tax credit, consequent to the interest income on above instruments being subjected to withholding tax.

### 12.3 (b) Net Interest Income from Bangladesh Government Securities

	GROUP		BANK	
For the year ended December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest income	1,415,253	1,545,740	1,415,253	1,545,740
Less: Interest expenses	14,786	12,694	14,786	12,694
Sub total	1,400,467	1,533,046	1,400,467	1,533,046

### 13. Net Fees and Commission Income

Fees and commission income and expenses that are integral to the EIR of a financial asset or liability are capitalised and included in the measurement of the EIR and recognised in the Income Statement over the expected life of the instruments.

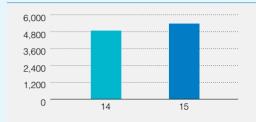
Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. If a loan commitment is not expected to result in the drawdown of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

	GRO	UP	BAN	١K
For the year ended December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000		Rs. '000
Fees and commission income [Refer Note 13.1]	6,329,900	5,613,684	6,275,276	5,592,744
Less: Fees and commission expenses [Refer Note 13.2]	919,590	764,322	901,190	761,527
Net fees and commission income	5,410,310	4,849,362	5,374,086	4,831,217

### Net Fees & Commission Income - Bank

Rs. Mn.



11.24%个

2015: Rs. 5,374 Mn.

2014: Rs. 4,831 Mn.

## 13.1 Fees and Commission Income

	GRO	UP	BAN	NK	
For the year ended December 31,	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Loans and advances related services	715,502	635,759	664,269	618,926	
Credit and debit cards related services	1,849,571	1,603,161	1,849,571	1,603,161	
Trade and remittances related services	2,212,916	1,948,321	2,212,916	1,948,321	
Deposits related services	562,797	543,191	562,860	543,228	
Guarantees related services	505,109	583,899	505,109	583,899	
Other financial services	484,005	299,353	480,551	295,209	
Sub total	6,329,900	5,613,684	6,275,276	5,592,744	

# 13.2 Fees and Commission Expenses

	GROU	GROUP		BANK	
For the year ended December 31,	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Loans and advances related services	52,149	45,097	33,749	42,302	
Credit and debit cards related services	768,406	622,140	768,406	622,140	
Trade and remittances related services	31,826	34,332	31,826	34,332	
Other financial services	67,209	62,753	67,209	62,753	
Sub total	919,590	764,322	901,190	761,527	

### 14. Net Gains/(Losses) from Trading

'Net gains/(losses) from trading' comprise gains less losses related to trading assets and liabilities, and include all realised and unrealised fair value changes, dividends and foreign exchange differences.

	GRO	JP	BAN	K
For the year ended December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Foreign exchange				
From banks	_	-	-	-
From other customers	891,825	(709,249)	891,825	(709,249)
Interest rates				
Net mark-to-market gains/(losses)	(92,831)	28,374	(92,831)	28,374
Net capital gains/(losses)	20,512	256,611	20,512	256,611
Equities				
Net mark-to-market gains/(losses)	(26,452)	79,190	(26,452)	79,190
Net capital gains/(losses)	11,294	30,705	11,294	30,705
Dividend income	9,028	8,877	9,028	8,877
Total	813,376	(305,492)	813,376	(305,492)

# 15. Net Gains/(Losses) from Financial Investments

'Net gains/(losses) from financial investments' comprise gains less losses related to available for sale investments and loans and receivables, and include all realised and unrealised fair value changes and dividends.

	GROUP		BANK	
For the year ended December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial investments – available-for-sale [Refer Note 15.1]	560,715	2,229,119	560,661	2,229,119
Financial investments – loans and receivables [Refer Note 15.2]	133,272	43,456	133,272	43,456
Total	693,987	2,272,575	693,933	2,272,575

# 15.1 Financial Investments - Available-for-sale

GROUP		BANK	
2015	2014	2015	2014
Rs. '000	Rs. '000	Rs. '000	Rs. '000
514,289	2,197,337	514,289	2,197,337
46,426	31,782	46,372	31,782
-	_	_	_
46,426	31,782	46,372	31,782
560,715	2,229,119	560,661	2,229,119
	2015 Rs. '000 514,289 46,426 ————————————————————————————————————	2015 2014 Rs. '000 Rs. '000  514,289 2,197,337 46,426 31,782  46,426 31,782	2015 2014 2015 Rs. '000 Rs. '000 Rs. '000  514,289 2,197,337 514,289 46,426 31,782 46,372  46,426 31,782 46,372

# 15.2 Financial Investments - Loans and Receivables

	GROL	GROUP		(
For the year ended December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest rates				
Net capital gains/(losses)	133,272	43,456	133,272	43,456
Total	133,272	43,456	133,272	43,456

### 16. Other Income (Net)

### 16.1 Gains/(losses) on sale of assets

The gains or losses on the disposal of assets is determined on the difference between the carrying amount of the assets at the time of disposal and the proceeds of disposal, net of incremental disposal costs. This is recognised as an item of Other Income in the year in which significant risks and rewards of ownership are transferred to the buyer.

### 16.2 Rental Income

Rental income is recognised in the profit or loss on an accrual basis.

	GROUP		BANK	
For the year ended December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gains/(losses) on sale of property, plant & equipment [Refer Note 16.1]	(1,334)	(2,144)	(6,505)	(4,916)
Gains/(losses) on revaluation of foreign exchange	1,985,444	2,190,423	1,985,444	2,190,423
Recoveries of loans written off and provision reversals	1,874,575	1,029,723	1,874,575	1,029,723
Dividend income from subsidiaries	_	_	81,664	70,383
Dividend income from associates	6,733	851	6,166	_
Profit due to change in ownership	_	_	2,344	_
Rental and other income [Refer Note 16.2]	190,132	116,558	111,223	74,771
Less: Dividends received from associates transferred to investment account	(6,733)	(851)	_	-
Total	4,048,817	3,334,560	4,054,911	3,360,384

### 17. Impairment Charges for Loans and Other Losses

### **Individual Assessment of Impairment**

Individual Assessment of Impairment for financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held to maturity investments), the Group first assesses individually, whether objective evidence of impairment exists for financial assets that are individually significant or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of a provision account and the amount of impairment loss is recognised in profit or loss. Interest income continues to be accrued and recorded in 'Interest Income' on the reduced carrying amount/impaired balance and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset, reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Loans together with the associated impairment provision are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the provision account. If a future write-off is later recovered, the recovery is credited to 'Other Income'.

### Collective Assessment of Impairment

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from year-to-year such as changes in;

- Interest rates.
- Inflation rates.
- Growth in Gross Domestic Product (GDP),
- Global GDP growth rates,
- Countries' Sovereign ratings, Ease of Doing Business Indices,
- Exchange rates,
- · Political Stability,
- Portfolio factors including percentage of restructured performing loans.

The methodology and assumptions used for estimating provision for impairment including assumptions for projecting future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Details of impairment losses and provisions (both individual and collective) on financial assets carried at amortised cost and an analysis of the impairment provision on loans and advances by class are given in Note 32 on pages 300 to 307.

### Impairment of Rescheduled Loans and Advances

Where possible, the Bank seeks to reschedule loans and advances rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. In case of individually significant rescheduled credit facilities, once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan/advance is no longer considered past due. The Management continually reviews renegotiated loans and advances to ensure that all criteria are met and that future repayments are likely to occur.

#### **Collateral Valuation**

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, Government Securities, Letters of Credit/Guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements, etc. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's annual reporting schedule.

## **Collateral Repossessed**

The Bank's policy is to carry collaterals repossessed at fair value at the repossession date and such assets will be disposed at the earliest possible opportunity. These assets are recorded under assets held for sale as per the Sri Lanka Accounting Standard – SLFRS 5 on 'Non-Current Assets Held for Sale and Discontinued Operations'.

	GROUP		BANK	
For the year ended December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and receivables to banks [Refer Note 31]	-	-	_	_
Loans and receivables to other customers	4,099,738	3,208,638	3,904,948	3,189,995
Charge/(write back) to the Income Statement – Individual Impairment [Refer Note 32.2]	1,386,477	269,703	1,386,477	269,703
Charge/(write back) to the Income Statement – Collective Impairment [Refer Note 32.2]	2,710,834	2,911,621	2,516,044	2,892,978
Direct write-offs	2,427	27,314	2,427	27,314
Investments in subsidiaries [Refer Note 35.1]	_	_	36,223	28,787
Due from subsidiaries		_	2,025	10,362
Total	4,099,738	3,208,638	3,943,196	3,229,144

### 18. Personnel Expenses

	GROUP		BANK	
For the year ended December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Salary and bonus [Refer Note 18.1]	7,740,991	6,866,200	7,675,955	6,828,987
Pension Costs [Refer Note 18.1]				
Contributions to defined contribution/benefit plans - Funded schemes	1,083,341	984,213	1,078,109	980,821
Contributions to defined benefit plans – Unfunded schemes				
[Refer Notes 48.1 (c) and 48.2 (c)]	197,676	164,438	190,780	157,687
Equity-settled share-based payments [Refer Note 55.6]	223,330	_	223,330	_
Others [Refer Note 18.3]	1,015,412	941,472	1,012,363	935,553
Total	10,260,750	8,956,323	10,180,537	8,903,048

#### 18.1 Salary, Bonus and Pension Costs

Salary, bonus and contributions to defined contribution/benefit plans, reported above also include amounts paid to and contribution made on behalf of Executive Directors.

### 18.2 Share Based Payment

The Bank has an equity-settled share based compensation plan, the details of which are given in Note 52.

#### 18.3 Others

This includes expenses such as overtime payments, medical and hospitalisation charges, expenses incurred on staff training/recruitment and staff welfare activities, etc.

### 19. Depreciation and Amortisation

### Depreciation

Depreciation is calculated to write-off the cost of items of Property, Plant & Equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit or loss. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Freehold land is not depreciated.

The estimated useful lives of the Property, Plant & Equipment of the Bank as at December 31, 2015 are as follows:

Class of Asset	Depreciation % Per Annum	Period
Freehold and Leasehold Buildings	2.5	40 years
Motor Vehicles	20	5 years
Computer Equipment	20	5 years
Office Equipment	20	5 years
Office Interior Work	20	5 years
Furniture & Fittings	10	10 years
Machinery & Equipment	10	10 years

The above rates are compatible with the rates used by all Group entities.

The depreciation rates are determined separately for each significant part of an item of Property, Plant & Equipment and commence to depreciate when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised.

All classes of Property, Plant & Equipment together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and at the end of the year are given in Note 37 on pages 320 to 332.

Depreciation methods, useful lives and residual values are reassessed at each Reporting date and adjusted, if required.

### **Amortisation of Intangible Assets**

Intangible assets are amortised using the straight-line method to write down the cost over its estimated useful economic lives, at the rates specified below:

Class of Asset	Amortisation % Per Annum	Period
Computer Software	20	5 years

The above rate is compatible with the rates used by all Group entities.

The unamortised balances of intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised in profit or loss to the extent that they are no longer probable of being recovered from the expected future benefits.

	GROUP		BANK	
For the year ended December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Depreciation of property, plant & equipment [Refer Note 37]	1,024,162	1,087,175	961,492	1,026,730
Amortisation of intangible assets [Refer Note 38]	180,558	173,373	179,370	172,874
Amortisation of leasehold property [Refer Note 39]	1,452	1,452	942	942
Total	1,206,172	1,262,000	1,141,804	1,200,546

# 20. Other Operating Expenses

	GRO	UP	BANK	
For the year ended December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Directors' emoluments [Refer Note 20.1]	31,947	30,077	26,886	27,463
Auditors' remuneration	26,787	24,589	21,399	21,525
Audit fees and expenses	14,195	11,502	9,736	9,032
Audit related fees and expenses	6,461	7,792	5,871	7,570
Non-audit fees and expenses	6,131	5,295	5,792	4,923
Professional and legal expenses	290,184	252,438	353,256	315,388
Deposit insurance premium paid to the Central Bank of Sri Lanka	497,850	433,296	497,850	433,296
Donations, including contribution made to the CSR Trust Fund	62,533	54,583	62,533	54,583
Establishment expenses	2,036,083	1,976,178	2,112,577	2,054,074
Maintenance of property, plant & equipment	731,213	755,013	870,500	865,063
Office administration expenses	2,277,886	1,975,789	2,038,087	1,851,186
Total	5,954,483	5,501,963	5,983,088	5,622,578

### 20.1 Directors' Emoluments

Directors' emoluments represent the fees paid to both Executive and Non-Executive Directors of the Group.

# 21. Income Tax Expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Income Statement, except to the extent it relates to items recognised directly in Equity or in OCI.

### **Current Taxation**

'Current tax' comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted, at the Reporting date.

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, at the rates specified in Note 21.1 on page 281. This Note also includes the major components of tax expense, the effective tax rates and a reconciliation between the profit before tax and tax expense, as required by the Sri Lanka Accounting Standard – LKAS 12 on 'Income Taxes'.

Provision for taxation on the overseas operation 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 statutes in those countries, using the tax rates enacted or substantively enacted, at the Reporting date.

#### **Deferred Taxation**

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:

- temporary differences on 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;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused 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 used. 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.

Unrecognised deferred tax assets are reassessed at each Reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the Reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the Reporting date, to recover or settle the carrying amount of its assets and liabilities.

Additional taxes that arise from the distribution of dividends by the Group are recognised at the same time as the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss as they generally relate to income arising from transactions that were originally recognised in profit or loss.

# 21.1 Entity-wise breakup of Income Tax Expense in the Income Statement is as follows:

	GRO	UP	BAN	١K
For the year ended December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Current Year Tax Expense	5,185,218	4,484,017	5,094,780	4,424,113
Current year income tax expense of Domestic Banking Unit	3,536,032	2,964,140	3,536,032	2,964,140
Current year income tax expense of Off-shore Banking Centre	277,207	282,603	277,207	282,603
Current year income tax expense of Bangladesh Operation	1,185,736	1,169,581	1,185,736	1,169,581
Current year Income tax expense of Commercial Development Company PLC	37,882	34,884	_	_
Current year Income tax expense of ONEzero Company Ltd.	10,914	12,134	_	_
Current year Income tax expense of Serendib Finance Ltd.	41,582	12,796	_	_
Profit remittance tax of Bangladesh Operation	86,551	_	86,551	_
Withholding tax on dividends received	9,314	7,879	9,254	7,789
Prior years				
Under/(Over) Provision of taxes in respect of prior years [Refer Note 45]	1,700	10,920	1,701	11,041
Deferred Tax Expense	89,933	122,187	143,905	120,881
Effect of change in tax rates	-	-	-	-
Origination and reversal of temporary differences [Refer Note 46.1]	89,933	122,187	143,905	120,881
Total	5,276,851	4,617,124	5,240,386	4,556,035
Effective tax rate (including deferred tax)			30.57%	28.95%
Effective tax rate (excluding deferred tax)			29.73%	28.18%

The income tax for 2015 and 2014 of the Bank and its subsidiaries have been provided on the taxable income at the rates shown below:

2015	2014
<u> </u>	%
28.0	28.0
28.0	28.0
42.5	42.5
28.0	28.0
28.0	28.0
28.0	28.0
	28.0 28.0 42.5 28.0 28.0

# 21.2 Reconciliation of the Accounting Profit to Income Tax Expense

A reconciliation between taxable income and the accounting profit multiplied by the statutory tax rate is given below:

	Tax R	Rate	GRO	DUP	BANK		
For the year ended December 31,	2015	2014	2015	2014	2015	2014	
	%	%	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Accounting profit before tax from operations			17,136,111	15,859,917	17,143,610	15,736,216	
Tax effect at the statutory income tax rate			5,186,846	4,932,962	5,160,768	4,874,034	
Domestic operations of the Bank	28.0	28.0	3,888,621	3,440,752	3,888,621	3,440,752	
Off-shore banking operation of the Bank	28.0	28.0	118,712	268,589	118,712	268,589	
Bangladesh operation of the Bank	42.5	42.5	1,153,435	1,164,693	1,153,435	1,164,693	
Subsidiaries	28.0	28.0	26,078	58,928	_	_	
Tax effect of exempt income			(1,099,101)	(865,453)	(1,099,080)	(865,453)	
Tax effect of non-deductible expenses			6,864,719	5,834,186	6,626,069	5,807,179	
Tax effect of deductible expenses			(5,859,214)	(5,169,064)	(5,684,885)	(5,142,943)	
Qualifying payments			(3,897)	(256,493)	(3,897)	(256,493)	
Profit remittance tax of Bangladesh operation			86,551	_	86,551	_	
Under/(over) provision of taxes in respect of prior years [Refer Note 45]			1,700	10,920	1,701	11,041	
Withholding tax on dividends received			9,314	7,879	9,254	7,789	
Deferred tax expense [Refer Note 46.1]			89,933	122,187	143,905	120,881	
Income tax expense reported in the Income Statement at the effective income tax rate			5,276,851	4,617,124	5,240,386	4,556,035	

# 22. Earnings Per Share (EPS)

The Group computes basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Group/Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders of the Group/Bank and the weighted average number of ordinary shares outstanding adjusted for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

Details of Basic and Diluted EPS are given below:

### 22.1 Basic Earnings per Ordinary Share

	GROUP		BANK	
	2015	2014	2015	2014
Amounts used as the numerator:				
Profit for the year attributable to equity holders of the Bank for basic earnings per ordinary share (Rs. '000)	11,855,172	11,238,892	11,903,224	11,180,181
Number of ordinary shares used as the denominator:				
Weighted average number of ordinary shares for basic earnings per share calculation [Refer Note 22.3]	875,962,769	872,991,038	875,962,769	872,991,038
Basic earnings per ordinary share (Rs.)	13.53	12.87	13.59	12.81

# 22.2 Diluted Earnings per Ordinary Share

	GROUP		BANK	
	2015	2014	2015	2014
Amounts used as the numerator:				
Profit for the year attributable to equity holders of the parent for diluted earnings per ordinary share (Rs. '000)	11,855,172	11,238,892	11,903,224	11,180,181
Number of ordinary shares used as the denominator:				
Weighted average number of ordinary shares for diluted earnings per ordinary share calculation [Refer Note 22.3]	877,372,358	876,694,190	877,372,358	876,694,190
Diluted earnings per ordinary share (Rs.)	13.51	12.82	13.57	12.75

# 22.3 Weighted Average Number of Ordinary Shares for Basic and Diluted Earnings per Share

	Outstanding No. of Shares		Outstanding No. of Shares Weighted average	
	2015	2014	2015	2014
Number of shares in issue as at January 01,	865,857,675	849,079,041	865,857,675	849,079,041
Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2013 [Refer Note 51.1]	_	13,541,068	_	13,541,068
Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2014 [Refer Note 51.1]			8,838,513	
	874,696,188	862,620,109	874,696,188	871,458,622
Add: Number of shares issued under Employee Share Option Plan (ESOP) 2008	2,170,613	3,237,566	1,266,581	1,532,416
Weighted average number of ordinary shares for basic earnings per ordinary share calculation	876,866,801	865,857,675	875,962,769	872,991,038
Add: Bonus element on number of outstanding options under ESOP 2008 as at the year-end	_	_	1,409,589	3,703,152
Weighted average number of ordinary shares for diluted earnings per ordinary share calculation(*)	876,866,801	865,857,675	877,372,358	876,694,190

<sup>(\*)</sup> The market value of the Bank's shares for the purpose of calculating the dilutive effect of share options has been based on the excess of quoted market price as of December 31, 2015 and December 31, 2014 over the offer price.

### 23. Dividends

	GR	OUP	BA	NK
	Second Interim Rs. 1.00 Per share for 2014 (Paid on February 05, 2015) Rs. '000	2014 Second Interim Rs. 1.00 Per share for 2013 (Paid on January 27, 2014) Rs. '000	Second Interim Rs. 1.00 Per share for 2014 (Paid on February 05, 2015) Rs. '000	2014 Second Interim Rs. 1.00 Per share for 2013 (Paid on January 27, 2014) Rs. '000
On Ordinary Shares				
Net dividend paid to the ordinary shareholders out of normal profits	783,258	768,553	783,258	768,553
Withholding tax deducted at source	82,685	80,595	82,685	80,595
Gross ordinary dividend paid	865.943	849.148	865.943	849.148

	First Interim Rs. 1.50 Per share for 2015 (Paid on December 18, 2015) Rs. '000	First Interim Rs. 1.50 Per share for 2014 (Paid on November 21, 2014) Rs. '000	First Interim Rs. 1.50 Per share for 2015 (Paid on December 18, 2015) Rs. '000	First Interim Rs. 1.50 Per share for 2014 (Paid on November 21, 2014) Rs. '000
On Ordinary Shares				
Net dividend paid to the ordinary shareholders out of normal profits	1,189,367	1,174,561	1,189,367	1,174,561
Withholding tax deducted at source	125,884	123,593	125,884	123,593
Gross ordinary dividend paid	1,315,251	1,298,154	1,315,251	1,298,154
Total gross ordinary dividend paid	2,181,194	2,147,302	2,181,194	2,147,302

The Board of Directors of the Bank has recommended the payment of a final dividend of Rs.5.00 per share which consist of a cash dividend of Rs. 3.00 per share and the balance entitlement of Rs.2.00 per share will be satisfied in the form of issue and allotment of new shares for both voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2015 (Bank declared a final dividend of Rs. 4.00 per share in 2014 and this was satisfied by way of Rs. 2.00 per share in the form of cash and Rs. 2.00 per share in the form of shares). The total dividend recommended by the Board is to be approved at the forthcoming Annual General Meeting to be held on March 31, 2016. In accordance with provisions of the Sri Lanka Accounting Standard No.10 on 'Events after the Reporting Period'. The proposed final dividend has not been recognised as a liability as at the year end. Final dividend payable for the year 2015 has been estimated at Rs. 4,384.334 Mn. (Actual final dividend for 2014 amounted to Rs. 3,466.221 Mn. due to exercise of options under ESOPs).

Accordingly, the dividend per ordinary share (for both voting and non-voting) for the year 2015 would be Rs. 6.50 (2014 – Rs. 6.50).

# 24. Classification of Financial Assets and Financial Liabilities

The tables below provide a reconciliation between the line items in the Statement of Financial Position and categories of financial assets and financial liabilities of the Group and the Bank.

# 24.1 Classification of Financial Assets and Financial Liabilities - Group

# 24.1 (a) Group

As at December 31, 2015		Held for Trading (HFT)	Held-to-Maturity (HTM)	Loans and Receivables	Available- for-Sale (AFS)	Other Amortised Cost	Total
	Note	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets							
Cash and cash equivalents	26	_	-	20,107,076	_	_	20,107,076
Balances with Central Banks	27	_		28,221,017	_	_	28,221,017
Placements with banks	28	_	_	17,193,539	_	_	17,193,539
Securities purchased under resale agreements		_	_	8,002,100	_	_	8,002,100
Derivative financial assets	29	4,118,169	_	_	_	_	4,118,169
Other financial instruments – Held-for-trading	30	7,656,349	_	_	_	_	7,656,349
Loans and receivables to banks	31	_	_	601,106	_	_	601,106
Loans and receivables to other customers	32	_	_	509,923,128	_	_	509,923,128
Financial investments – Available-for-sale	33	_	_	_	204,261,934	_	204,261,934
Financial investments – Loans and receivables	34	_	_	57,724,369	_	_	57,724,369
Total financial assets		11,774,518	_	641,772,335	204,261,934	_	857,808,787
Financial Liabilities							
Due to banks	41	_	_	_	_	31,789,396	31,789,396
Derivative financial liabilities	42	1,890,770	_	_	_	_	1,890,770
Securities sold under repurchase agreements		_	_	_	_	112,249,703	112,249,703
Due to other customers/ Deposits from customers	43	_		_	_	624,021,217	624,021,217
Other borrowings	44	_	_	_	_	9,985,637	9,985,637
Subordinated liabilities	50	_	_	_	_	11,988,272	11,988,272
Total financial liabilities		1,890,770	_	_	_	790,034,225	791,924,995

# 24.1 (b) Group

As at December 31, 2014	Note	Held for Trading (HFT) Rs. '000	Held-to-Maturity (HTM) Rs. '000	Loans and Receivables Rs. '000	Available- for-Sale (AFS) Rs. '000	Other Amortised Cost Rs. '000	Total
	11016	113. 000	115. 000	115. 000	113. 000	113. 000	113. 000
Financial Assets							
Cash and cash equivalents	26			20,621,778		<u> </u>	20,621,778
Balances with Central Banks	27		<u> </u>	19,633,746			19,633,746
Placements with banks	28			14,507,861			14,507,861
Securities purchased under resale agreements		_	-	41,198,266	_	_	41,198,266
Derivative financial assets	29	459,510	_	_	_	_	459,510
Other financial instruments – Held-for-trading	30	6,326,636		_	_	_	6,326,636
Loans and receivables to banks	31	_	_	551,066	_	_	551,066
Loans and receivables to other customers	32	_		406,531,089	_		406,531,089
Financial investments – Available-for-sale	33	_		_	214,225,017	_	214,225,017
Financial investments – Loans and receivables	34	_		50,436,064	_		50,436,064
Total financial assets		6,786,146	_	553,479,870	214,225,017	_	774,491,033
Financial Liabilities							
Due to banks	41	_	_	_	_	25,669,025	25,669,025
Derivative financial liabilities	42	1,193,139	_	_	_	_	1,193,139
Securities sold under repurchase agreements		_		_	_	124,391,042	124,391,042
Due to other customers/ Deposits from customers	43	_		_	_	529,266,588	529,266,588
Other borrowings	44	_	_	_	_	11,636,583	11,636,583
Subordinated liabilities	50					11,262,573	11,262,573
Total financial liabilities		1,193,139			_	702,225,811	703,418,950

## 24.2 Classification of Financial Assets and Financial Liabilities - Bank

The tables below provide a reconciliation between line items in the Statement of Financial Position and categories of financial assets and financial liabilities of the Bank.

# 24.2 (a) Bank

As at December 31, 2015		Held-for-Trading (HFT)	Held-to-Maturity (HTM)	Loans and Receivables	Available- for-Sale (AFS)	Other Amortised Cost	Total
	Note	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets							
Cash and cash equivalents	26	_	_	20,043,512	_	_	20,043,512
Balances with Central Banks	27	_	_	28,221,017	_	_	28,221,017
Placements with banks	28	_	_	17,193,539	_	_	17,193,539
Securities purchased under resale agreements		_	_	8,002,100	_	_	8,002,100
Derivative financial assets	29	4,118,169	_	_	_	_	4,118,169
Other financial instruments – Held-for-trading	30	7,656,349	_	_	_	_	7,656,349
Loans and receivables to banks	31	_	_	601,106	_	_	601,106
Loans and receivables to other customers	32	_	_	508,115,127	_	_	508,115,127
Financial investments – Available-for-sale	33	_	_	_	204,244,289	_	204,244,289
Financial investments – Loans and receivables	34	_	_	57,724,369	_	_	57,724,369
Total financial assets		11,774,518	_	639,900,770	204,244,289	_	855,919,577
Financial Liabilities							
Due to banks	41	_	_	_	_	30,319,119	30,319,119
Derivative financial liabilities	42	1,890,770		_	_	_	1,890,770
Securities sold under repurchase agreements		_	_	_	_	112,384,812	112,384,812
Due to other customers/Deposits from customers	43	_	_	_	_	624,101,810	624,101,810
Other borrowings	44	_		_	_	9,985,637	9,985,637
Subordinated liabilities	50	_	_	_	_	11,973,272	11,973,272
Total financial liabilities		1,890,770	_	_	_	788,764,650	790,655,420

# 24.2 (b) Bank

As at December 31, 2014		Held-for-Trading (HFT)	(HTM)	Loans and Receivables	Available- for-Sale (AFS)	Other Amortised Cost	Total
	Note	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets							
Cash and cash equivalents	26	_	_	20,591,867	_	_	20,591,867
Balances with Central Banks	27	_		19,633,746	_	_	19,633,746
Placements with banks	28	_	_	14,507,861	_	_	14,507,861
Securities purchased under resale agreements		_	_	41,198,266	_	_	41,198,266
Derivative financial assets	29	459,510	_	_	_	_	459,510
Other financial instruments – Held-for-trading	30	6,326,636	_	_	_		6,326,636
Loans and receivables to banks	31	_	_	551,066	_	_	551,066
Loans and receivables to other customers	32	_	_	405,431,457	_		405,431,457
Financial investments – Available-for-sale	33	_	_	_	214,208,370	_	214,208,370
Financial investments – Loans and Receivables	34	_	_	50,436,064	_		50,436,064
Total financial assets		6,786,146	_	552,350,327	214,208,370	_	773,344,843
Financial Liabilities							
Due to banks	41	_	-	_	-	25,260,976	25,260,976
Derivative financial liabilities	42	1,193,139			_	_	1,193,139
Securities sold under repurchase agreements		_	_	_	_	124,564,499	124,564,499
Due to other customers/ Deposits from customers	43	_		_	_	529,361,484	529,361,484
Other borrowings	44	_			_	11,636,583	11,636,583
Subordinated liabilities	50				_	11,044,775	11,044,775
Total financial liabilities		1,193,139				701,868,317	703,061,456

#### 25. Fair Value Measurement

The Group measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement. An analysis of fair value measurement of financial and non-financial assets and liabilities is provided below.

#### Level 1

Inputs that are unadjusted quoted market prices in an active market for identical instruments.

When available, the Group measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an ask price), without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

#### Level 2

Inputs other than quoted prices included within level that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices) This category includes instruments valued using;

- (a) quoted market in active markets for similar instruments,
- (b) quoted prices for identical or similar instruments in markets that are considered to be less active, or
- (c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

#### Level 3

Inputs that are unobservable.

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's value.

Valuation techniques include net present value and discounted cash flow models comparison with similar instruments for which observable market prices exist, option pricing models and other valuation models.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

Observable prices or model inputs such as market interest rates are usually available in the market for listed equity securities and government securities such as treasury bills and bonds. Availability of observable prices and model inputs reduces the need for management judgement and estimation while reducing uncertainty associated in determining the fair values.

Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

# 25.1 Assets and Liabilities Measured at Fair Value and Fair Value Hierarchy

The following table provides an analysis of assets and liabilities measured at fair value as at the Reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. These amounts were based on the values recognised in the Statement of Financial Position.

			GRC	UP			BAI	ΝK	
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	Note	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at December 31, 2015									
Non-Financial Assets									
Property, plant & equipment									
Land and buildings	37.1 & 37.3	_	_	7,560,640	7,560,640	_	-	7,331,511	7,331,511
Total non-financial assets at fair value		_	-	7,560,640	7,560,640	_	-	7,331,511	7,331,511
Financial Assets									
Derivative financial assets	29								
Currency swaps		_	3,328,679	_	3,328,679	_	3,328,679	_	3,328,679
Forward contracts		_	786,794	_	786,794	-	786,794	-	786,794
Spot contracts		-	2,696	-	2,696	-	2,696	-	2,696
Other financial instruments – Held-for-trading	30								
Government securities		7,330,086	-	_	7,330,086	7,330,086	-	_	7,330,086
Equity shares		326,263	_	_	326,263	326,263	_	_	326,263
Financial investments – Available-for-sale	33						_		
Government securities		203,774,930	_	_	203,774,930	203,757,409	_	-	203,757,409
Equity securities(*)		234,839	-	46,611	281,450	234,839	-	46,487	281,326
Investment in unit trust		_	205,554	_	205,554	_	205,554	_	205,554
Total financial assets at fair value		211,666,118	4,323,723	46,611	216,036,452	211,648,597	4,323,723	46,487	216,018,807
Total assets at fair value		211,666,118	4,323,723	7,607,251	223,597,092	211,648,597	4,323,723	7,377,998	223,350,318
Financial Liabilities									
Derivative financial liabilities	41								
Currency swaps		_	791,199	_	791,199	_	791,199	_	791,199
Forward contracts		_	1,098,002	_	1,098,002	_	1,098,002	_	1,098,002
Spot contracts		_	1,569	_	1,569	_	1,569	_	1,569
Total liabilities at fair value		_	1,890,770	_	1,890,770		1,890,770	_	1,890,770

			0.1	20112					
		Level 1	Level 2	ROUP Level 3	Total	Level 1	Level 2	Level 3	Total
	Note	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at December 31, 2014									
Non-Financial Assets									
Property, plant & equipment									
Land and buildings	37.1 & 37.3	_	_	7,432,625	7,432,625	_	_	7,255,625	7,255,625
Total non financial assets at fair value		_	_	7,432,625	7,432,625	_	-	7,255,625	7,255,625
Financial Assets									
Derivative financial assets	29								
Currency swaps		_	222,533	_	222,533	_	222,533	_	222,533
Forward contracts		_	233,300	-	233,300	_	233,300	-	233,300
Spot contracts		_	3,677	-	3,677	_	3,677	_	3,677
Other financial instruments – Held-for-trading	30								
Government securities		5,958,904	_	-	5,958,904	5,958,904	_	_	5,958,904
Equity shares		367,732	_	_	367,732	367,732	_	_	367,732
Financial investments – Available-for-sale	33								
Government securities		213,381,263	-	-	213,381,263	213,364,740	_	_	213,364,740
Equity securities(*)		185,132	_	45,181	230,313	185,132	_	45,057	230,189
Investment in unit trust		_	613,441	-	613,441	_	613,441	_	613,441
Total financial assets at fair value		219,893,031	1,072,951	45,181	221,011,163	219,876,508	1,072,951	45,057	220,994,516
Total assets at fair value		219,893,031	1,072,951	7,477,806	228,443,788	219,876,508	1,072,951	7,300,682	228,250,141
Financial Liabilities									
Derivative financial liabilities	42								
Currency swaps		_	823,596	-	823,596	_	823,596	-	823,596
Forward contracts		_	368,886	_	368,886	_	368,886	_	368,886
Spot contracts		_	657	_	657	-	657	_	657
Total liabilities at fair value		_	1,193,139	_	1,193,139	_	1,193,139	_	1,193,139

<sup>(\*)</sup> Value of unquoted shares of Rs. 46.611 Mn. in Group and Rs. 46.487 Mn. in Bank as at end of the year 2015 (Rs. 45.181 Mn. in Group and Rs. 45.057 Mn. in Bank as at end 2014) categorised under Financial investments – Available-for-sale whose fair value cannot be reliably measured is stated at cost in the Statement of Financial Position as permitted by the Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

**25.2** Note 37.5 (b) on pages 326 to 330 provides information on significant unobservable inputs used as at December 31, 2015 in measuring fair value of land and buildings categorised as Level 3 in the fair value hierarchy.

Reconciliation of Revaluation Reserve pertaining to land and buildings categorised as Level 3 in the fair value hierarchy is found in the Statement of Changes in Equity on pages 244 to 247.

## 25.3 Financial Instruments Not Measured at Fair Value and Fair Value Hierarchy

Methodologies and assumptions used to determine fair value of financial instruments which are not already recorded at fair value in the Statement of Financial Position are as follows.

### Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost (eg. fixed rate loans and receivables, due to other customers, subordinate liabilities) are estimated based on the Discounted Cash Flow approach. This approach employs the current market interest rates of similar financial instruments as a significant unobservable input in measuring the fair value and hence it is categorised under Level 3 in the fair value hierarchy.

#### Sensitivity of Significant Unobservable Inputs used to Measure Fair Value of Fixed Rate Financial Instruments.

A significant increase/(decrease) in the market interest rate would result in lower/(higher) fair value being disclosed.

### Assets for which Fair Value Approximates Carrying Value

For financial assets and liabilities with short term maturities or with short term re-pricing intervals, it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings deposits which do not have a specific maturity.

The following table sets out the fair values of financial assets and liabilities not measured at fair value and related fair value hierarchy:

				GROUF					BANK		
		Level 1	Level 2	Level 3	Total Fair Values	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Values	Total Carrying Amount
	Note	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at December 31, 2015											
Financial Assets											
Cash and cash equivalents	26	-	20,107,076	-	20,107,076	20,107,076	-	20,043,512	-	20,043,512	20,043,512
Securities purchased under resale agreements		_	8,002,100	_	8,002,100	8,002,100	_	8,002,100	_	8,002,100	8,002,100
Loans and receivables to banks	31	-	601,106	-	601,106	601,106	_	601,106	-	601,106	601,106
Loans and receivables to other customers	32	_	_	511,056,767	511,056,767	509,923,128	_	_	509,248,766	509,248,766	508,115,127
Total financial assets not at fair value		-	28,710,282	511,056,767	539,767,049	538,633,410	_	28,646,718	509,248,766	537,895,484	536,761,845
Financial Liabilities											
Due to banks	41	-	31,789,396	-	31,789,396	31,789,396	-	30,319,119	-	30,319,119	30,319,119
Securities sold under repurchase agreements		_	112,249,703	_	112,249,703	112,249,703	_	112,384,812	_	112,384,812	112,384,812
Due to other customers/ Deposits from customers	43	_	_	624,570,898	624,570,898	624,021,217	_	_	624,651,491	624,651,491	624,101,810
Subordinated liabilities	50	-	-	12,019,342	12,019,342	11,988,272	_	-	12,004,342	12,004,342	11,973,272
Total financial liabilities not at fair value		_	144,039,099	636,590,240	780,629,339	780,048,588	_	142,703,931	636,655,833	779,359,764	778,779,013

				GROUP					BANK		
		Level 1	Level 2	Level 3	Total Fair Values	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Values	Total Carrying Amount
	Note	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at December 31, 2014											
Financial Assets											
Cash and cash equivalents	26	-	20,621,778	-	20,621,778	20,621,778	-	20,591,867	-	20,591,867	20,591,867
Securities purchased under resale agreements		_	41,198,266	_	41,198,266	41,198,266	_	41,198,266	_	41,198,266	41,198,266
Loans and receivables to banks	31	_	551,066	_	551,066	551,066	_	551,066	_	551,066	551,066
Loans and receivables to other customers	32	_	_	409,025,048	409,025,048	406,531,089	_	_	407,925,416	407,925,416	405,431,457
Total financial assets not at fair value		_	62,371,110	409,025,048	471,396,158	468,902,199	_	62,341,199	407,925,416	470,266,615	467,772,656
Financial Liabilities											
Due to banks	41	-	25,669,025	-	25,669,025	25,669,025	-	25,260,976	-	25,260,976	25,260,976
Securities sold under repurchase agreements		_	124,391,042	_	124,391,042	124,391,042	_	124,564,499	_	124,564,499	124,564,499
Due to other customers/ Deposits from customers	43	_	_	531,209,832	531,209,832	529,266,588	_	_	531,304,728	531,304,728	529,361,484
Subordinated liabilities	50	_	_	11,347,778	11,347,778	11,262,573	_	-	11,129,980	11,129,980	11,044,775
Total financial liabilities not at fair value		_	150,060,067	542,557,610	692,617,677	690,589,228	_	149,825,475	542,434,708	692,260,183	690,231,734

# 25.4 Valuation Techniques and Inputs in Measuring Fair Values

Table below provides information on the valuation techniques and inputs used in measuring the fair values of Derivative financial assets and liabilities in the Level 2 of the fair value hierarchy as given in Note 25.1 above.

Type of Financial Instruments	Fair Value as at December 31, 2015 (Rs. '000)	Valuation Technique	Significant Valuation inputs
Derivative Financial Assets	4,118,169	Adjusted Forward Rate Approach This approach considers the present value	Spot exchange rate
Derivative Financial Liabilities	1,890,770	of projected forward exchange rate as at the Reporting date as the fair value. The said forward rate is projected based on the spot exchange rate and the forward premium/discount calculated using extrapolated interest rates of the currency pairs under consideration. In computing the present value, interest rate differential between two currencies under consideration is used as the discount rate.	Interest rate differentials between currencies under consideration

### 26. Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, placements with banks and loans at call and at short notice that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short term commitments. They are brought to Financial Statements at their face values or the gross values, where appropriate. There were no cash and cash equivalents held by the Group Companies that were not available for use by the Group.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

	GRO	BANK		
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash in hand	15,931,941	13,673,620	15,873,479	13,648,510
Coins and notes held in local currency	14,035,800	12,232,921	14,031,376	12,222,065
Coins and notes held in foreign currency	1,896,141	1,440,699	1,842,103	1,426,445
Balances with banks	2,705,999	5,948,158	2,700,897	5,943,357
Local banks	5,102	4,801	_	_
Foreign banks	2,700,897	5,943,357	2,700,897	5,943,357
Money at call and at short notice	1,469,136	1,000,000	1,469,136	1,000,000
Total	20,107,076	20,621,778	20,043,512	20,591,867

The maturity analysis of Cash and Cash Equivalents is given in Note 60 on pages 362 and 363.

#### 27. Balances with Central Banks

Balances with Central Banks are carried at amortised cost in the Statement of Financial Position.

	GRO	OUP	ВА	NK	
As at December 31,	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Statutory balances with Central Banks [Refer Note 27.1]	22,820,127	19,633,746	22,820,127	19,633,746	
Non-statutory balances with Central Banks [Refer Note 27.2]	5,400,890	_	5,400,890	-	
Total	28,221,017	19,633,746	28,221,017	19,633,746	

### 27.1 Statutory Balances with Central Banks

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain a statutory reserve on all deposit liabilities denominated in Sri Lankan Rupees. The Bank's Bangladesh operation is required to maintain the statutory liquidity requirement on time and demand liabilities (both local and foreign currencies), partly in the form of a Cash Reserve Requirement and the balance by way of foreign currency and/or in the form of unencumbered securities held with the Bangladesh Bank.

	GRO	BANK		
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Central Bank of Sri Lanka	20,075,130	17,433,858	20,075,130	17,433,858
Bangladesh Bank	2,744,997	2,199,888	2,744,997	2,199,888
Total	22,820,127	19,633,746	22,820,127	19,633,746

As required by the provisions of Section 93 of the Monetary Law Act, a cash balance is maintained with the Central Bank of Sri Lanka. As at December 31, 2015, the minimum cash reserve requirement was 7.50% of the rupee deposit liabilities (6.00% in 2014). There is no reserve requirement for foreign currency deposits liabilities of the Domestic Banking Unit and the deposit liabilities of the Off-shore Banking Centre (OBC) in Sri Lanka.

As per the Bangladesh Bank regulations, the statutory liquidity requirement as at December 31, 2015 was 19.50% (19.50% in 2014) on time and demand liabilities (both local and foreign currencies), which includes a 6.50% (6.50% in 2014) cash reserve requirement and the balance 13.00% (13.00% in 2014) is permitted to be maintained in foreign currency and/or also in unencumbered securities held with the Bangladesh Bank.

#### 27.2 Non-Statutory Balances with Central Banks

As per the circulars 35/01/005/006/33 and 34/01/005/006/07 issued by the Domestic Operations Department of Central Bank of Sri Lanka, the 'Standing Repurchase (Repo)' facility was replaced by the 'Standing Deposit Facility (SDF)' for open market operations. This facility is available on an overnight basis and interest component on the deposit has been computed at the Standing Deposit Facility Rate (SDFR) of the Central Bank of Sri Lanka for the duration of the respective deposit held.

	GROU	BANK		
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Central Bank of Sri Lanka (*)	5,400,890	-	5,400,890	-
Bangladesh Bank	_	_	_	_
Total	5,400,890	_	5,400,890	_

<sup>(\*)</sup> The Group had the above balance on a Standing Deposit Facility as at the Reporting date.

The maturity analysis of Balances with Central Banks is given in Note 60 on pages 362 and 363.

#### 28. Placements with Banks

	GF	GROUP		NK
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Placements – within Sri Lanka	5,516,273	6,783,931	5,516,273	6,783,931
Placements – outside Sri Lanka	11,677,266	7,723,930	11,677,266	7,723,930
Total	17,193,539	14,507,861	17,193,539	14,507,861

The maturity analysis of Placements with Banks is given in Note 60 on pages 362 and 363.

### 29. Derivative Financial Assets

The Bank uses derivatives such as interest rate swaps, foreign currency swaps and forward foreign exchange contracts, etc. Derivatives are recorded at fair value and carried as assets when their fair value is positive. Changes in the fair value of derivatives are included in 'Net Gains/(Losses) from Trading' (under customers) in the Income Statement.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the profit or loss.

	GROU	BANK		
Currency swaps	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Foreign currency derivatives				
Currency swaps	3,328,679	222,533	3,328,679	222,533
Forward contracts	786,794	233,300	786,794	233,300
Spot contracts	2,696	3,677	2,696	3,677
Total	4,118,169	459,510	4,118,169	459,510

The maturity analysis of Derivative Financial Assets is given in Note 60 on pages 362 and 363.

### 30. Other Financial Instruments - Held-for-Trading

Financial assets are classified as held-for-trading if;

they are acquired principally for the purpose of selling or repurchasing in the near term; or

they hold as a part of a portfolio that is managed together for short-term profit or position taking; or

they form part of derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as per the Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

Financial assets held-for-trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in profit or loss. Interest and dividend income are recorded in 'Interest Income' and 'Net Gains/(Losses) from Trading' respectively in the Income Statement according to the terms of the contract, or when the right to receive the payment has been established.

The Group evaluates its financial assets held-for-trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and Management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances.

Financial assets held-for-trading include instruments such as Government and other debt securities and equity instruments that have been acquired principally for the purpose of selling or repurchasing in the near term and derivatives, including separated embedded derivatives explained below unless they are designated as effective hedging instruments.

	GRO	BANK		
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Government securities [Refer Note 30.1]	7,330,086	5,958,904	7,330,086	5,958,904
Equity securities [Refer Note 30.2]	326,263	367,732	326,263	367,732
Total	7,656,349	6,326,636	7,656,349	6,326,636

## **30.1 Government Securities**

	GRO	BANK		
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Treasury Bills	1,552,531	4,224,163	1,552,531	4,224,163
Treasury Bonds	5,777,555	1,734,741	5,777,555	1,734,741
Total Government Securities	7,330,086	5,958,904	7,330,086	5,958,904

The maturity analysis of Other Financial Instruments held-for-trading is given in Note 60 on pages 362 and 363.

# 30.2 Equity Securities – Group and Bank

		As at Decem	ber 31, 2015	i		As at Decem	ber 31, 2014	4
Sector/Name of the Company	No. of	Market		Cost of the	No. of	Market	Market	
	Shares	Price Rs.	Value Rs. '000	Investment Rs. '000	Shares	Price Rs.	Value Rs. '000	Investment Rs. '000
Bank, Finance and Insurance								
Central Finance Company PLC	94,930	253.00	24,017	18,937	94,930	250.00	23,733	18,937
Citizen Development Bank PLC (Non-voting)	101,965	80.00	8,157	3,398	101,965	74.00	7,545	3,398
Hatton National Bank PLC	82	210.60	17	12	82	194.90	16	12
Lanka Ventures PLC	100,000	43.50	4,350	3,033	100,000	46.90	4,690	3,033
Sampath Bank PLC	25,655	248.00	6,362	4,298	25,000	236.30	5,908	4,298
Sub total			42,903	29,678			41,892	29,678
Beverage, Food and Tobacco								
COCO Lanka PLC (Non-voting)	1,000	23.90	24	15	1,000	23.90	24	15
Distilleries Company of Sri Lanka PLC	181,490	246.00	44,647	28,968	181,490	210.00	38,113	28,968
Lanka Milk Foods (CWE) PLC	250,000	135.00	33,750	27,866	250,000	120.40	30,100	27,866
COCO Lanka PLC	_	_	_	_	402,000	26.70	10,733	7,062
Sub total			78,421	56,849			78,970	63,911
Chemicals and Pharmaceuticals								
Chemical Industries Colombo Holding PLC (Non-voting)	161,400	81.20	13,106	11,692	161,400	66.40	10,717	11,692
Haycarb PLC	107,100	164.90	17,661	15,914	107,100	173.00	18,528	15,914
Sub total			30,767	27,606			29,245	27,606
Construction and Engineering								
Colombo Dockyard PLC	75,000	150.10	11,258	16,685	75,000	193.00	14,475	16,685
Sub total			11,258	16,685			14,475	16,685
Diversified Holdings								
Hemas Holdings PLC	60	92.90	6	2	60	74.30	4	2
John Keells Holdings PLC	114,285	178.10	20,354	20,527	_	_	_	_
Sub total			20,360	20,529			4	2
Health Care								
Ceylon Hospitals PLC	121,900	101.20	12,336	12,868	121,900	117.40	14,311	12,868
Ceylon Hospitals PLC (Non-voting)	61,100	75.00	4,583	4,423	61,100	80.00	4,888	4,423
Sub total	_ ,		16,919	17,291	- ,		19,199	17,291
Hotels and Travels								
John Keells Hotels PLC	267,608	15.40	4,121	3.473	267,608	17.00	4,549	3,473
Taj Lanka Hotels PLC	212,390	25.30	5,373	6,625	212,390	34.40	7,306	6,625
Sub total			9,494	10,098			11,855	10,098
								<u> </u>

		As at Decem	ber 31, 2015		A	As at Decem	ber 31, 2014	
Sector/Name of the Company	No. of	Market		Cost of the	No. of	Market		Cost of the
	Shares	Price Rs.	Value Rs. '000	Investment Rs. '000	Shares	Price Rs.	Value Rs. '000	Investment Rs. '000
Investment Trusts								
Renuka Holdings PLC	117,158	26.90	3,152	3,180	117,158	31.50	3,690	3,180
Renuka Holdings PLC (Non-voting)	265,368	22.80	6,050	4,958	265,368	23.50	6,236	4,958
Sub total			9,202	8,138			9,926	8,138
Land and Property								
Overseas Reality Ceylon PLC	183,320	23.20	4,253	2,716	174,000	26.30	4,576	2,512
CT Land Development PLC	15,000	50.00	750	531	_	_	_	_
Sub total			5,003	3,247			4,576	2,512
Manufacturing								
ACL Cables PLC	171,516	120.90	20,736	14,096	171,516	76.40	13,104	14,096
Dipped Products PLC	200,000	110.00	22,000	24,239	200,000	143.00	28,600	24,239
Lanka Walltile PLC	60	109.80	7	5	60	97.30	6	5
Pelwatte Sugar Industries PLC	12,300	0.10	1	351	12,300	0.10	1	351
Royal Ceramics Lanka PLC	155,927	111.20	17,339	18,057	264,896	116.90	30,966	30,676
Tokyo Cement Company (Lanka) PLC (Non-voting)	_	_	_	_	140,055	46.90	6,569	3,407
Sub total			60,083	56,748			79,246	72,774
Plantations								
Kotagala Plantations PLC	201,750	17.80	3,591	9,172	201,750	31.60	6,375	9,172
Sub total			3,591	9,172			6,375	9,172
Power and Energy								
Hemas Power PLC	106,249	25.00	2,656	2,053	600,000	18.10	10,860	11,591
Lanka IOC PLC	685,984	37.10	25,450	15,013	685,984	60.00	41,159	15,013
Sub total			28,106	17,066			52,019	26,604
Telecommunications								
Dialog Axiata PLC	949,172	10.70	10,156	6,300	1,500,000	13.30	19,950	9,956
Sub total			10,156	6,300			19,950	9,956
Total			326,263	279,407			367,732	294,427
Mark to market gains/(losses) for the year				46,856				73,305
Market value of equity securities				326,263				367,732

### 30.3 Industry/Sector Composition of Equity Securities - Group and Bank

	As at	December 31, 2	015	As at December 31, 2014		
ndustry/Sector	Market Value Rs. '000	Cost of the Investment Rs. '000	%	Market Value Rs. '000	Cost of the Investment Rs. '000	%
Donk Finance and Incurance						
Bank, Finance and Insurance	42,903	29,678	13.15	41,892	29,678	11.39
Beverage, Food and Tobacco	78,421	56,849	24.04	78,970	63,911	21.47
Chemicals and Pharmaceuticals	30,767	27,606	9.43	29,245	27,606	7.95
Construction and Engineering	11,258	16,685	3.45	14,475	16,685	3.94
Diversified Holdings	20,360	20,529	6.24	4	2	_
Health Care	16,919	17,291	5.19	19,199	17,291	5.22
Hotels and Travels	9,494	10,098	2.91	11,855	10,098	3.22
Investment Trusts	9,202	8,138	2.82	9,926	8,138	2.70
Land and Property	5,003	3,247	1.53	4,576	2,512	1.25
Manufacturing	60,083	56,748	18.42	79,246	72,774	21.55
Plantations	3,591	9,172	1.10	6,375	9,172	1.73
Power and Energy	28,106	17,066	8.61	52,019	26,604	14.15
Telecommunications	10,156	6,300	3.11	19,950	9,956	5.43
Sub total	326,263	279,407	100.00	367,732	294,427	100.00
Mark to market gains/(losses) for the year		46,856			73,305	
Market Value of equity securities	326,263	326,263	100.00	367,732	367,732	100.00

### 31. Loans and Receivables to Banks

'Loans and receivables to banks' comprised of non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as at fair value through profit or loss.
- those that the Group, upon initial recognition, designates as available-for-sale.
- those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

'Loans and receivables to banks' include Amounts due from banks. After initial measurement, 'Loans and receivables to banks and other customers' are subsequently measured at amortised cost using the EIR, less provision for impairment, except when the Group designates loans and receivables at fair value through profit or loss. 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' while the losses arising from impairment are recognised in 'Impairment charges for loans and other losses' in the Income Statement.

	GROU	GROUP		
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross loans and receivables	601,106	551,066	601,106	551,066
Less: Provision for impairment		_	_	_
Net loans and receivables	601,106	551,066	601,106	551,066

The Bank did not make any payments to counter party banks for the oil hedging transactions with effect from June 02, 2009 in response to a Directive received from the Exchange Controller of the Central Bank of Sri Lanka. Consequently, one of the counter party banks appropriated US\$ 4.170 Mn. (Rs. 601.106 Mn.) which has been kept as a deposit with them. This action has been contested by the Bank. In view of the stance taken by the Bank in this regard, both the deposit (made by the Bank) and amount due to the said counter party bank, have been recorded in the Statement of Financial Position.

### 31. 1 (a) By Currency

	GROU	JP	BANK		
As at December 31,	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
United States Dollar	601,106	551,066	601,106	551,066	
Sub total	601,106	551,066	601,106	551,066	

The maturity analysis of Loans and Receivable to Banks is given in Note 60 on pages 362 and 363.

#### 32. Loans and Receivables to Other Customers

'Loans and receivables to other customers' comprised of non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as at fair value through profit or loss
- those that the Group, upon initial recognition, designates as available-for-sale
- those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

'Loans and receivables to other customers' include, Loans & Advances and Lease Receivables of the Group.

When the Group is the lessor in a lease agreement that transfers substantially all risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease. Amounts receivable under finance leases net of initial rentals received, unearned lease income and provision for impairment are classified as lease receivable and are presented within 'Loans and receivables to customers' in the Statement of Financial Position.

After initial measurement, 'Loans and receivables to other customers' are subsequently measured at amortised cost using the EIR, less provision for impairment except when the Group designates loans and receivables at fair value through profit or loss. 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' while the losses arising from impairment are recognised in 'Impairment charges for loans and other losses' in the Income Statement.

The Bank may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held for trading because the intent is to sell the loans in the short term. These commitments to lend, if any, are recorded as derivatives and measured at fair value through profit or loss. Where the loan, on drawdown, is expected to be retained by the Bank and not sold in the short term, the commitment is recorded only when it is an onerous contract that is likely to give rise to a loss.

	GR	OUP	4 2015 0 Rs. '000	ANK	
As at December 31,	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Gross loans and receivables	528,382,921	423,701,112	526,166,681	422,388,031	
Less: Provision for individual impairment [Refer Note 32.2]	5,369,960	4,334,587	5,369,960	4,334,587	
Provision for collective impairment [Refer Note 32.2]	13,089,833	12,835,436	12,681,594	12,621,987	
Net loans and receivables	509,923,128	406,531,089	508,115,127	405,431,457	

The maturity analysis of Loans and Receivables to Other Customers is given in Note 60 on pages 362 and 363.

### 32.1 Analysis

## 32.1 (a) By product

	GR	OUP	BA	ANK
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and receivables				
Overdrafts	81,493,071	70,149,877	81,966,028	70,149,877
Trade finance	45,805,983	41,964,999	45,805,983	41,964,999
Lease/hire purchase receivable [Refer Note 32.3]	37,292,636	24,814,178	34,472,653	23,068,581
Credit cards	4,830,429	4,221,367	4,830,429	4,221,367
Pawning	1,870,881	2,315,884	1,870,881	2,315,884
Staff loans	6,117,701	5,023,379	6,115,662	5,022,923
Housing loans	40,327,887	31,402,858	40,327,887	31,402,858
Personal loans	26,290,382	21,943,589	26,270,744	21,943,016
Term loans				
Short term	44,044,255	31,387,867	44,044,255	31,974,667
Long term	224,519,934	178,538,532	224,672,397	178,385,277
Loans granted from Investment Fund Account (IFA) [Refer Note 32.4]	4,435,479	4,554,420	4,435,479	4,554,420
Bills of exchange	11,354,283	7,384,162	11,354,283	7,384,162
Sub total	528,382,921	423,701,112	526,166,681	422,388,031

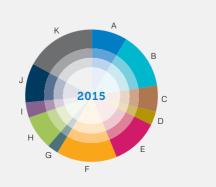
# 32.1 (b) By currency

	GR	BANK		
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Sri Lanka Rupee	425,498,965	337,141,743	423,282,725	335,828,662
United States Dollar	68,414,361	48,651,875	68,414,361	48,651,875
Great Britain Pound	731,487	680,447	731,487	680,447
Euro	1,017,634	1,084,399	1,017,634	1,084,399
Australia Dollar	149,680	148,430	149,680	148,430
Japanese Yen	112,514	159,781	112,514	159,781
Singapore Dollar		350	_	350
Bangladesh Taka	32,449,851	35,829,684	32,449,851	35,829,684
Others	8,429	4,403	8,429	4,403
Sub total	528,382,921	423,701,112	526,166,681	422,388,031

# 32.1 (c) By Industry

	GR	BANK		
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Agriculture and fishing	45,842,559	45,451,951	45,667,263	45,306,783
Manufacturing	73,304,224	54,799,178	73,282,037	54,799,178
Tourism	33,696,456	18,306,599	33,644,481	18,273,643
Transport	16,684,942	13,294,127	16,592,979	13,241,354
Construction	61,665,875	42,546,071	61,602,932	42,525,815
Trading	78,254,327	62,280,308	77,628,493	62,017,576
New economy (e-Commerce, IT, etc.)	14,226,759	6,533,193	14,226,759	6,533,193
Financial and business services	43,466,286	28,627,011	44,264,897	29,205,088
Infrastructure	19,128,131	15,729,998	19,128,131	15,729,998
Other services (Education, Health, Media, etc.)	51,057,181	40,676,423	50,305,657	40,424,390
Other customers	91,056,181	95,456,253	89,823,052	94,331,013
Sub total	528,382,921	423,701,112	526,166,681	422,388,031

## **Sectoral Classification of Loans & Advances - Bank**





	2015	2014
A - Agriculture and fishing	9%	11%
B - Manufacturing	14%	13%
C – Tourism	6%	4%
D - Transport	3%	3%
E - Construction	12%	10%
F - Trading	15%	15%
G - New economy	3%	2%
H - Financial and business services	8%	7%
I – Infrastructure	4%	4%
J – Other services	10%	10%
K – Other customers	16%	21%

# 32.2 Movement in Provision for Individual and Collective Impairment during the Year

	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Movement in Provision for Individual Impairment				
Balance as at January 01,	4,334,587	4,204,654	4,334,587	4,204,654
Charge/(write back) to the Income Statement [Refer Note 17]	1,386,477	269,703	1,386,477	269,703
Net write-off/(recoveries) during the year	(490,046)	(283,111)	(490,046)	(283,111)
Exchange rate variance on foreign currency provisions	90,680	6,765	90,680	6,765
Interest accrued/(reversals) on impaired loans and advances	(265,344)	(278,878)	(265,344)	(278,878)
Other movements	313,606	415,454	313,606	415,454
Balance as at December 31,	5,369,960	4,334,587	5,369,960	4,334,587
Movement in Provision for Collective Impairment				
Balance as at January 01,	12,835,436	11,582,515	12,621,987	11,582,514
Balance assumed on business combination	_	194,805	_	_
Charge/(write back) to the Income Statement [Refer Note 17]	2,710,834	2,911,621	2,516,044	2,892,978
Net write-off/(recoveries) during the year	(2,465,797)	(1,853,340)	(2,465,797)	(1,853,340)
Exchange rate variance on foreign currency provisions	9,360	(165)	9,360	(165)
Other movements	<del>-</del>	_	_	_
Balance as at December 31,	13,089,833	12,835,436	12,681,594	12,621,987
Total of Individual and Collective Impairment	18,459,793	17,170,023	18,051,554	16,956,574

# 32.3 Lease/Hire Purchase Receivable

	GRO	OUP	BA	NK
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Lease/Hire Purchase Receivable	37,292,636	24,814,178	34,472,653	23,068,581
Within one year [Refer Note 32.3 (a)]	12,781,980	10,129,318	11,619,035	9,303,525
From one to five years [Refer Note 32.3 (b)]	24,424,152	14,676,651	22,851,419	13,756,847
After five years [Refer Note 32.3 (c)]	86,504	8,209	2,199	8,209
Less: Provision for individual impairment [Refer Note 32.3 (d)]	93,710	60,961	93,710	60,961
Provision for collective impairment [Refer Note 32.3 (e)]	953,696	1,064,533	556,776	856,170
Net lease receivable	36,245,230	23,688,684	33.822.167	22,151,450

## 32.3 (a) Lease/Hire Purchase Receivable within One Year

´	GROUP		BANK		
As at December 31,	2015	2014	2014	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Total Lease/Hire purchase receivable within one year	16,412,304	13,168,565	14,926,248	12,084,654	
Less: Unearned lease/hire purchase income	3,630,324	3,039,247	3,307,213	2,781,129	
Gross Lease/Hire purchase receivable within one year	12,781,980	10,129,318	11,619,035	9,303,525	
Less: Provision for individual impairment	72,660	49,695	72,660	49,695	
Provision for collective impairment	642,514	707,769	488,019	627,694	
Sub total	12,066,806	9,371,854	11,058,356	8,626,136	

## 32.3 (b) Lease/Hire Purchase Receivable from One to Five Years

	GRO	DUP	BANK		
As at December 31,	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Total Lease/Hire purchase receivable from one to five years	28,211,137	17,062,402	26,138,901	15,871,840	
Less: Unearned lease/hire purchase income	3,786,985	2,385,751	3,287,482	2,114,993	
Gross Lease/Hire purchase receivable from one to five years	24,424,152	14,676,651	22,851,419	13,756,847	
Less: Provision for individual impairment	21,050	11,266	21,050	11,266	
Provision for collective impairment	307,592	356,596	68,755	228,308	
Sub total	24,095,510	14,308,789	22,761,614	13,517,273	

# 32.3 (c) Lease/Hire Purchase Receivable after Five Years

	GROL	BANK		
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Total Lease/Hire purchase receivable after five years	94,062	8,666	2,254	8,666
Less: Unearned lease/hire purchase income	7,558	457	55	457
Gross Lease/Hire purchase receivable after five years	86,504	8,209	2,199	8,209
Less: Provision for individual impairment	<del>-</del>	_	_	_
Provision for collective impairment	3,590	168	2	168
Sub total	82,914	8,041	2,197	8,041

## 32.3 (d) Movement in Provision for Individual Impairment on Lease/Hire Purchase Receivable

	GROU	Р	BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	60,961	54,317	60,961	54,317
Charge/(write back) to the Income Statement	55,159	13,004	55,159	13,004
Net write-off/(recoveries) during the year	(21,673)	(6,211)	(21,673)	(6,211)
Interest accrued on impaired lease/hire purchase receivable	(4,516)	(3,268)	(4,516)	(3,268)
Other movements	3,779	3,119	3,779	3,119
Balance as at December 31,	93,710	60,961	93,710	60,961

### 32.3 (e) Movement in Provision for Collective Impairment on Lease/Hire Purchase Receivable

	GRO	GROUP		K
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	1,064,533	789,654	856,170	789,653
Balance assumed on business combination	_	191,037	_	_
Charge/(write back) to the Income Statement	620,604	783,494	432,047	766,169
Net write-off/(recoveries) during the year	(731,441)	(699,652)	(731,441)	(699,652)
Other movements	-	_	-	_
Balance as at December 31,	953,696	1,064,533	556,776	856,170

### 32.4 Loans Granted from Investment Fund Account (IFA)

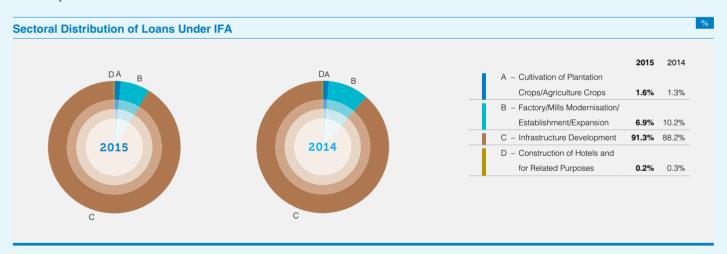
As per the guidelines issued by the Central Bank of Sri Lanka, Investment Fund Account was established effective from January 01, 2011 by transferring tax savings as explained below:

- (a) 5 % of the Profits Before Tax (PBT) calculated for Income Tax (IT) purposes, on the dates of making Self-Assessment payments on IT.
- (b) 8% of the profits calculated for the payment of Value Added Tax (VAT) on financial services at the time of making payments on VAT.

## The Sectoral Distribution of Loans under IFA is Given Below:

As at December 31,				2015			2014	
Sector	Rouge of Interest Rates	Tenure	•	Pending Disbursement	Total	Amount Outstanding	Pending Disbursement	Total
			(A)	(B)	(A) + (B)	(A)	(B)	(A) + (B)
	(%)	(Years)	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
(a) Cultivation of Plantation crops/ Agriculture crops	6.85 – 7.91	5.5	65,909	_	65,909	58,067	35,115	93,182
(b) Factory/Mills modernisation/ Establishment/Expansion	6.85 - 9.00	5	295,591	51,800	347,391	445,247	51,800	497,047
(c) Infrastructure Development	6.80 - 11.00	14.5	3,886,732	132,414	4,019,146	3,861,496	402,017	4,263,513
(d) Construction of Hotels and for related purposes	7.35 - 8.41	7	10,372	_	10,372	12,508	-	12,508
Capital Outstanding of the Loans granted			4,258,604	184,214	4,442,818	4,377,318	488,932	4,866,250
(e) Interest receivable			176,875	_	176,875	177,102	-	177,102
Carrying amount of the Loans granted			4,435,479	184,214	4,619,693	4,554,420	488,932	5,043,352

The requirement to maintain the Investment Fund Account was ceased with effective from October 1, 2014 as per the instructions issued by the Central Bank of Sri Lanka.



# 32.5 Summary of Individually Impaired Loans and Receivables – Bank

As at December 31,	2018	5	2014		
	Individually Impaired Loans and Receivables	Individual Impairment	Individually Impaired Loans and Receivables	Individual Impairment	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Loans and Advances					
Overdrafts	1,336,117	1,007,622	1,005,810	836,674	
Trade finance	548,552	303,921	531,495	393,998	
Lease/hire purchase receivable	533,359	93,710	107,219	60,961	
Credit cards		_	_	-	
Pawning	4,566	67	6,360	133	
Staff loans		_	_	-	
Housing loans	12,445	6,194	24,041	5,632	
Personal loans	2,588	1,753	2,368	1,697	
Term loans	9,309,002	3,956,693	4,871,389	3,035,492	
Bills of exchange		_	_	_	
Total	11,746,629	5,369,960	6,548,682	4,334,587	

The net exposure of Rs. 6,376.669 Mn. (Rs. 2,214.095 Mn. As at December 31, 2014) is covered through adequate collateral valued over Rs. 6,376.669 Mn. (Over Rs. 2,214.095 Mn. as at December 31, 2014) excluding machinery and stocks.

#### 33. Financial Investments – Available-for-Sale

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

Derivatives are recorded at fair value and carried as liabilities when their fair value is negative.

The Group has not designated any loans or receivables as available-for-sale. After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised in Equity through OCI in the 'Available-for-sale reserve'. When these financial investments are disposed of, the cumulative gain or loss previously recognised in Equity is recycled to profit or loss in 'Other operating income'. Interest earned whilst holding available-for-sale financial investments is reported as 'Interest Income' using the EIR. Dividend earned whilst holding available-for-sale financial investments are recognised in the Income Statement as 'Other operating income' when the right to receive the payment has been established. The losses arising from impairment of such investments too are recognised in the Income Statement in 'Impairment losses on financial investments' and removed from the 'Available-for-sale reserve'.

	GROUP		BANK		
As at December 31,	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Government securities	203,774,930	213,381,263	203,757,409	213,364,740	
Government securities - Sri Lanka [Refer Note 33.1 (a)]	193,956,070	205,176,556	193,938,549	205,160,033	
Government securities – Bangladesh [Refer Note 33.1 (b)]	9,818,860	8,204,707	9,818,860	8,204,707	
Equity securities [Refer Note 33.2 and 33.3]	281,450	230,313	281,326	230,189	
Quoted shares – (At mark to market value) [Refer Notes 33.2.(a) and 33.3.(a)]	234,839	185,132	234,839	185,132	
Unquoted shares – (At cost) [Refer Notes 33.2 (b) and 33.3 (b)]	46,611	45,181	46,487	45,057	
Investment in Unit Trust [Refer Note 33.4 and 33.5]	205,554	613,441	205,554	613,441	
Total	204,261,934	214,225,017	204,244,289	214,208,370	

There were no impairment losses on Financial Investments – Available-for-Sale as at December 31, 2015 (2014 – Nil).

The maturity analysis of Financial Investments – Available-for-Sale is given in Note 60 on pages 362 and 363.

### **33.1** Government Securities

## 33.1 (a) Government Securities – Sri Lanka

	GR	BANK		
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Treasury bills	8,961,530	48,112,556	8,944,009	48,096,033
Treasury bonds	172,727,815	150,113,050	172,727,815	150,113,050
Sri Lanka sovereign bonds	12,266,725	6,950,950	12,266,725	6,950,950
Sub total	193,956,070	205,176,556	193,938,549	205,160,033

# 33.1 (b) Government Securities – Bangladesh

	GRO	DUP	BAN	١K
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Treasury bills	817,545	736,146	817,545	736,146
Treasury bonds	9,001,315	7,468,561	9,001,315	7,468,561
Sub total	9,818,860	8,204,707	9,818,860	8,204,707

# 33.2 (a) Equity Securities – As at December 31, 2015

		GROUP				BAN	١K	
	No. of Shares	Market Price	Market Value	Cost of Investment	No. of Shares	Market Price	Market Value	Cost of Investment
		Rs.	Rs. '000	Rs. '000		Rs.	Rs. '000	Rs. '000
Sector/Type of Securities								
Quoted Shares: Bank, Finance and Insurance								
DFCC Bank PLC	3,496	168.10	588	155	3,496	168.10	588	155
Hatton National Bank PLC	11,760	210.60	2,477	315	11,760	210.60	2,477	315
Nations Trust Bank PLC	1,333	86.30	115	22	1,333	86.30	115	22
National Development Bank PLC	5,424	194.10	1,053	215	5,424	194.10	1,053	215
Sampath Bank PLC	3,811	248.00	945	72	3,811	248.00	945	72
Seylan Bank PLC	1,015	95.00	96	24	1,015	95.00	96	24
VISA Inc.	19,424	US\$. 77.55	217,138	_	19,424	US\$. 77.55	217,138	_
Sub total			222,412	803			222,412	803
Manufacturing								
Alumex PLC	714,200	17.40	12,427	9,999	714,200	17.40	12,427	9,999
Sub total			12,427	9,999			12,427	9,999
Total			234,839	10,802			234,839	10,802

# 33.2 (b) Equity Securities – As at December 31, 2015

	GROUP				BANI	<		
	No. of Shares	Market Price	Market Value	ue Investment Shares Price V	Shares Price		Market Cost of Value Investment	
		Rs.	Rs. '000	Rs. '000		Rs.	Rs. '000	Rs. '000
Sector/Type of Securities Unquoted Shares: Bank, Finance and Insurance								
Central Depository of Bangladesh Ltd.	3,427,083	BDT 2.75	17,293	17,293	3,427,083	BDT 2.75	17,293	17,293
Credit Information Bureau of Sri Lanka	5,637	100.00	564	564	4,400	100.00	440	440
Fitch Ratings Lanka Ltd.	62,500	10.00	625	625	62,500	10.00	625	625
LankaClear (Pvt) Ltd.	1,000,000	10.00	10,000	10,000	1,000,000	10.00	10,000	10,000
Lanka Financial Services Bureau Ltd.	225,000	10.00	2,250	2,250	225,000	10.00	2,250	2,250
RAM Ratings (Lanka) Ltd.	689,590	12.50	8,620	8,620	689,590	12.50	8,620	8,620
Society for Worldwide Interbank Financial Telecommunication (SWIFT)	47	EUR 912.77	7,259	7,259	47	EUR 912.77	7,259	7,259
Total			46,611	46,611			46,487	46,487

# 33.2 (c) Sector/Industry Composition of the Equity Securities – As at December 31, 2015

	GRO	UP	BAN	K	
	Market Value Rs. '000	Cost of Investment Rs. '000	Market Value Rs. '000	Cost of Investment Rs. '000	
Sector/Industry					
Bank, Finance and Insurance	269,023	47,414	268,899	47,290	
Manufacturing	12,427	9,999	12,427	9,999	
Total	281,450	57,413	281,326	57,289	

# 33.3 (a) Equity Securities – As at December 31, 2014

		GROUP				BAN	BANK		
	No. of Shares	Market Price	Market Value	Cost of Investment	No. of Shares	Market Price	Market Value	Cost of Investment	
		Rs.	Rs. '000	Rs. '000		Rs.	Rs. '000	Rs. '000	
Sector/Type of Securities									
Quoted Shares: Bank, Finance and Insurance									
DFCC Bank PLC	3,496	219.00	766	155	3,496	219.00	766	155	
Hatton National Bank PLC	11,760	194.90	2,292	315	11,760	194.90	2,292	315	
Nations Trust Bank PLC	1,333	97.00	129	22	1,333	97.00	129	22	
National Development Bank PLC	5,424	250.00	1,356	215	5,424	250.00	1,356	215	
Sampath Bank PLC	3,714	236.30	878	72	3,714	236.30	878	72	
Seylan Bank PLC	1,015	95.00	96	24	1,015	95.00	96	24	
VISA Inc.	4,856	US\$.262.20	168,259	-	4,856	US\$.262.20	168,259	_	
Sub total			173,776	803			173,776	803	
Manufacturing									
Alumex PLC	714,200	15.90	11,356	9,999	714,200	15.90	11,356	9,999	
Sub total			11,356	9,999			11,356	9,999	
Total			185,132	10,802			185,132	10,802	

# 33.3 (b) Equity Securities – As at December 31, 2014

	GROUP				BANK				
	No. of Shares	Market Price Rs.	Market Value Rs. '000	Cost of Investment Rs. '000	No. of Shares	Market Price Rs.	Market Value Rs. '000	Cost of Investment Rs. '000	
Sector/Type of Securities Unquoted Shares:									
Bank, Finance and Insurance Central Depository of Bangladesh Ltd.	3,427,083	BDT 2.75	15,863	15,863	3,427,083	BDT 2.75	15,863	15,863	
Credit Information Bureau of Sri Lanka	5,637	100.00	564	564	4,400	100.00	440	440	
Fitch Ratings Lanka Ltd.	62,500	10.00	625	625	62,500	10.00	625	625	
LankaClear (Pvt) Ltd.	1,000,000	10.00	10,000	10,000	1,000,000	10.00	10,000	10,000	
Lanka Financial Service Bureau Ltd.	225,000	10.00	2,250	2,250	225,000	10.00	2,250	2,250	
RAM Ratings (Lanka) Ltd.	689,590	12.50	8,620	8,620	689,590	12.50	8,620	8,620	
Society for Worldwide Interbank Financial Telecommunication (SWIFT)	47	EUR 912.77	7,259	7,259	47	EUR 912.77	7,259	7,259	
Total			45,181	45,181			45,057	45,057	

# 33.3 (c) Sector/Industry Composition of the Equity Securities – As at December 31, 2014

GRO	GROUP		IK
Market Value	Cost of Investment	Market Value	Cost of Investment
Rs. '000	Rs. '000	Rs. '000	Rs. '000
218,957	45,984	218,833	45,860
11,356	9,999	11,356	9,999
230,313	55,983	230,189	55,859
	Market Value Rs. '000 218,957 11,356	Market Cost of Value Investment Rs. '000 Rs. '000  218,957 45,984  11,356 9,999	Market Value Rs. '000         Cost of Investment Rs. '000         Market Value Rs. '000           218,957         45,984         218,833           11,356         9,999         11,356

# 33.4 Investment in Unit Trust – As at December 31, 2015

	GRO	UP	BAN	IK
	Market Value	Cost of Investment	Market Value	Cost of Investment
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Sector/Industry				
Bank, Finance and Insurance				
Capital Alliance Investment Ltd.	205,554	201.402	205,554	201.402
otal	205,554	201.402	205,554	201.402

### 33.5 Investment in Unit Trust - As at December 31, 2014

	GRO	GROUP		IK
	Market Value	Cost of Investment	Market Value	Cost of Investment
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
etor/Industry				
nk, Finance and Insurance				
pital Alliance Investment Ltd.	613,441	602,517	613,441	602,517
	613,441	602,517	613,441	602,517

#### 34. Financial Investments - Loans and Receivables

Financial investments classified as loans and receivables' include unquoted debt instruments. After initial measurement, these are subsequently measured at amortised cost using the EIR, less provision 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' while the losses arising from impairment are recognised in 'Impairment charges for loans and other losses' in the Income Statement.

	GROUP		BANK	
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Investments in Government Securities [Refer Note 34.1]	44,925,168	40,850,011	44,925,168	40,850,011
Other Investments [Refer Note 34.2]	12,799,201	9,586,053	12,799,201	9,586,053
Total	57,724,369	50,436,064	57,724,369	50,436,064

### 34.1 Investments in Government Securities

	GRO	BANK		
As at December 31,	2015		2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Treasury bills	-	-	_	-
Treasury bonds	605,737	605,859	605,737	605,859
Sri Lanka Development Bonds	44,319,431	40,244,152	44,319,431	40,244,152
Total	44,925,168	40,850,011	44,925,168	40,850,011

#### 34.2 Other Investments

2015	2014		
	2014	2015	2014
Rs. '000	Rs. '000	Rs. '000	Rs. '000
1,272,757	8,458,544	11,272,757	8,458,544
1,140,613	1,126,469	1,140,613	1,126,469
385,831	1,040	385,831	1,040
12,799,201	9,586,053	12,799,201	9,586,053
•	1,272,757 1,140,613 385,831	1,272,757     8,458,544       1,140,613     1,126,469       385,831     1,040	1,272,757     8,458,544     11,272,757       1,140,613     1,126,469     1,140,613       385,831     1,040     385,831

The maturity analysis of Financial Investments - Loans and Receivables is given in Note 60 on pages 362 and 363.

## 34.2.1 Debentures

		GR	OUP		BANK				
As at December 31,	20	015	2014		2015		2	014	
	Amortised Cost	Market Value	Amortised Cost	Market Value	Amortised Cost	Market Value	Amortised Cost	Market Value	
	Rs. '000	Rs. '000							
People's Leasing & Finance PLC	751,133	751,133	738,654	738,654	751,133	751,133	738,654	738,654	
Senkadagala Finance PLC	41,869	41,869	41,869	41,869	41,869	41,869	41,869	41,869	
Singer (Sri Lanka) PLC	622,475	622,475	181,005	181,005	622,475	622,475	181,005	181,005	
Central Finance Company PLC	439,344	439,344	277,872	277,872	439,344	439,344	277,872	277,872	
Lion Brewery (Ceylon) PLC	611,968	611,968	815,073	815,073	611,968	611,968	815,073	815,073	
Hayleys PLC	1,206,558	1,206,558	91,575	91,575	1,206,558	1,206,558	91,575	91,575	
Singer Finance (Lanka) PLC	661,672	661,672	355,756	355,756	661,672	661,672	355,756	355,756	
Nawaloka Hospitals PLC	237,167	237,167	237,167	237,167	237,167	237,167	237,167	237,167	
Hemas Holdings PLC	54,048	54,048	54,048	54,048	54,048	54,048	54,048	54,048	
Abans PLC	77,156	77,156	77,156	77,156	77,156	77,156	77,156	77,156	
DFCC Bank PLC	1,857,008	1,857,008	1,857,008	1,857,008	1,857,008	1,857,008	1,857,008	1,857,008	
Richard Pieris & Company PLC	695,136	695,136	695,136	695,136	695,136	695,136	695,136	695,136	
Softlogic Finance PLC	330,465	330,465	330,465	330,465	330,465	330,465	330,465	330,465	
Lanka Orix Leasing Company PLC	2,045,370	2,045,370	2,018,740	2,018,740	2,045,370	2,045,370	2,018,740	2,018,740	
Mercantile Investments & Finance PLC	42,551	42,551	42,551	42,551	42,551	42,551	42,551	42,551	
Orient Finance PLC	197,173	197,173	197,173	197,173	197,173	197,173	197,173	197,173	
Commercial Leasing & Finance PLC	1,043,808	1,043,808	-	-	1,043,808	1,043,808	_	_	
MTD Walkers PLC	307,453	307,453	-	=	307,453	307,453	_	-	
Dunamis Capital PLC	50,403	50,403	_	=	50,403	50,403			
Urban Development Authority (11% - 2015)	_	-	447,296	447,296	_	-	447,296	447,296	
Sub total	11,272,757	11,272,757	8,458,544	8,458,544	11,272,757	11,272,757	8,458,544	8,458,544	

The above debentures are stated at amortised cost and classified under Financial Investments-Loans and Receivables due to the absence of an active market.

# 34.2.2 Trust Certificates

		GROUP				BANK				
As at December 31,	20	2015		)14	20	)15	2014			
	Amortised Cost	Market Value	Amortised Cost	Market Value	Amortised Cost	Market Value	Amortised Cost	Market Value		
	Rs. '000	Rs. '000								
People's Leasing Company PLC	338,364	338,364	644,356	644,356	338,364	338,364	644,356	644,356		
Assetline Leasing Company Ltd.	319,009	319,009	374,091	374,091	319,009	319,009	374,091	374,091		
Richard Pieris Arpico Finance Ltd.	121,862	121,862	108,022	108,022	121,862	121,862	108,022	108,022		
Mercantile Investments & Finance PLC	361,378	361,378	_	_	361,378	361,378	=	-		
Sub total	1,140,613	1,140,613	1,126,469	1,126,469	1,140,613	1,140,613	1,126,469	1,126,469		

#### 34.2.3 Corporate Investments in Bangladesh

		GROUP					BANK				
As at December 31,	20	2015		2014		15	2014				
	Amortised Cost Rs. '000	Market Value Rs. '000									
Price Bonds	1,501	1,501	1,040	1,040	1,501	1,501	1,040	1,040			
Commercial Papers	384,330	384,330	_	_	384,330	384,330	_	_			
Sub total	385,831	385,831	1,040	1,040	385,831	385,831	1,040	1,040			

## 35. Investments in Subsidiaries

Subsidiaries are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The cost of an acquisition is measured at fair value of the consideration, including contingent consideration. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Subsequent to the initial measurement the Bank continues to recognise the investments in Subsidiaries at cost.

The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date when control ceases.

The Financial Statements of all subsidiaries in the Group have a common financial year which ends on December 31, except for the Serendib Finance Ltd., a licensed finance company, whose financial year ends on March 31. The Financial Statements of the Bank's Subsidiaries are prepared using consistent accounting policies.

The reason for using a different Reporting date by the aforesaid subsidiary is due to the requirement imposed by the Central Bank of Sri Lanka for licensed finance companies to publish their key financial data and key performance indicators for 12-month period ended March 31 and 6-month period ended September 30, every year, in accordance with a format prescribed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions, income and expenses are eliminated in full.

There are no significant restrictions on the ability of Subsidiaries to transfer funds to the Parent (the Bank) in the form of cash dividend or repayment of loans and advances.

All Subsidiaries of the Bank have been incorporated in Sri Lanka except Commex Sri Lanka S.R.L. which was incorporated in Italy.

			GP	OUP			D/	NK	
As at December 31,			2015	OUF	2014		2015		2014
	Holding	Cost	Market Value/ Directors' Valuation	Cost	Market Value/ Directors' Valuation	Cost	Market Value/ Directors' Valuation	Cost	Market Value/ Directors' Valuation
	%	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Local Subsidiaries:									
Quoted:									
Commercial Development Company PLC	94.28(*)	-	-	-	-	273,610	1,047,611	274,393	1,145,916
(11,313,290 Ordinary Shares)							(@ Rs. 92.60)	(	@ Rs. 101.00)
(11,345,705 Ordinary Shares as at December 31, 2014)	(94.55 in 2014)								
Unquoted:									
ONEzero Company Ltd.	100	_	-		_	5,000	5,000	5,000	5,000
(500,001 Ordinary Shares)							(@ Rs. 10.00)		(@ Rs. 10.00)
(500,001 Ordinary Shares as at December 31, 2014)									
Unquoted:									
Serendib Finance Ltd.	100	_	_	-	-	916,046	916,046	916,046	916,046
(21,600,000 Ordinary Shares)									
(21,600,000 Ordinary Shares as at Dec 31, 2014)									
Foreign Subsidiary: Unquoted: Commex – Sri Lanka S.R.L.									
(Incorporated in Italy) (**)	100		-	_	_	193,080	42,490	129,928	15,561
Gross Total		_	_	-	-	1,387,736	2,011,147	1,325,367	2,082,523
Provision for impairment [Refer Note 35.1]						(150,590)	_	(114,367)	-
Net Total		_	-	-	_	1,237,146	2,011,147	1,211,000	2,082,523

(\*) The Board of Directors of the Bank resolved to reduce the shareholding of Commercial Development Company PLC, (in which the Bank had a stake of 94.55%) to comply with the requirements of the Listing Rule No. 7.13 of the Colombo Stock Exchange on Minimum Public Holding. Accordingly, the Bank disposed 32,415 shares during the year through the Colombo Stock Exchange and reduced the shareholding in the above Company to 94.28% by December 31, 2015 and is in the process of taking steps to dispose the required number of shares to adhere to the requirements of the Listing Rules.

Consequent to the above disposal, ownership interests of the Bank has changed while retaining control. As per SLFRS 10 on 'Consolidated Financial Statements', changes in a parent's ownership interest in a Subsidiary that do not result in the parent losing control are equity transactions and hence, the resulting gain/loss is recognised in equity. As majority of the share trades had occurred in December 2015, it was assumed that disposals took place on December 31, 2015 for the purpose of reporting.

(\*\*) During the year, the Bank was able to obtain the Money Transfer License from the Bank of Italy. However, the Bank is yet to commence intended commercial operations in Italy and as such, made provisions for the expenses incurred on account of Italy operations when finalising the Banks' Financial Statements.

As set out above, the Bank does not have any subsidiaries with material non-controlling interest. Accordingly, no additional disclosures have been made as required by the SLFRS 12 on 'Disclosure of Interests in Other Entities'.

The maturity analysis of Investments in Subsidiaries is given in Note 60 on pages 362 and 363.

### 35.1 Movement in Provision for Impairment o/a Subsidiaries during the Year

	GROU	JP	BANK		
As at December 31,	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Balance as at January 01,	_	-	114,367	85,580	
Charge/(Write back) to the Income Statement [Refer Note 17]	_	_	36,223	28,787	
Balance as at December 31,	_	_	150,590	114,367	

The Bank made a provision against its investment in Commex – Sri Lanka S.R.L. which incorporated in Italy to bring the investment value in line with the net assets value of the said subsidiary based on an assessment of impairment. Accordingly, the total amount provided for impairment as at December 31, 2015 is Rs.150.590 Mn. (2014 – Rs. 114.367 Mn.)

### 35.2 Acquisition of a Subsidiary

As per the Financial Sector Consolidation Road Map of the Central Bank of Sri Lanka, on September 01, 2014, the Bank acquired 100% ownership of Indra Finance Ltd. (now known as Serendib Finance Ltd.) a Licensed Finance Company registered with the Central Bank of Sri Lanka for a total purchase consideration of Rs. 916.046 Mn. The Bank obtained all relevant regulatory approvals prior to the acquisition of this Company.

#### 35.2.1 Consideration Transferred

Total purchase consideration stated above was satisfied in the form of cash.

### 35.2.2 Identifiable Assets Acquired and Liabilities Assumed

The recognised amounts of assets acquired and liabilities assumed of Indra Finance Ltd. as at the date of acquisition were as follows:

	Fair Value Recognised
	on Acquisition Rs. '000
Assets	
Cash and cash equivalents	24,576
Government Securities	17,618
Financial investments – Available-for-sale	124
Property, plant & equipment and intangible assets (net) [Refer Notes 37.2 and 38.2]	207,504
Loans and receivables to other customers	1,652,134
Other assets	24,355
Sub total	1,926,311
Liabilities	
Due to banks	(1,038,736)
Current tax liabilities [Refer Note 45]	(7,200)
Subordinated liabilities [Refer Note 50]	(215,000)
Provision for gratuity payable [Refer Note 48.1 (c)]	(1,977)
Deferred tax liabilities [Refer Note 46.1]	(47,292)
Other liabilities	(100,105)
Sub total	(1,410,310)
Fair value of identifiable net assets at the date of acquisition	516,001

#### 35.2.3 Goodwill

Goodwill arising from the acquisition has been recongnised as the excess of the consideration transferred over the net identifiable assets acquired and liabilities assumed.

916,046
(516,001)
400,045

### 35.2.4 Cost of Acquisition of the Subsidiary, net of Cash Acquired

	GROUP	BANK
	Rs. '000	Rs. '000
Purchase consideration transferred [Refer Note 35.2.1]	916,046	916,046
Cash and cash equivalents acquired on business combination [Refer Note 35.2.2]	(24,576)	_
Cost of acquisition of the subsidiary, net of cash acquired	891,470	916,046

#### 36. Investments in Associates

Associates are those entities in which the Group has significant influence, but not control, over the variable returns through its power over the investee. Significant influence is presumed to exist when the Group holds 20% or more of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost, in terms of Sri Lanka Accounting Standards – LKAS 28 on 'Investments in Associates and Joint venture'. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The Consolidated Financial Statements include the Group's share of the income and expenses and equity movements of equity-accounted investees, 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. Accordingly, under the Equity Method, investments in Associates are carried at cost plus post-acquisition changes in the Group's share of net assets of the Associates and are reported as a separate line item in the Statement of Financial Position. The Income Statement reflects the Group's share of the results of operations of the Associates. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in Equity through OCI. Unrealised gains and losses resulting from transactions between the Group and the Associate are eliminated to the extent of the interest in Associate.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long term investments, is reduced to 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 Group resumes recognising its share of those profits only after its share of the profits equal the share of losses not recognised previously.

The Group 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 – LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

Upon loss of significant influence over the Associate, the Group 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.

After application of the Equity Method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its Associate. At each Reporting date, the Group determines whether there is objective evidence that the investment in the Associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the Associate and its carrying value then recognises the loss as 'Share of profit of an Associate' in the Income Statement.

As at December 31,				201	5	201	4
	Incorporation and operation	Ownership Interest	No. of Shares	Cost	Directors Valuation/ Market Value	Cost	Directors Valuation/ Market Value
		%		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Equity Investments Lanka Ltd.	Sri Lanka	22.92	4,110,938	44,331	67,373	44,331	72,134
Commercial Insurance Brokers (Pvt) Ltd.	Sri Lanka	18.86*	120,000	100	37,130	100	34,153
				44,431	104,503	44,431	106,287

<sup>\*20%</sup> stake of Commercial Insurance Brokers (Pvt) Ltd. is held by Commercial Development Company PLC, a 94.28% owned subsidiary of the Bank, which is listed on the Colombo Stock Exchange. The Bank has a significant influence over financial and operating activities of Commercial Insurance Brokers (Pvt) Ltd. though it effectively holds only 18.86%.

#### 36.1 Reconciliation of Summarised Financial Information

Reconciliation of the summarised financial information to the carrying amount of the interest in associate recognised in the Consolidated Financial Statements is as follows:

As at December 31,		2015			2014	
	Equity Investments Lanka Ltd.	Commercial Insurance Brokers (Pvt) Ltd.	Total	Equity Investments Lanka Ltd.	Commercial Insurance Brokers (Pvt) Ltd.	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost of investments	44,331	100	44,431	44,331	100	44,431
Add: Share of Profit Applicable to the Group						
Investment in associate as at January 01,	27,803	34,053	61,856	16,080	33,662	49,742
	1,405	3,544	4,949	11,723	1,242	12,965
Profit/(loss) for the period recognised in Income Statement, net of tax	9,916	3,722	13,638	5,108	1,455	6,563
Profit or Loss and Other Comprehensive Income, net of tax	(8,511)	(178)	(8,689)	6,615	(213)	6,402
Transactions which are recorded directly in equity	_	_	_	_	_	_
Dividend received	(6,166)	(567)	(6,733)	_	(851)	(851)
Balance as at December 31,	67,373	37,130	104,503	72,134	34,153	106,287

# 36.2 Summarised Financial Information in Respect of Associates is set out below:

# 36.2 (a) Summarised Income Statement

For the year ended December 31,		2015			2014	
	Equity Investments Lanka Ltd.	Commercial Insurance Brokers (Pvt) Ltd.	Total	Equity Investments Lanka Ltd.	Commercial Insurance Brokers (Pvt) Ltd.	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Percentage Ownership Interest						
Revenue	59,436	224,373	283,809	41,202	205,425	246,627
Expenses	(16,926)	(192,222)	(209,148)	(21,160)	(190,064)	(211,224)
Income Tax	754	(12,468)	(11,714)	2,246	(7,668)	(5,422)
Profit from continuing operations, net of tax	43,264	19,683	62,947	22,288	7,693	29,981
Group's share of profit from continuing operations, net of tax	9,916	3,722	13,638	5,108	1,455	6,563
Other Comprehensive Income, net of tax	(37,134)	(939)	(38,073)	28,861	(1,129)	27,732
Group's share of Other Comprehensive Income from continuing operations, net of tax	(8,511)	(178)	(8,689)	6,615	(213)	6,402
Share of results of equity accounted investee recognised in Income Statement and Statement of Profit or Loss and Other Comprehensive Income	1.405	3,544	4,949	11,723	1.242	12,965

# 36.2 (b) Summarised Statement of Financial Position

As at December 31,	20	015	2014		
	Equity Investments Lanka Ltd.	Commercial Insurance Brokers (Pvt) Ltd.	Equity Investments Lanka Ltd.	Commercial Insurance Brokers (Pvt) Ltd.	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Percentage ownership interest					
Non-current assets	207,786	141,015	278,071	141,509	
Current assets	94,757	128,868	44,772	101,000	
Non-current liabilities	(5,618)	(21,199)	(5,260)	(17,818	
Current liabilities	(2,975)	(52,334)	(2,862)	(44,083	
Net assets	293,950	196,350	314,721	180,608	
Group's share of net assets	67,373	37,130	72,134	34,153	
Less: Unrealised profits	_	_	_	_	
Carrying amount of interest in associates	67,373	37,130	72,134	34,153	

The Group recognises the share of net assets of the associates under the Equity Method to arrive at the Directors' valuation.

The maturity analysis of Investments of Associates is given in Note 60 on pages 362 and 363.

#### 37. Property, Plant & Equipment

The Group applies the requirements of the Sri Lanka Accounting Standard – LKAS 16 on 'Property, Plant & Equipment' in accounting for its owned assets (including buildings under operating leases where the Group is the lessor) which are held for and use in the provision of services, for rental to others or for administrative purposes and are expected to be used for more than one year.

#### **Basis of Recognition**

Property, Plant & Equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Group and cost of the asset can be reliably measured.

#### **Basis of Measurement**

An item of Property, Plant & Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (excluding the costs of day-to-day servicing) as explained in the Note on 'Subsequent Cost'. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software which is integral to the functionality of the related equipment is capitalised as part of Computer Equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

#### Cost Model

The Group applies the Cost Model to all Property, Plant & Equipment except freehold land and freehold and leasehold buildings and records at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

#### Revaluation Model

The Group applies the Revaluation Model for the entire class of freehold land and freehold and leasehold buildings for measurement after initial recognition. Such properties are carried at revalued amounts, being their fair value at the date of revaluation, less any subsequent accumulated depreciation on buildings and any accumulated impairment losses charged subsequent to the date of valuation. Freehold land and buildings of the Group are revalued by independent professional valuers every three 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.

On revaluation of an asset, any increase in the carrying amount is recognised in Revaluation Reserve in Equity through OCI or used to reverse a previous loss on revaluation of the same asset, which was charged to the Income Statement. In this circumstance, the increase is recognised as income only to the extent of the previous write down in value. Any decrease in the carrying amount is recognised as an expense in the Income Statement or charged to Revaluation Reserve in equity through OCI, only to the extent of any credit balance existing in the Revaluation Reserve in respect of that asset. Any balance remaining in the Revaluation Reserve in respect of an asset, is transferred directly to Retained Earnings on retirement or disposal of the asset.

The Group revalued all its freehold land and freehold and leasehold buildings as at December 31, 2014. Methods and significant assumptions including unobservable market inputs employed in estimating the fair value together with the sensitivity of same are given in Note 37.5 (b) on pages 326 to 330.

## **Subsequent Cost**

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

## Derecognition

An item of Property, Plant & Equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset), is recognised in 'Other Income (Net)' in profit or loss in the year the asset is derecognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant & Equipment, the remaining carrying amount of the replaced part is derecognised as required by Sri Lanka Accounting Standard – LKAS 16 on 'Property, Plant & Equipment'.

#### Capital Work-in-Progress

These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost less any accumulated impairment losses. Capital work-in-progress is transferred to the relevant asset when it is in the location and condition necessary for it to be capable of operating in the manner intended by management (i.e. available for use).

#### 37.1 Group - 2015

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment, Furniture & Fixtures	Capital Work-in- Progress	Total 2015	Total 2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs.'000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost/Valuation									
Balance as at January 01,	4,883,273	2,549,352	992,126	3,518,719	327,762	4,131,515	408,205	16,810,952	14,449,047
Property, Plant & Equipment acquired on business combination	_	_	-	_	_	_	_	_	216,168
Additions during the year	41,429	153,299	22,022	441,459	41,428	436,534	152,152	1,288,323	1,120,582
Transfer of accumulated depreciation on assets revalued	_	_	_	-	_	_	_	_	(243,872)
Surplus on revaluation of property	_	-	-	-	-	-	_	_	1,812,757
Disposals during the year	-	-	-	(89,418)	(38,262)	(81,624)	-	(209,304)	(491,897)
Exchange rate variance	-	-	-	10,024	4,252	28,466	-	42,742	(3,573)
Transfers/adjustments	-	(66,713)	66,713	=	=	-	(201,918)	(201,918)	(48,260
Balance as at December 31,	4,924,702	2,635,938	1,080,861	3,880,784	335,180	4,514,891	358,439	17,730,795	16,810,952
Accumulated Depreciation and Impairment Losses									
Balance as at January 01,	-	608	34,369	2,719,287	205,193	2,716,634	-	5,676,091	5,273,822
Accumulated depreciation assumed on business combination	-	_	_	-	-	-	-	_	17,068
Charge for the year [Refer Note 19]	-	90,677	27,927	334,108	41,274	530,176	-	1,024,162	1,087,175
Impairment loss	-	-	-	-	-	-	-	_	-
Transfer of accumulated depreciation	_	_	_	-	-	-	-	_	(243,872
on assets revalued									
on assets revalued  Disposals during the year		_	_	(88,532)	(33,269)	(65,772)	-	(187,573)	(456,362)
	- · ·	-	-	(88,532) 8,838	(33,269) 4,152	(65,772) 23,692		(187,573) 36,682	(456,362)
Disposals during the year		- -							
Disposals during the year Exchange rate variance		- - - 91,285	_		4,152				
Disposals during the year Exchange rate variance Transfers/adjustments		_	-	8,838	4,152 -	23,692	<u>-</u>	36,682	(1,740

# 37.2 Group - 2014

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment, Furniture & Fixtures	Capital Work-in- Progress	Total 2014	Total 2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs.'000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost/Valuation									
Balance as at January 01,	3,554,398	2,230,019	838,626	3,388,112	331,862	3,854,867	251,163	14,449,047	13,749,615
Property, Plant & Equipment acquired on business combination	86,000	91,000	_	9,473	12,341	17,354	-	216,168	
Additions during the year	52,399	3,558	-	273,961	81,407	503,955	205,302	1,120,582	959,019
Transfer of accumulated depreciation on assets revalued		(206,238)	(37,634)	_	_	_	-	(243,872)	
Surplus on revaluation of property	1,190,476	431,013	191,268	-	-	-	-	1,812,757	_
Disposals during the year	-	_	(134)	(147,082)	(97,746)	(246,935)	_	(491,897)	(281,871)
Exchange rate variance	-	=	=	(254)	(102)	(3,217)	=	(3,573)	24,210
Transfers/adjustments	_	-	-	(5,491)	-	5,491	(48,260)	(48,260)	(1,926)
Balance as at December 31,	4,883,273	2,549,352	992,126	3,518,719	327,762	4,131,515	408,205	16,810,952	14,449,047
Accumulated Depreciation and Impairment Losses									
Balance as at January 01,	-	136,854	49,119	2,558,152	236,022	2,293,675	-	5,273,822	4,802,734
Accumulated depreciation assumed on business combination	_	_	_	4,725	6,728	5,615	_	17,068	_
Charge for the year [Refer Note 19]	_	69,992	22,884	306,632	41,090	646,577	=	1,087,175	717,583
Impairment loss	_	=	=	-	-	_	=	_	=
Reversal of over provided depreciation	_	(206,238)	(37,634)	-	-	-	-	(243,872)	-
Disposals during the year		-	_	(144,656)	(78,560)	(233,146)	_	(456,362)	(261,555)
Exchange rate variance		_	_	(207)	(87)	(1,446)	-	(1,740)	15,119
Transfers/adjustments		-	-	(5,359)	-	5,359	-	_	(59)
Balance as at December 31,		608	34,369	2,719,287	205,193	2,716,634	-	5,676,091	5,273,822
Net book value as at December 31, 2014	4,883,273	2,548,744	957,757	799,432	122,569	1,414,881	408,205	11,134,861	
Net book value as at December 31, 2013	3,554,398	2,093,165	789,507	829,960	95,840	1,561,192	251,163		9,175,225

There were no capitalised borrowing cost related to the acquisition of Property, Plant & Equipment during the year 2015 (2014 - Nil).

The carrying amount of Group's revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation/amortisation is as follows:

As at December 31,		2015	2014			
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Class of Asset						
Freehold land	753,149	_	753,149	711,720	-	711,720
Freehold buildings	1,166,621	328,170	838,451	1,080,035	298,287	781,748
Leasehold buildings	348,360	154,886	193,474	259,625	144,490	115,135
Total	2,268,130	483,056	1,785,074	2,051,380	442,777	1,608,603

# 37.3 Bank - 2015

	Freehold	Freehold	Leasehold	Computer	Motor	Office	Capital	Total	Total
	Land	Buildings	Buildings	Equipment	Vehicles	Equipment, Furniture & Fixtures	Work-in- Progress	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost/Valuation									
Balance as at January 01,	4,797,273	2,458,352	104,625	3,504,292	129,047	4,095,287	404,219	15,493,095	13,499,527
Additions during the year	-	142,599	18,628	439,313	3,958	432,003	152,152	1,188,653	1,020,312
Transfer of accumulated depreciation on assets revalued	_	-	_	-	-	-	-	_	(206,238)
Surplus on revaluation of property	_	_	_	-	-	-	_	_	1,621,489
Disposals during the year	_	_	_	(88,770)	(9,459)	(79,606)	_	(177,835)	(410,543)
Exchange rate variance	_	_	-	10,024	4,252	27,593	-	41,869	(1,004)
Transfers/adjustments	-	(66,713)	66,713	=	-	-	(201,918)	(201,918)	(30,448)
Balance as at December 31,	4,797,273	2,534,238	189,966	3,864,859	127,798	4,475,277	354,453	16,343,864	15,493,095
Accumulated Depreciation and Impairment Losses									
Balance as at January 01,	-	-	34,368	2,711,315	99,461	2,694,860	-	5,540,004	5,112,183
Charge for the year [Refer Note 19]	_	88,587	4,482	331,996	12,578	523,849	-	961,492	1,026,730
Impairment loss	_	-	-	-	-	-	-	_	_
Transfer of accumulated depreciation on assets revalued	_	-	_	-	-	-	-	_	(206,238)
Disposals during the year	_	_	-	(87,948)	(9,459)	(64,717)	_	(162,124)	(391,978)
Exchange rate variance	_	_	-	8,838	4,152	22,517	-	35,507	(693)
Transfers/adjustments	_	_	-	-	-	-	-	_	_
Balance as at December 31,	=	88,587	38,850	2,964,201	106,732	3,176,509	=	6,374,879	5,540,004
Net book value as at December 31, 2015	4,797,273	2,445,651	151,116	900,658	21,066	1,298,768	354,453	9,968,985	
Net book value as at December 31, 2014	4.797.273	2,458,352	70,257	792,977	29,586	1,400,427	404,219		9,953,091

# 37.4 Bank - 2014

Impairment loss  Transfer of accumulated depreciation on assets revalued	=	(206,238)	_	=	_	=		(206,238)	
Charge for the year [Refer Note 19]		69,384	3,599	305,358	17,945	630,444	-	1,026,730	786,024
Accumulated Depreciation and Impairment Losses Balance as at January 01,	=	136,854	30,769	2,555,449	97,087	2,292,024	_	5,112,183	4,526,868
Balance as at December 31,	4,797,273	2,458,352	104,625	3,504,292	129,047	4,095,287	404,219	15,493,095	13,499,527
Transfers/adjustments				(5,491)	-	5,491	(30,448)	(30,448)	(1,926
Exchange rate variance				(254)	(102)	(648)		(1,004)	22,726
Surplus on revaluation of property  Disposals during the year	1,190,476	431,013		(146,255)	(17,972)	(246,316)		1,621,489 (410,543)	(227,463
Transfer of accumulated depreciation on assets revalued		(206,238)	-	_	-	_	-	(206,238)	_
Additions during the year	52,399	3,558	-	273,109	637	485,307	205,302	1,020,312	958,204
Cost/Valuation Balance as at January 01,	3,554,398	2,230,019	104,625	3,383,183	146,484	3,851,453	229,365	13,499,527	12,747,986
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	Land	Buildings	Buildings	Equipment	Vehicles	Equipment – Furniture & Fixtures	Work in Progress	2014	2013

There were no capitalised borrowing costs related to the acquisition of Property, Plant & Equipment during the year 2015 (2014 – Nil).

The carrying amount of Bank's revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation/amortisation is as follows:

As at December 31,		2015		2014			
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Class of Asset							
Freehold land	660,987	_	660,987	660,987	-	660,987	
Freehold buildings	1,106,656	323,089	783,567	1,030,770	295,422	735,348	
Leasehold buildings	188,067	45,707	142,360	102,726	41,005	61,721	
Total	1,955,710	368,796	1,586,914	1,794,483	336,427	1,458,056	

The maturity analysis of Property, Plant & Equipment is given in Note 60 on pages 362 and 363.

# 37.5 (a) Information on Freehold Land and Buildings of the Bank – Extents and Locations

[As required by the Rule No. 7.6 (viii) of the 'Continuing Listing Requirements' of the Colombo Stock Exchange]

Location	Extent (Parabas)	Buildings	Revalued	Revalued Amounts	Net Book	Net Book
	(Perches)	(Square Feet)	Amounts Land	Buildings	Value/ Revalued	Value before Revaluation
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
CEO's Bungalow - No. 27, Queens Road, Colombo 3	64	5,616	544,850	15,150	556,970	421,459
Holiday Bungalow – Bandarawela, Ambatenne Estate, Bandarawela	423	5,649	56,700	11,400	67,604	61,436
Holiday Bungalow - Haputale No. 23, Lilly Avenue, Welimada Road, Haputale	258	5,662	30,900	15,300	45,350	38,713
Branch Buildings						
Battaramulla - No. 213, Kaduwela Road, Battaramulla	14	11,216	52,500	87,375	135,506	79,866
Battaramulla - No. 213, Kaduwela Road, Battaramulla	13	Bare Land	50,000		50,000	52,399
Borella - No. 92, D.S. Senanayake Mawatha, Borella, Colombo 8	16	16,880	156,300	198,700	347,902	126,331
Chilaw - No. 44, Colombo Road, Chilaw	35	9,420	63,522	38,000	100,572	126,541
Galewela - No. 49/57, Matale Road, Galewela	99	18,472	22,275	15,225	37,120	32,012
Galle City - No. 130, Main Street, Galle	7	3,675	40,500	8,269	48,463	40,277
Galle Fort - No. 22, Church Street, Fort, Galle	100	11,625	210,000	40,000	249,000	146,256
Gampaha - No. 51, Queen Mary's Road, Gampaha	33	4,685	57,575	10,541	67,814	61,463
Hikkaduwa - No. 217, Galle Road, Hikkaduwa	37	6,713	26,370	24,608	50,312	37,518
Ja-Ela - No. 140, Negombo Road, Ja-Ela	13	7,468	29,000	21,000	49,364	38,741
Jaffna - No. 474, Hospital Road, Jaffna	77	5,146	581,000	19,000	599,050	283,456
Kandy - No. 120, Kotugodella Veediya, Kandy	45	44,500	354,000	231,000	576,750	549,953
Kegalle - No. 186, Main Street, Kegalle	85	2,650	128,000	7,000	134,750	121,300
Keyzer Street - No. 32, Keyzer Street, Colombo 11	7	6,100	56,000	26,000	81,350	68,128
Kollupitiya - No. 285, Galle Road, Colombo 3	17	16,254	115,000	65,000	177,679	158,283
Kotahena - No. 198, George R. De Silva Mawatha, Kotahena, Colombo 13	28	26,722	140,000	207,400	342,215	314,958
Kurunegala - No. 4, Suratissa Mawatha, Kurunegala	50	9,821	199,325	34,675	233,134	218,636
Maharagama - No. 154, High Level Road, Maharagama	18	8,440	53,250	31,750	84,206	101,015
Matale - No. 70, King Street, Matale	51	8,596	75,000	60,000	133,334	117,358
Matara – No. 18, Station Road, Matara	37	8,137	50,695	25,291	75,321	50,470
Minuwangoda - No. 42, Siriwardena Mawatha, Minuwangoda	25	5,550	31,250	17,690	48,475	71,655
Modara - No. 160, St. James Street, Colombo 15	17	Bare Land	34,000	_	34,000	22,300
Narahenpita - No. 201, Kirula Road, Narahenpita, Colombo 5	22	11,193	132,300	87,700	216,868	162,939
Narammala - No. 55, Negombo Road, Narammala	42	5,353	53,391	16,609	69,585	58,843
Negombo - No. 24, 26, Fernando Avenue, Negombo	37	11,360	73,000	31,000	102,760	73,940
Nugegoda - No. 100, Stanley Thilakaratne Mawatha, Nugegoda	39	11,150	156,000	41,000	195,975	234,221
Nuwara Eliya - No. 36/3, Buddha Jayanthi Mawatha, Nuwara Eliya	42	10,184	82,000	71,000	151,080	135,834
Panadura - No. 375, Galle Road, Panadura	12	6,168	30,750	40,090	68,837	35,236
Pettah - People's Park Shopping Complex, Colombo 11		3,147		58,000	55,364	45,723
Pettah - Stores - People's Park Shopping Complex, Colombo 11		225		4,800	4,582	3,521
Pettah - Main Street - No. 280, Main Street, Pettah, Colombo 11	20	22,760	280,000	145,185	421,381	238,670
Trincomalee - No. 474, Power House Road, Trincomalee	100	Bare Land	90,300		90,300	75,000
Union Place - No. 1, Union Place, Colombo 2	30	63,385	450,000	750,000	1,173,212	936,148
Wellawatte - No. 343, Galle Road, Colombo 6	45	15,050	249,520	50,480	297,705	235,222
Wennappuwa - No. 262, 264, Colombo Road, Wennappuwa	36	9,226	42,000	28,000	69,034	58,315
Total			4,797,273	2,534,238	7,242,924	5,634,136

# 37.5 (b) Information on Valuation of Freehold Land and Buildings of the Bank

[As required by the Rule No. 7.6 (viii) of the 'Continuing Listing Requirements' of the Colombo Stock Exchange and the SLFRS 13 'Fair Value Measurement']

Date of Valuation: December 31, 2014

Name of Professional Valuer/ Location and Address	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for Unobservable		alue before ation of	Revalued	Amount of	Revaluation Recogn	Gain/(Loss) iised on
		Inputs	Land	Buildings	Land	Buildings	Land	Buildings
	-		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Mr. H.M.N. Herath								
Chilaw	Market comparable method		61,750	64,791	63,522	38,000	1,772	(26,791)
No. 44, Colombo Road,	Price per perch for land	Rs. 1,800,000 p.p.						
Chilaw	Price per square foot for building	Rs. 4,250 p.sq.ft.						
	Depreciation rate	5%						
Gampaha	Market comparable method		51,658	9,805	57,575	10,541	5,917	736
No. 51,	Price per perch for land	Rs. 1,750,000 p.p.						
Queen Mary's Road, Gampaha	<ul> <li>Price per square foot for building</li> </ul>	Rs. 3,750 p.sq.ft.						
,	Depreciation rate	40%						
Minuwangoda	Market comparable method		37,500	34,155	31,250	17,690	(6,250)	(16,465)
No. 42, Siriwardena Mawatha.	Price per perch for land	Rs. 1,250,000 p.p.						
Minuwangoda	Price per square foot for building	Rs. 4,250 p.sq.ft.						
Depreciation rate  Mr. K.C.B. Condegama	Depreciation rate	25%						
Mr. K.C.B. Condegama								
Maharagama	Market comparable method		62,125	38,890	53,250	31,750	(8,875)	(7,140)
No. 154, High Level Road, Maharagama	Price per perch for land	Rs. 3,000,000 p.p.		<u> </u>				
	Price per square foot for building	Rs. 3,750 p.sq.ft.						
Nugegoda	Market comparable method		195,000	39,221	156,000	41,000	(39,000)	1,779
No. 100, Stanley	Price per perch for land	Rs. 4,000,000 p.p.						
Thilakaratne Mawatha, Nugegoda	Price per square foot for building	Rs. 3,800 p.sq.ft.						
Wellawatte	Market comparable method	_	204,100	31,122	249,520	50,480	45,420	19,358
No. 343, Galle Road, Colombo 6	Price per perch for land	Rs. 5,000,000 to Rs. 6,000,000 p.p.						
	Price per square foot for building	Rs. 3,800 p.sq.ft.						
Mr. P.B. Kalugalageda	ıra							
Keyzer Street	Market comparable method		45,000	23,128	56,000	26,000	11,000	2,872
No. 32, Keyzer Street,	Price per perch for land	Rs. 7,500,000 p.p.						
Colombo 11	Price per square foot for building	Rs. 500 to Rs. 6,000 p.sq.ft.						
Kollupitiya	Market comparable method		100,000	58,283	115,000	65,000	15,000	6,717
No. 285,	Price per perch for land	Rs. 7,500,000 p.p.						
Galle Road, Colombo 3	Price per square foot for building	Rs. 1,250 to Rs. 5,000 p.sq.ft.						
Kotahena	Market comparable method		110,000	204,958	140,000	207,400	30,000	2,442
No. 198,	Price per perch for land	Rs. 5,000,000 p.p.					-	
George R. De Silva Mawatha, Kotahena, Colombo 13	Price per square foot for building	Rs. 1,000 to Rs. 7,750 p.sq.ft.						

Name of Professional Valuer/ Location and Address	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for Unobservable			Revalued	Amount of	Revaluation Recogn	Gain/(Loss
		Inputs	Land	Buildings	Land	Buildings	Land	Buildings Rs. '000
		_	115. 000	115. 000	115. 000	115. 000	118. 000	115. 000
Modara	Market comparable method		22,300		34,000		11,700	-
No. 160, St. James Street, Colombo 15	Price per perch for land	Rs. 2,000,000 p.p.						
Mr. R.S. Wijesuriya								
Battaramulla	Market comparable method		24,518	55,348	52,500	87,375	27,983	32,026
No. 213, Kaduwela	Price per perch for land	Rs. 3,750,000 p.p.						
Road, Battaramula	Price per square foot for building	Rs. 7,500 p.sq.ft.						
Battaramulla	Market comparable method		52,399	_	50,000	-	(2,399)	
No. 213, Kaduwela Road, Battaramula	Price per perch for land	Rs. 3,750,000 p.p.						
Panadura	Market comparable method		18,450	16,787	30,750	40,090	12,300	23,305
No. 375, Galle Road,	Price per perch for land	Rs. 2,500,000 p.p.						
Io. 375, Galle Road, anadura  Ir. S.A.S. Fernando Galle City Io. 130, Main Street, Galle Galle Fort	Price per square foot for building	Rs. 6,500 p.sq.ft.						
Mr. S.A.S. Fernando								
Galle City	Market comparable method		33,750	6,527	40,500	8,269	6,750	1,742
Galle City No. 130, Main Street, Galle	Price per perch for land	Rs. 6,000,000 p.p.						
	Price per square foot for building	Rs. 2,250 p.sq.ft.						
Galle Fort	Market comparable method		100,000	46,256	210,000	40,000	110,000	(6,256
No. 22, Church Street,	Price per perch for land	Rs. 2,100,000 p.p.						
Fort, Galle	Impuls							
Hikkaduwa	Market comparable method		16,740	20,778	26,370	24,608	9,630	3,830
No. 217, Galle Road, Hikkaduwa	Price per perch for land							
	Price per square foot for building							
Matara	Market comparable method		28,154	22,315	50,695	25,291	22,540	2,976
No. 18, Station Road, Matara	Price per perch for land							
	Price per square foot for building	,						
Trincomalee	Market comparable method		75,000	_	90,300	_	15,300	-
No. 474, Power House Road, Trincomalee	Price per perch for land	Rs. 900,000 p.p.						
Mr. S.T. Sanmuganath	an							
Jaffna	Investment method		272,135	11,321	581,000	19,000	308,865	7,679
No. 474, Hospital Road, Jaffna	Gross Monthly Rental	Rs. 7,500,000 p.m.						
noad, vaima	•	10						
	Void period	2 months p.a.						

Name of Professional Valuer/ Location and Address	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for Unobservable		alue before ation of	Revalued	Amount of	Revaluation Recogn	nised on
		Inputs	Land	Buildings	Land	Buildings	Land	Buildings
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Mr. Sarath G. Fernand	0							
Holiday Bungalow –	Market comparable method		51,400	10,036	56,700	11,400	5,300	1,364
Bandarawela Ambatenne Estate,	Price per perch for land	Rs. 50,000 to Rs. 200,000 p.p.						
Bandarawela	Price per square foot for building	Rs. 3,750 to Rs. 4,500 p.sq.ft.						
	Depreciation rate	50%						
Holiday Bungalow –	Market comparable method		25,700	13,013	30,900	15,300	5,200	2,287
Haputale	Price per perch for land	Rs. 150,000 p.p.						
Welimada Road, Haputale	Price per square foot for building	Rs. 3,250 to Rs. 6,500 p.sq.ft.						
	Depreciation rate	20% to 55%						
Kandy	Market comparable method		342,000	207,953	354,000	231,000	12,000	23,047
No. 120, Kotugodella	Price per perch for land	Rs. 8,500,000 p.p.						
veediya, Nandy	Price per square foot for building  Rs. 5,750 to  Rs. 9,500 p.sq.ft.  Depreciation rate  30% & 35%							
	Depreciation rate	30% & 35%						
Kegalle	Market comparable method	_	115,000	6,300	128,000	7,000	13,000	700
No.186, Main Street, Kegalle	Price per perch for land	Rs. 1,000,000 to Rs. 2,500,000 p.p.						
	Price per square foot for building	Rs. 5,500 p.sq.ft.						
	Depreciation rate	50%						
Matale	Market comparable method		60,000	57,358	75,000	60,000	15,000	2,642
No. 70, King Street, Matale	Price per perch for land	Rs. 1,500,000 p.p.						
Wataic	Price per square foot for building	Rs. 8,750 p.sq.ft.						
	Depreciation rate   S0%   S0							
Nuwara-Eliya	Market comparable method	_	72,000	63,834	82,000	71,000	10,000	7,166
No. 36/3, Buddha Jayanthi Mawatha,	Price per perch for land							
Nuwara-Eliya	Price per square foot for building	Rs. 8,750 p.sq.ft.						
	Depreciation rate	20%						
<b>Mr. Siri Nissanka</b> Borella	Market comparable method		70,335	55,996	156,300	198,700	85,965	142,704
No. 92,	Price per perch for land	Rs. 10,000,000 p.p.						
D.S. Senanayake Mawatha, Colombo 08.	Price per square foot for building	Rs. 11,000 p.sq.ft.						
CEO's Bungalow	Market comparable method		416,650	4,809	544,850	15,150	128,200	10,341
No. 27, Queens Road,	Price per perch for land	Rs. 8,500,000 p.p.						
Colombo 03	Price per square foot for building	Rs. 2,750 p.sq.ft.						
Narahenpita	Market comparable method		99,225	63,714	132,300	87,700	33,075	23,986
No. 201, Kirula Road,	Price per perch for land	Rs. 6,000,000 p.p.						
Narahenpita, Colombo 05	Price per square foot for building	Rs. 7,850 p.sq.ft.						

Name of Professional Valuer/ Location and Address	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for Unobservable			Revalued	Amount of		Gain/(Loss)
		Inputs	Land	Buildings	Land	Buildings	Land	Buildings
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Pettah - Main Street	Market comparable method		169,370	69,299	280,000	69,299	110,629	-
No. 280, Main Street, Pettah, Colombo 11	Price per perch for land	Rs. 14,000,000 p.p.						
Union Place	Market comparable method		360,000	576,148	450,000	750,000	90,000	173,852
No. 1, Union Place, Colombo 02	Price per perch for land	Rs. 15,000,000 p.p.						
	Price per square foot for building	Rs. 12,000 p.sq.ft.						
Mr. W.D.P. Rupananda	1							
Ja-Ela	Market comparable method		23,188	15,554	29,000	21,000	5,812	5,446
No. 140, Negombo	Price per perch for land	Rs. 2,250,000 p.p.						
Road, Ja-Ela	Price per square foot for building	Rs. 3,500 to Rs. 4,500 p.sq.ft.						
	Depreciation rate	30%						
Negombo No. 24, 26, Fernando Avenue, Negombo	Market comparable method		49,500	24,440	73,000	31,000	23,500	6,560
	Price per perch for land	Rs. 1,500,000 to Rs. 2,200,000 p.p.						
	Price per square foot for building	Rs. 3,500 to Rs. 4,250 p.sq.ft.						
	Depreciation rate	25%						
Pettah	Investment method		_	45,723		58,000	=	12,277
People's Park Shopping Complex,	Gross monthly rental	Rs. 23,200 to Rs. 160,000 p.m.						
Colombo 11	Years purchase     (Present value of 1 unit per period)	18.18						
	Void period	4 months p.a.	Revaluation of Land Buildings   Land Buildings   Land   Buildings   La					
Pettah	Investment method		_	3,521	_	4,800	_	1,279
People's Park Shopping Complex,	Gross monthly rental	Rs. 36,000 p.m.						
Colombo 11	<ul> <li>Years purchase (Present value of 1 unit per period)</li> </ul>	18.18						
	Void period	4 months p.a.						
Wennappuwa	Market comparable method		37,500	20,815	42,000	28,000	4,500	7,185
No. 262, 264, Colombo	Price per perch for land	Rs. 1,400,000 p.p.						
Road, Wennappuwa	Price per square foot for building	Rs. 3,250 to Rs. 4,500 p.sq.ft.						
	Depreciation rate	25%						

Name of Professional Valuer/ Location and Address	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for Unobservable		/alue before lation of	Revalued	Amount of	Revaluation Recogn	Gain/(Loss
		Inputs	Land	Buildings	Land	Buildings	Land	Buildings
		_	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Mr. W.S. Pemaratne								
Galewela	Market comparable method		19,800	12,212	22,275	15,225	2,475	3,013
No. 49/57, Matale Road, Galewela	Price per perch for land	Rs. 225,000 p.p.						
noau, Galeweia	<ul> <li>Price per square foot for building</li> </ul>	Rs. 2,250 to						
		Rs. 3,500 p.sq.ft.						
	Depreciation rate	15%						
Kurunegala	Market comparable method		140,000	78,636	199,325	34,675	59,325	(43,961)
No. 4, Suratissa Mawatha,	Price per perch for land	Rs. 3,500,000 to 4,150,000 p.p.						
Kurunegala	Price per square foot for building	Rs. 3,000 to Rs. 4,250 p.sq.ft.						
	Depreciation rate	10%						
Narammala	Market comparable method		44,550	14,293	53,391	16,609	8,842	2,315
No. 55, Negombo	Price per perch for land	Rs. 1,300,000 p.p.						
Road, Narammala	Price per square foot for building	Rs. 3,500 p.sq.ft.						
	Depreciation rate	5%						
Total			3,606,797	2,027,339	4,797,273	2,458,352	1,190,476	431,013

p.p. - per perch

p.sq.ft. - per square foot

p.m. - per month

Description of the above valuation techniques together with narrative descriptions on sensitivity of the fair value measurement to changes in significant unobservable inputs are tabulated below:

Valuation Technique	Significant unobservable valuation inputs (ranges of each property are given in the table above)	Sensitivity of the fair value measurement to inputs
Market comparable method  This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location, condition of specific property. In this process, outlier transactions, indicative of particularly motivated buyers or sellers are too compensated for since the price may not adequately reflect the fair market value.	Price per perch for land Price per squire foot for building Depreciation rate for building	Estimated fair value would increase (decrease) if; Price per perch would higher (lower) Price per squire feet would higher (lower) Depreciation rate for building would lower (higher)
Investment method This method involves the capitalisation of the expected rental income at an appropriate rate of years purchased currently characterised by the real estate market.	Gross Annual Rentals Years purchase (Present value of 1 unit per period) Void period	Estimated fair value would increase (decrease) if; Gross Annual Rentals would higher (lower) Years purchase would higher (lower) Void period would lower (higher)

### 37.6 Title Restriction on Property, Plant & Equipment

There were no restrictions existed on the title of the Property, Plant & Equipment of the Group/Bank as at the Reporting date.

# 37.7 Property, Plant & Equipment Pledged as Security for Liabilities

There were no items of Property, Plant & Equipment pledged as securities for liabilities as at the Reporting date.

# 37.8 Compensation from Third Parties for Items of Property, Plant & Equipment

The compensation received/receivable from third parties for items of Property, Plant & Equipment that were impaired, lost or given up at the Reporting date of the Bank are as follows.

As at December 31,	2015 Rs. '000	2014 Rs. '000
Total claims lodged	1,702	4,299
Total claims received	(402)	(2,276)
Total claims rejected	(643)	(985)
Total claims receivable	657	1,038

#### 37.9 Fully Depreciated Property, Plant & Equipment

The cost of fully-depreciated Property, Plant & Equipment of the Bank which are still in use is as follows:

As at December 31,	2015 Rs. '000	2014 Rs. '000
Computer equipment	1,823,142	1,965,926
Office equipment, furniture and fixtures	1,542,990	1,550,010
Motor vehicles	27,369	26,477

# 37.10 Temporarily Idle Property, Plant & Equipment

Following Property, Plant & Equipment of the Bank were temporarily idle (until the assets issued to business units).

As at December 31,	2015	2014
	Rs. '000	Rs. '000
Computer equipment	349,244	112,246
Office equipment, furniture and fixtures	122.796	69.729

# 37.11 Property, Plant & Equipment Retired from Active Use

Following Property, Plant & Equipment of the Bank were retired from active use.

As at December 31,	2015 Rs. '000	2014 Rs. '000
Computer equipment	304,820	89,833
Office equipment, furniture and fixtures	207,949	58,413
Motor vehicles	417	214

#### 37.12 Borrowing Costs

There were no capitalised borrowing costs related to the acquisition of Property, Plant & Equipment during the year 2015 (2014 - Nil).

#### 38. Intangible Assets

The Group's intangible assets include the value of acquired goodwill and computer software.

#### **Basis of Recognition**

An intangible asset is recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard – LKAS 38 on 'Intangible Assets'.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, these assets are stated in the Statement of Financial Position at cost, less accumulated amortisation and accumulated impairment losses, if any.

#### **Subsequent Expenditure**

Subsequent expenditure 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.

#### Useful Economic Lives, Amortisation and Impairment

The useful economic lives of intangible assets are assessed to be either finite or indefinite. The Group does not possess intangible assets with indefinite useful economic lives. Useful economic lives, amortisation and impairment of finite and indefinite intangible assets are described below:

#### • Intangible Assets with Finite Lives and Amortisation

Intangible assets with finite lives are amortised over the useful economic lives. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each Reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates, which require prospective application. The amortisation expense on intangible assets with finite lives is expensed as incurred.

#### Goodwill

Goodwill that arises on the acquisition of Subsidiaries is presented with intangible assets (Refer Note 5.1.1 on page 257). Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

#### Computer Software

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software 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.

# • Research and Development Costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

The technical feasibility of completing the intangible asset so that the asset will be available for use or sale.

Its intention to complete and its ability to use or sell the asset.

The asset will generate future economic benefits.

The availability of resources to complete the asset.

The ability to measure reliably the expenditure during development.

The ability to use the intangible asset generated.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses.

As at the Reporting date, the Group does not have development costs capitalised as an internally-generated intangible asset.

GROI	JP	BANK		
2015	2014	2015	2014	
Rs. '000	Rs. '000	Rs. '000	Rs. '000	
316,864	397,644	308,531	389,096	
167,125	58,541	157,429	50,032	
400,045	400,045	_	-	
884,034	856,230	465,960	439,128	
	2015 Rs. '000 316,864 167,125 400,045	Rs. '000 Rs. '000  316,864 397,644  167,125 58,541  400,045 400,045	2015 2014 2015 Rs. '000 Rs. '000 Rs. '000  316,864 397,644 308,531  167,125 58,541 157,429  400,045 400,045 —	

### 38.1 Computer Software

	GRO	UP	BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost/Valuation				
Balance as at January 01,	1,629,086	1,479,951	1,618,429	1,479,171
Computer software acquired on business combination	_	9,800	_	_
Additions during the year	99,407	139,387	98,414	139,310
Disposals during the year	(70)	_	_	_
Exchange rate variance	2,754	(52)	2,754	(52)
Transfers/adjustments	(8)	_	(8)	_
Balance as at December 31,	1,731,169	1,629,086	1,719,589	1,618,429
Accumulated Amortisation and Impairment Losses				
Balance as at January 01,	1,231,442	1,056,718	1,229,333	1,056,503
Accumulated amortisation assumed on business combination	_	1,395	_	_
Amortisation for the year [Refer Note 19]	180,558	173,373	179,370	172,874
Impairment loss	_	_	_	_
Disposals during the year	(50)	_	_	_
Exchange rate variance	2,363	(44)	2,363	(44)
Transfers/adjustments	(8)	_	(8)	_
Balance as at December 31,	1,414,305	1,231,442	1,411,058	1,229,333
Net book value as at December 31.	316,864	397,644	308,531	389,096

### 38.2 Software Under Development

	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost/Valuation				
Balance as at January 01,	58,541	54,495	50,032	44,925
Additions during the year	124,901	43,676	123,537	43,676
Disposals during the year	_	-	_	_
Exchange rate variance	(177)	(1,061)	-	_
Transfers/adjustments	(16,140)	(38,569)	(16,140)	(38,569)
Balance as at December 31,	167,125	58,541	157,429	50,032

There were no restrictions existed on the title of the intangible assets of the Group/Bank as at the Reporting date. Further, there were no items pledged as securities for liabilities. There were no capitalised borrowing costs related to the acquisition of intangible assets during the year 2015 (2014 – Nil).

The maturity analysis of Intangible Assets is given in Note 60 on pages 362 and 363.

# 39. Leasehold Property

	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost/Valuation,				
Balance as at January 01,	128,700	128,700	84,840	84,840
Additions during the year	_	_	_	_
Balance as at December 31,	128,700	128,700	84,840	84,840
Accumulated Amortisation				
Balance as at January 01,	19,828	18,376	9,420	8,478
Amortisation for the year [Refer Note 19]	1,452	1,452	942	942
Balance as at December 31,	21,280	19,828	10,362	9,420
Net book value as at December 31,	107,420	108,872	74,478	75,420

The carrying amount of revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation/amortisation is as follows:

		GROUP			BANK	
As at December 31, 2015	Cost	Accumulated Amortisation	Net Book Value	Cost	Accumulated Amortisation	Net Book Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Class of Asset						
Leasehold Land	23,715	6,588	17,127	14,846	3,633	11,213
Total	23,715	6,588	17,127	14,846	3,633	11,213

		GROUP			BANK	
As at December 31, 2014	Cost	Accumulated Amortisation	Net Book Value	Cost	Accumulated Amortisation	Net Book Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Class of Asset						
Leasehold Land	23,715	6,348	17,367	14,846	3,483	11,363
Total	23,715	6,348	17,367	14,846	3,483	11,363

The maturity analysis of Leasehold Property is given in Note 60 on pages 362 and 363.

### 40. Other Assets

	GRO	BANK		
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Receivables	11,290	19,709	11,290	19,709
Deposits and prepayments	1,426,519	1,399,469	1,434,714	1,402,587
Clearing account balance	4,811,743	4,078,542	4,811,743	4,078,542
Unamortised cost on staff loans (Day 1 difference)	2,696,643	2,857,759	2,696,643	2,857,759
Other accounts	3,150,822	2,204,951	3,140,201	2,183,220
Total	12,097,017	10,560,430	12,094,591	10,541,817

The maturity analysis of Other Assets is given in Note 60 on pages 362 and 363.

# 41. Due to Banks

These represent call money borrowings, credit balances in Nostro Accounts and borrowings from banks. Subsequent to initial recognition, these are measured at their amortised cost using the EIR method. Interest paid/payable on these borrowings is recognised in profit or loss.

	GRO	BANK		
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Borrowings	30,975,857	23,326,066	29,505,580	22,918,017
Local currency borrowings	1,459,600	407,187	_	_
Foreign currency borrowings	29,516,257	22,918,879	29,505,580	22,918,017
Securities sold under repurchase (Repo) agreements (*)	813,539	2,342,959	813,539	2,342,959
Total	31,789,396	25,669,025	30,319,119	25,260,976

(\*) Securities sold under repurchase (Repo) agreements are shown on the face of the Statement of Financial Position except for the Repos with banks.

The maturity analysis of Due to Banks is given in Note 60 on pages 362 and 363.

#### 42. Derivative Financial Liabilities

Financial liabilities are classified as held-for-trading, if they are incurred principally for the purpose of repurchasing in the near term or holds as a part of a portfolio that is managed together for short term profit or position taking.

This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as per the Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'. Separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments.

Derivatives are recorded at fair value and carried as liabilities when their fair value is negative. Gains or losses on financial liabilities held-for-trading are recognised in the Income Statement.

	GRO	BANK		
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Foreign currency derivatives				
Currency swaps	791,199	823,596	791,199	823,596
Forward contracts	1,098,002	368,886	1,098,002	368,886
Spot contracts	1,569	657	1,569	657
Total	1,890,770	1,193,139	1,890,770	1,193,139

The maturity analysis of Derivative Financial Liabilities is given in Note 60 on pages 362 and 363.

### 43. Due to Other Customers/Deposits from Customers

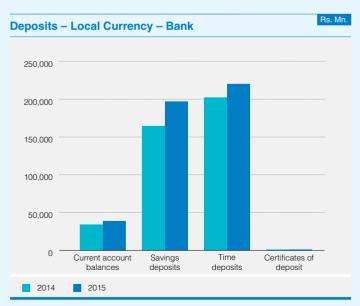
These include non-interest-bearing deposits, savings deposits, term deposits, deposits payable at call and certificates of deposit. Subsequent to initial recognition deposits are measured at their amortised cost using the EIR method, except where the Group designates liabilities at fair value through profit or loss. Interest paid/payable on these deposits is recognised in profit or loss.

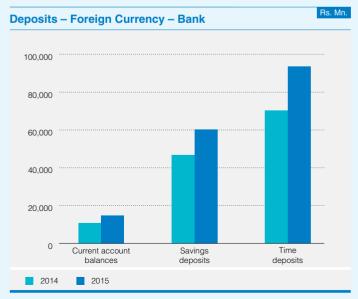
	GR	OUP	BA	NK
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Local currency deposits	455,729,976	401,872,201	455,810,569	401,967,097
Current account balances	38,689,812	34,311,477	38,692,706	34,317,565
Savings deposits	196,605,341	164,462,225	196,631,547	164,521,655
Time deposits	219,882,652	202,162,715	219,934,145	202,192,093
Certificates of deposit	552,171	935,784	552,171	935,784
Foreign currency deposits	168,291,241	127,394,387	168,291,241	127,394,387
Current account balances	14,699,065	10,809,389	14,699,065	10,809,389
Savings deposits	60,128,349	46,467,745	60,128,349	46,467,745
Time deposits	93,463,827	70,117,253	93,463,827	70,117,253
Total	624,021,217	529,266,588	624,101,810	529,361,484

# 43.1 Analysis of due to Customers/Deposits from Customers

	GR	OUP	В	ANK
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
(a) By product				
Current account balances	53,388,877	45,120,866	53,391,771	45,126,954
Savings deposits	256,733,690	210,929,970	256,759,896	210,989,400
Time deposits	313,346,479	272,279,968	313,397,972	272,309,346
Certificates of deposit	552,171	935,784	552,171	935,784
Sub total	624,021,217	529,266,588	624,101,810	529,361,484
(b) By currency				
Sri Lankan Rupee	455,729,976	401,872,201	455,810,569	401,967,097
United States Dollar	112,704,677	78,352,927	112,704,677	78,352,927
Great Britain Pound	8,194,138	7,567,161	8,194,138	7,567,16
Euro	32,679,287	25,425,565	32,679,287	25,425,565
Australian Dollar	5,653,284	7,935,496	5,653,284	7,935,496
Bangladesh Taka	7,605,532	6,800,927	7,605,532	6,800,927
Other currencies	1,454,323	1,312,311	1,454,323	1,312,31
Sub total	624,021,217	529,266,588	624,101,810	529,361,484
(c) By institution/customers				
Deposits from banks	9,177,616	766,916	9,177,616	766,916
Deposits from finance companies	8,551,835	5,406,461	8,551,835	5,406,46
Deposits from other customers	606,291,766	523,093,211	606,372,359	523,188,10
Sub total	624,021,217	529,266,588	624,101,810	529,361,484

The maturity analysis of Deposits from Customers is given in Note 60 on pages 362 and 363.





### 44. Other Borrowings

	GR	OUP	ВА	NK
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Refinance borrowings	4,434,582	4,857,361	4,434,582	4,857,361
Borrowings from International Finance Corporation (IFC)	5,551,055	6,779,222	5,551,055	6,779,222
Total	9,985,637	11,636,583	9,985,637	11,636,583

The maturity analysis of Other Borrowings is given in Note 60 on pages 362 and 363.

# 45. Current Tax Liabilities

	GRO	GROUP		NK
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	2,037,388	1,780,867	1,997,990	1,758,574
Tax payable assumed on business combination	_	7,200	_	_
Provision for the year	5,185,218	4,484,017	5,094,781	4,424,113
(Over)/under provision	1,700	10,920	1,701	11,041
Self-assessment payments	(3,376,261)	(3,036,746)	(3,271,753)	(2,988,916)
Notional tax credits (*)	(900,495)	(1,080,686)	(899,563)	(1,079,038)
Withholding tax/other credits	(43,681)	(126,348)	(42,965)	(125,948)
Exchange rate variance	121,793	(1,836)	121,793	(1,836)
Balance as at December 31,	3,025,662	2,037,388	3,001,984	1,997,990

# (\*) Notional Tax Credit for Withholding Tax on Government Securities on Secondary Market Transactions

As per Section 137 of the Inland Revenue Act No. 10 of 2006 and amendments thereto, a company engaged in secondary market transactions involving Government Securities, Treasury Bills or Treasury Bonds on which Income Tax had been deducted at 10% per annum at the time of issue of such securities, is entitled to a notional tax credit of one-ninth of Net Interest Income earned from such secondary market transactions.

The maturity analysis of Current Tax Liabilities is given in Note 60 on pages 362 and 363.

# 46. Deferred Tax Assets and Liabilities

# 46.1 Summary of Net Deferred Tax Liability

	GROUP					BANK			
	<b>2015</b> 2014		20	15	20	14			
	Temporary Difference	the state of the s	ect Temporary Difference		ct Temporary Tax Eff Difference		Temporary Difference	Tax Effect	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Balance as at January 01,	10,435,227	2,876,199	6,407,851	1,763,414	9,355,101	2,573,760	5,692,341	1,563,070	
Deferred tax liabilities assumed on business combination	_	_	168,900	47,293	_	_	_	_	
Amount originating/(reversing) to Income Statement	268,938	89,933	490,269	122,187	461,836	143,905	485,610	120,881	
Amount originating/(reversing) to Statement of Profit or Loss and Other Comprehensive Income	(8,838,782)	(2,474,859)	3,368,207	943,098	(8,847,675)	(2,477,349)	3,177,150	889,602	
Tax effect on pre-acquisition reserves	_	_	_	_	_	_	_	_	
Deferred tax on re-classification of revaluation surplus to revaluation reserve	(49,786)	(13,940)	_	_	_	_		-	
Statement of change equity restatement									
Exchange rate variance	_	(9,701)	_	207	_	(9,701)	_	207	
Balance as at December 31,	1,815,597	467,632	10,435,227	2,876,199	969,262	230,615	9,355,101	2,573,760	

# 46.2 Reconciliation of Net Deferred Tax Liability - Group

		nent of I Position	Income S	tatement	Statement of Profit or Loss and Other Comprehensive Income		
For the year ended/as at December 31,	2015	2014	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Deferred Tax Liabilities on:							
Accelerated depreciation for tax purposes – Own assets	371,955	373,175	1,220	33,651	_	_	
Accelerated depreciation for tax purposes – Leased assets	1,873,011	1,581,816	(291,195)	(253,603)	_	_	
Revaluation surplus on freehold buildings	746,234	780,357	20,183	15,107	_	(174,239)	
Tax effect on actuarial gains on defined benefit plans	26,458	3,584	-	-	(22,874)	(1,522)	
Unrealised gain/(loss) on Available-for-Sale (AFS) portfolio	(1,679,467)	792,513	_	-	2,471,980	(792,513)	
Effective interest rate on deposits	2,585	3,398	813	(3,398)	_	_	
Effect of exchange rate variance	_	_	(11,447)	207	1,746	_	
	1,340,776	3,534,843	(280,426)	(208,036)	2,450,852	(968,274)	
Deferred Tax Assets on:							
Finance leases	_	203	(203)	(1,801)	_	_	
Defined benefit plans	332,194	281,040	51,154	35,477	_	_	
Tax effect on actuarial losses on defined benefit plans	23,975	15,801	_	_	8,174	6,060	
Provision on credit card advances	_	_	_	-	_	_	
Specific provision on lease receivable	56,254	56,254	_	-	_	_	
Leave encashment	168,232	160,990	7,242	7,382	_	_	
Tax effect on actuarial losses on leave encashment	34,949	19,116	_	_	15,833	19,116	
Straight lining on lease rentals	28,463	19,222	9,241	10,483	_	_	
De-recognition of commission income	81,016	70,662	10,354	31,248	_	_	
Equity-settled share-based payments	62,532	_	62,532	-	_	-	
Impairment provision	85,529	35,356	50,173	4,679	_	_	
Carried forward tax loss on leasing business	_	_	_	(1,619)	_	-	
	873,144	658,644	190,493	85,849	24,007	25,176	
Deferred tax effect on Income Statement and Statement of Profit or Loss and Other Comprehensive Income for the year			(89,933)	(122,187)	2,474,859	(943,098)	
Net deferred tax liability as at December 31,	467,632	2,876,199					

# 46.3 Reconciliation of Net Deferred Tax Liability - Bank

	Staten Financia	nent of I Position	Income S	tatement		ment of Profit or Loss and Comprehensive Income	
For the year ended/as at December 31,	2015	2014	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Deferred Tax Liabilities on:							
Accelerated depreciation for tax purposes – Own assets	332,042	330,867	(1,175)	35,627	-	_	
Accelerated depreciation for tax purposes – Leased assets	1,816,321	1,525,524	(290,797)	(251,307)	_	_	
Revaluation surplus on freehold buildings	513,721	533,651	19,930	14,960	_	(120,684)	
Tax effect on actuarial gains on defined benefit plans	23,301	3,059	_	_	(20,242)	(1,549)	
Unrealised gain/(loss) on Available-for-Sale (AFS) portfolio	(1,679,454)	792,511	_	_	2,471,965	(792,511)	
Effective interest rate on deposits	2,585	3,398	813	(3,398)	_	_	
Effect of exchange rate variance	_	_	(11,447)	207	1,746	_	
	1,008,516	3,189,010	(282,676)	(203,911)	2,453,469	(914,744)	
Deferred Tax Assets on:							
Finance leases	_	_	_	_	_	-	
Defined benefit plans	322,835	273,433	49,402	33,917	_	_	
Tax effect on actuarial losses on defined benefit plans	23,620	15,573	_	_	8,047	6,026	
Specific provision on lease receivable	56,254	56,254	_	_	_	_	
Leave encashment	168,232	160,990	7,242	7,382	_	_	
Tax effect on actuarial losses on leave encashment	34,949	19,116	_	_	15,833	19,116	
Straight lining of lease rentals	28,463	19,222	9,241	10,483	_	_	
De-recognition of commission income	81,016	70,662	10,354	31,248	_	_	
Equity-settled share-based payments	62,532	_	62,532	_	_	_	
	777,901	615,250	138,771	83,030	23,880	25,142	
Deferred tax effect on Income Statement and Statement of Profit or Loss and Other Comprehensive Income for the year			(143,905)	(120,881)	2,477,349	(889,602)	
Net deferred tax liability as at December 31,	230,615	2,573,760					

The maturity analysis of Deferred Tax Liabilities is given in Note 60 on pages 362 and 363.

# 46.4 Potential Impact of Income Tax Rate Change

A change in the Income Tax Rate has been recommended by the Government Budget for 2016 which was approved by the Parliament on December 19, 2015 as follows:

Company	Current Rate %	Revised Rate %
Commercial Bank of Ceylon PLC	28	30
Commercial Development Company PLC	28	15
Onezero Company Ltd.	28	15
Serendib Finance Ltd.	28	30

Since the New Tax Rates had not been published through a gazette by the Parliament as at the Reporting date, being December 31, 2015, the new rate was not considered to be substanially enacted as at that date. Accordingly, the Group/Bank has provided for Deferred Taxation at the existing rate of 28% in the Financial Statements for the year ended December 31, 2015.

The potential impact on the deferred tax had the Group/Bank applied the proposed rate as above is shown below:

	GROUP	BANK
	2015	2015
	Rs. '000	Rs. '000
Deferred Tax Liabilities		
Balance as at January 01,	3,534,843	3,189,010
Deferred tax liabilities reversed during the year recongised in Income Statement	362,102	476,149
Deferred tax liabilities reversed during the year recognised in Statement of Other Comprehensive Income	(2,573,533)	(2,574,690)
Balance as at December 31,	1,323,412	1,090,469
Deferred Tax Assets		
Balance as at January 01,	658,644	615,250
Deferred tax assets reversed during the year recongised in Income Statement	235,656	181,634
Deferred tax assets reversed during the year recognised in Statement of Other Comprehensive Income	28,025	28,063
Balance as at December 31,	922,325	824,947
Net Deferred Tax Liability	401,087	265,522

#### 47. Other Provisions

A provision is recognised if, as a result of a past event, 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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised in 'Interest Expense' in profit or loss.

	GROU	JP .	BANK	
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Provision for claims payable	1,874	1,874	1,874	1,874
	1.874	1.874	1.874	1,874

The maturity analysis of Other Provisions is given in Note 60 on pages 362 and 363.

### 48. Other Liabilities

Other liabilities include provisions made on account of interest, fees and expenses, gratuity/pensions, leave encashment and other provisions. These liabilities are recorded at amounts expected to be payable at the Reporting date.

	GRO	GROUP		BANK	
As at December 31,	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Accrued expenditure	2,029,007	1,883,392	2,015,485	1,869,538	
Cheques sent on clearing	4,811,743	4,015,967	4,811,743	4,015,967	
Provision for gratuity payable [Refer Note 48.1 (b)]	886,648	748,969	863,230	720,520	
Provision for unfunded pension scheme [Refer Note 48.2 (b)]	219,283	203,458	219,283	203,458	
Provision for Leave Encashment [Refer Note 48.3 (b)]	725,647	643,238	725,647	643,238	
Payable on oil hedging transactions	894,302	819,854	894,302	819,854	
Other payables	6,182,554	9,355,025	6,018,469	9,170,956	
Total	15,749,184	17,669,903	15,548,159	17,443,531	

The maturity analysis of Other Liabilities is given in Note 60 on pages 362 and 363.

# 48.1 Provision for Gratuity Payable

An actuarial valuation of the retirement gratuity payable was carried out as at December 31, 2015 by Mr. M. Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries. The valuation method used by the Actuaries to value the liability is the 'Projected Unit Credit Method (PUC)', the method recommended by the Sri Lanka Accounting Standard – LKAS 19 on 'Employee Benefits'.

# 48.1 (a) Actuarial Assumptions

Type of Assumption	Criteria	Description
Demographic	Mortality - In service	A 67/70 Mortality table issued by the Institute of Actuaries, London
	Staff Turnover	The staff turnover rate at an age represents the probability of an employee leaving within one year of that age due to reasons other than death, ill health and normal retirement. The same withdrawal rates which were used in the last valuation (as at December 31, 2014) to determine the liabilities of the active employees in the gratuity, were used in the actuarial valuation carried out as at December 31, 2015.
	Normal retirement age	The employees who are aged over the specified retirement age have been assumed to retire on their respective next birthdays.
Financial Rate of discount	Rate of discount	Sri Lankan operation In the absence of a deep market in long term bonds in Sri Lanka, a long term interest rate of 10.50% p.a. (2014 – 9.50% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.
		Bangladesh operation In the absence of long term high quality corporate bonds or Government bonds with the term that matches liabilities a long term interest rate of 9% p.a. (2014 – 10% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.
	Salary increases	Sri Lankan operation A salary increment of 10% p.a. (2014 – 9% p.a.) has been used in respect of the active employees.
		Bangladesh operation A salary increment of 10% p.a. (2014 – 9% p.a.) has been used in respect of the active employees.

# 48.1 (b) Movement in the Provision for Gratuity Payable

2015		BANK	
2010	2014	2015	2014
Rs. '000	Rs. '000	Rs. '000	Rs. '000
748,969	624,642	720,520	604,324
_	1,977	_	_
178,347	145,284	171,451	138,533
14,579	(381)	14,579	(381)
(28,194)	(17,245)	(25,017)	(16,423)
(27,053)	(5,308)	(18,303)	(5,533)
886,648	748,969	863,230	720,520
	748,969 - 178,347 14,579 (28,194) (27,053)	748,969     624,642       -     1,977       178,347     145,284       14,579     (381)       (28,194)     (17,245)       (27,053)     (5,308)	748,969     624,642     720,520       -     1,977     -       178,347     145,284     171,451       14,579     (381)     14,579       (28,194)     (17,245)     (25,017)       (27,053)     (5,308)     (18,303)

# 48.1 (c) Expense Recognised in the Income Statement – Gratuity

	GROU	GROUP BANK		
For the year ended/as at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest cost	73,745	62,456	70,160	60,340
Current service cost	104,602	82,828	101,291	78,193
Total	178,347	145,284	171,451	138,533

# 48.1 (d) Sensitivity Analysis on Actuarial Valuation

The following table illustrates the impact of the possible changes in the discount rate and salary escalation rates on the gratuity valuation of the Group and the Bank as at December 31, 2015:

	GROUP	BANK
Variable	Sensitivity Effect on Statement of Financial Position (Benefit Obligation) Rs. '000	Sensitivity Effect on Statement of Financial Position (Benefit Obligation) Rs. '000
1% increase in discount rate	(134,524)	(132,973)
1% decrease in discount rate	168,935	167,209
1% increase in salary escalation rate	172,151	170,403
1% decrease in salary escalation rate	(139,066)	(137,470)

# 48.2 Provision for Unfunded Pension Scheme

An actuarial valuation of the unfunded pension liability was carried out as at December 31, 2015 by Mr. M. Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuary to value the liability is the 'Projected Unit Credit Method (PUC)', the method recommended by the Sri Lanka Accounting Standard – LKAS 19 on 'Employee Benefits'.

# 48.2 (a) Actuarial Assumptions

Type of Assumption	Criteria	Description
Demographic	Mortality – In service	A 1967/70 Mortality table issued by the Institute of Actuaries, London.
	After retirement	A (90) Annuities table (Males and Females) issued by the Institute of Actuaries, London.
	Staff turnover	The withdrawal rate at an age represents the probability of an active employee leaving within one year of that age due to reasons other than death, ill health and normal retirement. The same withdrawal rates which were used in the last valuation (as at December 31, 2014) to determine the liabilities of the active employees in the funded scheme, were used in the actuarial valuation carried out as at December 31, 2015.
	Disability	Assumptions similar to those used in other comparable schemes for disability were used as the data required to do a 'scheme specific' study was not available.
	Normal retirement age	55 or 60 years as indicated in the data file of active employees.
Financial	Rate of discount	In the absence of a deep market in long term bonds in Sri Lanka, a long term interest rate of 10.50% p.a. (2014 – 9.50% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.
	Salary increases	A salary increment of 10% p.a. (2014 – 9% p.a.) has been used in respect of the active employees.
	Post-retirement pension increase rate	There is no agreed rate of increase even though the pension payments are subject to periodic increases, and increases are granted solely at the discretion of the Bank. Therefore, no specific rate was assumed for this valuation.

# 48.2 (b) Movement in the Provision for Unfunded Pension Scheme

	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	203,458	191,541	203,458	191,541
Expense recognised in the income statement [Refer Note 48.2 (c)]	19,329	19,154	19,329	19,154
Amount paid during the year	(32,245)	(28,756)	(32,245)	(28,756)
Gain/(loss) recognised in other comprehensive income	28,741	21,519	28,741	21,519
Balance as at December 31,	219,283	203,458	219,283	203,458

# 48.2 (c) Expense Recognised in the Income Statement – Unfunded Pension Scheme

	GROU	GROUP BAN		IK	
For the year ended/as at December 31,	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Interest cost	19,329	19,154	19,329	19,154	
Current service cost	-	_	_	_	
Total	19,329	19,154	19,329	19,154	

# 48.2 (d) Sensitivity Analysis on Actuarial Valuation – Unfunded Pension Scheme

The following table illustrates the impact of the possible change in the discount rate and salary escalation rate in the unfunded pension scheme valuation of the Bank as at December 31, 2015.

	GROUP	BANK
Variable	Sensitivity Effect on Statement of Financial Position (Benefit Obligation) Rs. '000	Sensitivity Effect on Statement of Financial Position (Benefit Obligation) Rs. '000
1% increase in discount rate	(8,714)	(8,714)
1% decrease in discount rate	9,540	9,540
1% increase in salary escalation rate		_
1% decrease in salary escalation rate		

#### 48.3 Provision for Leave Encashment

An actuarial valuation of the leave encashment liability was carried out as at December 31, 2015 by Mr. M. Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuaries to value the liability is the 'Projected Unit Credit Method (PUC)', the method recommended by the Sri Lanka Accounting Standard – LKAS 19 on 'Employee Benefits'.

### 48.3 (a) Actuarial Assumptions

Type of Assumption	Criteria	Description
Demographic	Mortality - In service	A 67/70 Mortality table issued by the Institute of Actuaries, London
	Staff turnover	The probability of a member withdrawing from the scheme within a year of ages between 20 to 55 years.
	Disability	The probability of a member becoming disabled within a year of ages between 20 and 55 years.
Financial	Rate of discount	In the absence of a deep market in long term bonds in Sri Lanka, a long term interest rate of 10.5% p.a. (2014 – 9.5% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.
	Salary increases	A salary increment of 10% p.a. (2014 – 9% p.a.) has been used in respect of the active employees.

#### 48.3 (b) Movement in the Provision for Leave Encashment

	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	643,238	548,601	643,238	548,601
Expense recognised in the income statement [Refer Note 48.3 (c)]	61,108	54,860	61,108	54,860
Amount paid during the year	(35,243)	(28,496)	(35,243)	(28,496)
Gain/(loss) recognised in other comprehensive income	56,544	68,273	56,544	68,273
Balance as at December 31,	725,647	643,238	725,647	643,238

### 48.3 (c) Expense Recognised in the Income Statement – Leave Encashment

	GROU	GROUP		BANK	
For the year ended	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Interest cost	61,108	54,860	61,108	54,860	
Current service cost		_	_	_	
Total	61,108	54,860	61,108	54,860	

# 48.3 (d) Sensitivity Analysis on Actuarial Valuation – Leave Encashment

The following table illustrates the impact of the possible change in the discount rates and salary escalation rates on account of leave encashment liability of the Bank as at December 31, 2015.

	GROUP	BANK
Variable	Sensitivity Effect on Statement of Financial Position (Benefit Obligation) Rs. '000	Sensitivity Effect on Statement of Financial Position (Benefit Obligation) Rs. '000
1% increase in discount rate	(86,623)	(86,623)
1% decrease in discount rate	106,143	106,143
1% increase in salary escalation rate	109,041	109,041
1% decrease in salary escalation rate	(90,347)	(90,347)

## 48.4 Employee Retirement Benefit

### Pension Fund – Defined Benefit Plan

An actuarial valuation of the Retirement Pension Fund was carried out as at December 31, 2015 by Mr. M. Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuaries to value the fund is the 'Projected Unit Credit Method (PUC)', the method recommended by the Sri Lanka Accounting Standard – LKAS 19 on 'Employee Benefits'.

The assets of the fund, which are independently administered by the Trustees as per the provisions of the Trust Deed are held separately from those of the Bank.

# 48.4 (a) Actuarial Assumptions

Type of Assumption	Criteria	Description
Demographic	Mortality – in service	A 67/70 Mortality table issued by the Institute of Actuaries, London
	After retirement	A (90) Annuities table (Males & Females) issued by the Institute of Actuaries, London
	Staff Turnover	The withdrawal rate at an age represents the probability of an active employee leaving within one year of that age due to reasons other than death, ill health and normal retirement. The same withdrawal rates which were used in the last valuation (as at December 31,2014) to determine the liability on account of the active employees in the funded scheme, were used in the actuarial valuation carried out as at December 31, 2015.
	Disability	Assumptions similar to those used in other comparable schemes for disability were used as the data required to do a 'scheme specific' study was not available.
	Normal retirement age	55 or 60 years as indicated in the data file of active employees.
Financial	Rate of discount	In the absence of a deep market in long term bonds in Sri Lanka, a long term interest rate of 10.50% p.a. (2014 – 9.50% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.
	Salary increases	A salary increment of 10% p.a. (2014 – 9% p.a.) has been used in respect of the active employees.
	Post-retirement pension increase rate	There is no agreed rate of increase even though the pension payments are subject to periodic increases and increases are granted solely at the discretion of the Bank. Therefore, no specific rate was assumed for this valuation.

# 48.4 (b) Movement in the Present Value of Defined Benefit Obligation – Bank

	2015	2014
	Rs. '000	Rs. '000
Balance as at January 01,	140,311	124,678
Interest cost	13,329	12,468
Current service cost	3,022	2,575
Benefits paid during the year	(12,169)	(10,003)
Actuarial loss	19,328	10,593
Balance as at December 31,	163,821	140,311

# 48.4. (c) Movement in the Fair Value of Plan Assets

	2015	2014
	Rs. '000	Rs. '000
Fair value as at January 01,	125,708	117,900
Expected return on plan assets	11,943	11,790
Contribution paid into plan	1,588	1,296
Benefits paid by the plan	(12,169)	(10,003)
Actuarial gain on plan assets	10,238	4,725
Fair value as at December 31,	137,308	125,708

# 48.4 (d) Liability Recognised in the Statement of Financial Position

	2015 Rs. '000	2014 Rs. '000
Present value of defined benefit obligations as at January 01,	163,821	140,311
Fair value of plan assets	(137,308)	(125,708)
Unrecognised actuarial gains/(losses)	_	_
Net liability recognised	26,513	14,603

# 48.4 (e) Plan Assets Consist of the following

	2015	2014
	Rs. '000	Rs. '000
Government Treasury Bills		1,171
Deposits held with the Bank	137,308	124,537
Total	137,308	125,708

# 49. Due to Subsidiaries

	GROL	JP	BANK		
As at December 31,	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Local subsidiaries					
Commercial Development Company PLC	-	-	8,500	12,079	
ONEzero Company Ltd.	_	_	17,712	7,210	
Serendib Finance Ltd.	_	_	_	_	
Sub total	_	_	26,212	19,289	
Foreign subsidiaries					
Commex Sri Lanka S.R.L. – Italy	-	-	_	_	
Sub total		-	-	-	
Total		_	26,212	19,289	

The maturity analysis of Due to Subsidiaries is given in Note 60 on pages 362 and 363.

### 50. Subordinated Liabilities

These represent the funds borrowed by the Group for long term funding requirements. Subsequent to initial recognition these are measured at their amortised cost using the EIR method, except where the Group designates them at fair value through profit or loss. Interest paid/payable is recognised in profit or loss.

	GRO	DUP	BANK		
As at December 31,	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Balance as at January 01,	11,098,910	10,797,660	10,883,910	10,797,660	
Subordinated liabilities assumed on business combination	_	215,000	_	_	
Amount borrowed during the year	_	_	_	_	
Repayments/redemptions during the year	(200,000)	_	_	_	
Sub total	10,898,910	11,012,660	10,883,910	10,797,660	
Exchange rate variance	900,000	86,250	900,000	86,250	
Balance as at December 31, (before adjusting for amortised interest and transaction cost) [Refer Note 50.1]	11,798,910	11,098,910	11,783,910	10,883,910	
Unamortised transaction cost	(88,015)	(100,225)	(88,015)	(100,225)	
Net effect of amortised interest payable	277,377	263,888	277,377	261,090	
Adjusted balance as at December 31,	11,988,272	11,262,573	11,973,272	11,044,775	

Outstanding subordinated liabilities of the Bank as at December 31, 2015 consisted of Rs. 972,660 (2014 – 972,660) unsecured subordinated redeemable debentures of Rs. 1,000/- each and a subordinated loan of US\$ 75.0 Mn. (2014 – US\$ 75.0 Mn.) from International Finance Corporation (IFC).

# 50.1 Categories of Subordinated Liabilities

Categories	Colombo	Interest	Allotment	Maturity	Effective An	Effective Annual Yield		GROUP		NK
	Stock	Payable	Date	Date	2015	2014	2015	2014	2015	2014
	Exchange Listing	Frequency			%	%	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fixed Rate Debentures										
2006/2016 - 13.25% p.a.	Not listed	Annually	16.05.2006	16.05.2016	13.25	13.25	505,000	505,000	505,000	505,000
2006/2016 – 14.00% p.a.	Listed	Annually	18.12.2006	18.12.2016	14.00	14.00	467,260	467,260	467,260	467,260
Floating Rate Debentures										
2006/2016 - 12 months TB rate (Gross) + 1% p.a.(*)	Listed	Annually	18.12.2006	18.12.2016	7.68	10.21	400	400	400	400
Floating Rate Subordinated Loans										
IFC Borrowings – LIBOR + 5.75%		Bi-annually	13.03.2013	14.03.2023	6.275	6.072	10,811,250	9,911,250	10,811,250	9,911,250
Subsidiaries										
Fixed Rate Debentures										
2011/2016 - 14.15% p.a.	Not listed	Monthly	25.08.2011	25.08.2016	14.15	15.10	10,000	10,000	_	-
2011/2016 – 14.15% p.a.	Not listed	Monthly	25.08.2011	25.08.2016	14.15	15.10	5,000	5,000	_	-
2012/2015 – 18.65% p.a.	Not listed	Quarterly	01.12.2012	30.11.2015	_	20.00	_	200,000	_	-
Total							11.798.910	11,098,910	11,783,910	10.883.910

<sup>(\*)</sup> The 12 Months TB rate (Gross) – Twelve months Treasury Bill rate mentioned above is before deducting 10% Withholding Tax as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period.

### 50.2 Subordinated Liabilities by Maturity

´	GR	OUP	ВА	NK
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Payable within one year	987,660	200,000	972,660	-
Payable after one year	10,811,250	10,898,910	10,811,250	10,883,910
Total	11,798,910	11,098,910	11,783,910	10,883,910

In the event of the winding-up of the issuer, the above liabilities would be subordinated to the claims of depositors and all other creditors of the issuer. The Bank has not had any defaults of principal, interest or other breaches with respect to its subordinated liabilities during the year ended December 31, 2015.

The maturity analysis of Subordinated Liabilities is given in Note 60 on pages 362 and 363.

# 51. Stated Capital

Ordinary shares in the Bank are recognised at the amount paid per ordinary share net of directly attributable issue cost.

	GRO	DUP	BANK		
As at December 31,	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Balance as at January 01,	21,457,501	19,586,813	21,457,501	19,586,813	
Issue of ordinary voting shares under the Employee Share Option Plan	237,304	340,763	237,304	340,763	
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares	1,559,800	1,529,925	1,559,800	1,529,925	
Ordinary voting shares	1,459,666	1,431,747	1,459,666	1,431,747	
Ordinary non-voting shares	100,134	98,178	100,134	98,178	
Balance as at December 31,	23,254,605	21.457.501	23,254,605	21,457,501	

# 51.1 Movement in Number of Shares

	No. of Ordinary Voting Shares		No. of Ordinary Non-Voting S	
	2015	2014	2015	2014
Balance as at January 01,	810,277,729	794,535,819	55,579,946	54,543,222
Issue of ordinary voting shares under the Employee Share Option Plan	2,170,613	3,237,566	_	_
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares	8,118,773	12,504,344	719,740	1,036,724
Balance as at December 31,	820,567,115	810,277,729	56,299,686	55,579,946

The shares of Commercial Bank of Ceylon PLC are quoted in the Colombo Stock Exchange. The non-voting ordinary shares of the Bank, rank *pari passu* in respect of all rights with the ordinary voting shares of the Bank except voting rights on Resolutions passed at General Meetings.

The holders of ordinary shares are entitled to receive dividends declared from time to time and are entitled to one vote per share at General Meetings of the Bank.

The Bank has offered an Employee Share Option Plan. Please see Note 51.2 below for details.

#### 51.2 Employee Share Option Plan - 2008

The Bank obtained the approval of the shareholders at an Extraordinary General Meeting held on April 16, 2008, to introduce an Employee Share Option Plan for the benefit of all the Executive Officers in Grade III and above by creating up to 3% of the ordinary voting shares at the rate of 1% shares each year over a period of three to five years, upon the Bank achieving specified performance targets.

Option price is determined on the basis of the weighted average market price of Bank's voting shares, during the period of ten market days immediately prior to each option offer date.

Number of options offered under each tranche is based on the overall performance of the Bank and the individual performance of the eligible employees in the preceding year. In the event of a rights issue of shares, capitalisation of reserves, stock splits or stock dividends by the Bank during the vesting period, the number of options offered and the price are suitably adjusted as per the applicable rules of ESOP – 2008 which have been drafted in line with the accepted market practices.

1/3 of the options offered under each tranche is vested to eligible employees after one year from the date of offer, second 1/3 of the options after two years from the date of offer and final 1/3 after three years from the date of offer as detailed below:

		Tranche I		
Date granted	April 30, 2008	April 30, 2008	April 30, 2008	
Price (Rs.) – (*)	46.91	46.91	46.91	Total
	1/3 of Options	1/3 of Options	1/3 of Options	iotai
Exercisable between	April 30, 2009 to April 29, 2013	April 30, 2010 to April 29, 2014	April 30, 2011 to April 29, 2015	
Original number of options	777,308	777,308	777,308	2,331,924
Additions consequent to share splits and rights issues	692,095	789,320	1,057,059	2,538,474
Number of options cancelled before vesting	(52,943)	(52,943)	(52,943)	(158,829)
Number of options vested	1,416,460	1,513,685	1,781,424	4,711,569
Options cancelled due to non-acceptance	_	_	_	_
Number of options exercised up to December 31, 2015	(1,416,460)	(1,513,685)	(1,781,424)	(4,711,569)
Number of options to be exercised as at December 31, 2015	_	_	_	_

(\*) Adjusted on account of the dividends declared in the form of issue and allotment of new shares, rights issue of shares and sub-division of shares.

		Tranche II		
Date granted	April 30, 2011	April 30, 2011	April 30, 2011	
Price (Rs.)	132.23	132.23	132.23	Total
	1/3 of Options	1/3 of Options	1/3 of Options	IOIai
Exercisable between	April 30, 2012	April 30, 2013	April 30, 2014	
	to April 29, 2016	to April 29, 2017	to April 29, 2018	
Original number of options	1,213,384	1,213,384	1,213,384	3,640,152
Additions consequent to share splits and rights issues	1,213,384	1,213,384	1,213,384	3,640,152
Number of options cancelled before vesting	(30,980)	(41,307)	(95,236)	(167,523)
Number of options vested	2,395,788	2,385,461	2,331,532	7,112,781
Number of options exercised up to December 31, 2015	(859,242)	(484,207)	(303,150)	(1,646,599)
Number of options to be exercised as at December 31, 2015	1,536,546	1,901,254	2,028,382	5,466,182

		Tranche III		
Date granted	April 30, 2012	April 30, 2012	April 30, 2012	
Price (Rs.)	104.63	104.63	104.63	Total
	1/3 of Options	1/3 of Options	1/3 of Options	Iolai
Exercisable between	April 30, 2013	April 30, 2014	April 30, 2015	
	to April 29, 2017	to April 29, 2018	to April 29, 2019	
Original number of options	2,596,622	2,596,622	2,596,600	7,789,844
Number of options cancelled before vesting	_	(49,704)	(79,961)	(129,665)
Number of options vested	2,596,622	2,546,918	2,516,639	7,660,179
Number of options exercised up to December 31, 2015	(1,526,234)	(1,113,235)	(689,561)	(3,329,030)
Number of options to be exercised as at December 31, 2015	1,070,388	1,433,683	1,827,078	4,331,149

The Employee Share Option Plan – 2008 was exempted from the requirements of the SLFRS 2 on 'Share-based Payment' as it was granted prior to January 01, 2012, the effective date of the aforesaid accounting standard.

The details of Employee Share Option Plans within the scope of the SLFRS 2 on 'Share-based Payment' are reported in Note 52 to the Financial Statements below:

#### 52. Share-based Payment

### 52.1 Description of the Share-based Payment Arrangement

As at the Reporting date, the Group had the following equity settled share-based payment arrangement which was granted after January 01, 2012, the effective date of the Accounting Standard SLFRS 2 on 'Share-based Payment'.

### Employee Share Option Plan - 2015

The Bank obtained the approval of the shareholders at an Extraordinary General Meeting held on March 31, 2015, to introduce an Employee Share Option Plan for the benefit of all executive officers in Grade 1A and above by creating up to 2% of the ordinary voting shares at the rate of 0.5% shares in the first two years and 1% shares in the last year over a period of three to five years, upon the Bank achieving specified performance targets. The performance conditions include minimum performance targets over the budget and over the industry peers and the service conditions include the fulfilment of the minimum service period as at the dates of vesting of each tranche.

Key terms and conditions related to the offer are detailed below:

	Tranches				
	Tranche 1	Tranche 2	Tranche 3		
% of Voting Shares Issued (Maximum)	0.5	0.5	1.0		
Option Grant Date (Assumed)	April 1, 2015	April 1, 2015	April 1, 2015		
Exercisable between	October 01, 2016 to September 30, 2019	October 01, 2017 to September 30, 2020	October 01, 2018 to September 30, 2021		
Date of Vesting	September 30, 2016	September 30, 2017	September 30, 2018		
Vesting Conditions	1 ½ years of service from the grant date and the fulfilment of performance conditions stated above for the Financial Year 2015	2 ½ years of service from the grant date and the fulfilment of performance conditions stated above for the Financial Year 2016	3 ½ years of service from the grant date and the fulfilment of performance conditions stated above for the Financial Year 2017		

All options are to be settled by physical delivery of ordinary voting shares of the Bank. There are neither cash settlement alternatives nor the Bank has a past practice of cash settlement for these type of options.

The exercise price of each tranche is computed based on a volume-weighted average market price of the Bank's ordinary (voting) shares, during the period of thirty (30) market days, on six months prior to the date of vesting.

#### 52.2 Measurement of Fair Value

As required by SLFRS 2 on 'Share-based Payment', the fair value of the ESOP 2015 was estimated at the grant date using the Binomial Valuation Model taking into consideration various terms and conditions upon which the share options are granted.

The inputs used in measurement of fair value at the grant date of ESOP 2015 were as follows:

	Tranches					
Description of the Valuation Input	Tranche 1	Tranche 2	Tranche 3			
Expected dividend rate (%)	3.50	3.50	3.50			
Risk free rate (%)	8.00	8.00	8.00			
Probability of share price increase (%)	80.00	80.00	80.00			
Probability of share price decrease (%)	20.00	20.00	20.00			
Size of annual increase of share price (%)	20.00	20.00	20.00			
Size of annual reduction in share price (%)	10.00	10.00	10.00			
Exercise price (Rs.)	206.90	227.54	250.24			

Share price increases stated above have been based on evaluation of the historical volatility of the Bank's share price over past 10 years, adjusted for post war growth in All Share Price Index published by the Colombo Stock Exchange.

## 52.3 Reconciliation of Outstanding Share Options

There were no outstanding options of ESOP 2015 as at December 31, 2015 since the vesting date has not yet reached. [Refer Note 52.1 above].

#### 52.4 Expense Recognised in Income Statement

The cumulative expense recognised for equity-settled transactions at each Reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. Accordingly, the expense in the Income Statement represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense [Refer Note 18].

# 53. Statutory Reserves

Several statutory and voluntary reserves are maintained by the Group in order to meet various legal and operational requirements. The details of these reserves including the nature and purpose of maintaining them are given in Notes 53, 54 and 55 on pages 353 to 357.

	GRO	BANK		
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Statutory reserve fund [Refer Note 53.1]	4,922,367	4,327,103	4,922,264	4,327,103
Primary dealer special risk reserve [Refer Note 53.2]	_	_	_	_
Sub total	4,922,367	4,327,103	4,922,264	4,327,103

#### 53.1 Statutory Reserve Fund

	GRO	GROUP		١K
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	4,327,103	3,768,094	4,327,103	3,768,094
Transfers during the year	595,264	559,009	595,161	559,009
Balance as at December 31,	4,922,367	4,327,103	4,922,264	4,327,103

The statutory reserve fund is maintained as per the requirements under Section 20 (1) of the Banking Act No. 30 of 1988. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividend or any profits that are transferred elsewhere until the reserve is equal to 50% of the Bank's stated capital and thereafter a further sum equivalent to 2% of such profit until the amount of said the reserve fund is equal to the stated capital of the Bank.

The balance in the statutory reserve fund will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

#### 53.2 Primary Dealer Special Risk Reserve

· <u>-                                     </u>	GRO	GROUP		IK
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	-	266,520	_	266,520
Transfers during the year	_	-	_	_
Transferred to general reserve [Refer Note 55.2]	_	(266,520)	_	(266,520)
Balance as at December 31,	_	_	_	_

As per the Direction issued by the Public Debt Department of Central Bank of Sri Lanka on April 18, 2005, with effect from July 01, 2005 Primary Dealers who maintain a capital above Rs. 300 Mn., were required to transfer 25% of post-tax profits of the Primary Dealer Unit to a special risk reserve annually. The Bank duly complied with the above requirement up to December 31, 2013.

During 2014, the Bank received a confirmation from the Public Debt – Department of the Central Bank of Sri Lanka on the cessation of maintaining a Special Risk Reserve as the Bank is functioning as a primary dealer. Hence, the Bank transferred the balances that were built up in the above reserve to the General Reserve.

### 54. Retained Earnings

	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	4,418,412	4,359,632	4,258,287	4,233,364
Super Gain Tax for the year of assessment 2013/14(*)	(2,608,469)	_	(2,576,355)	_
Balance as at January 01, (Adjusted)	1,809,943	4,359,632	1,681,932	4,233,364
Total comprehensive income	11,783,842	11,184,470	11,834,510	11,119,514
Profit for the year	11,855,172	11,238,892	11,903,224	11,180,181
Other comprehensive income, net of tax	(71,330)	(54,422)	(68,714)	(60,667)
Dividends paid	(5,647,414)	(5,547,136)	(5,647,414)	(5,547,136)
Re-classification of retained earnings to/from available-for-sale reserve	_	(31,099)	_	_
Transfers to other reserves	(3,480,264)	(5,547,455)	(3,480,161)	(5,547,455)
Profit due to change in ownership	2,344	_	_	_
Movement due to change in equity	(644)	_	_	_
Balance as at December 31,	4,467,807	4,418,412	4,388,867	4,258,287

(\*) As per the amendments to provisions of the Finance Act from the Finance Bill passed on October 20, 2015, the Group and the Bank was liable for Super Gain Tax (SGT) amounting to Rs. 2,609 Mn. and Rs.2,576 Mn. respectively. According to the Act, the SGT shall be deemed to be an expenditure in the Financial Statements relating to the year of assessment commenced on April 1, 2013. Since the Act supersedes the requirements of the Sri Lanka Accounting Standards, The Institute of Chartered Accountants of Sri Lanka recommended the accounting treatment on SGT by issuing the Statement of Alternative Treatment (SoAT) dated November 24, 2015 and SGT has been recorded in the Financial Statements accordingly.

### 55. Other Reserves

# 55. (a) Current Year - 2015

	GROUP			BANK			
	Balance as at January 01, Rs. '000	Movement/ Transfers Rs. '000	Balance as at December 31, Rs. '000	Balance as at January 01, Rs. '000	Movement/ Transfers Rs. '000	Balance as at December 31, Rs. '000	
Revaluation reserve [Refer Note 55.1]	6,246,960	11,979	6,258,939	5,722,859	_	5,722,859	
General reserve [Refer Note 55.2]	32,474,478	2,885,000	35,359,478	32,474,478	2,885,000	35,359,478	
Available-for-sale reserve [Refer Note 55.3]	2,735,569	(6,690,945)	(3,955,376)	2,735,578	(6,690,945)	(3,955,367)	
Foreign currency translation reserve [Refer Note 55.4]	(454,188)	886,677	432,489	(464,076)	888,844	424,768	
Employee share option reserve [Refer Note 55.6]	_	223,330	223,330	_	223,330	223,330	
Total	41,002,819	(2,683,959)	38,318,860	40,468,839	(2,693,771)	37,775,068	
10.00	-11,002,010	(2,000,000)			(2,000,771)	07,770,00	

#### 55. (b) Previous Year - 2014

	GROUP			BANK		
	Balance as at January 01,	Movement/ Transfers	Balance as at December 31,	Balance as at January 01,	Movement/ Transfers	Balance as at December 31,
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Revaluation reserve [Refer Note 55.1]	4,615,947	1,631,013	6,246,960	4,222,054	1,500,805	5,722,859
General reserve [Refer Note 55.2]	22,380,819	10,093,659	32,474,478	22,380,819	10,093,659	32,474,478
Available-for-sale reserve [Refer Note 55.3]	2,023,468	712,101	2,735,569	2,054,567	681,011	2,735,578
Foreign currency translation reserve [Refer Note 55.4]	(393,758)	(60,430)	(454,188)	(406,925)	(57,151)	(464,076)
Investment fund account [Refer Note 55.5]	4,838,693	(4,838,693)	_	4,838,693	(4,838,693)	_
Total	33,465,169	7,537,650	41,002,819	33,089,208	7,379,631	40,468,839

### 55.1 Revaluation Reserve

The revaluation reserve relates to revaluation of freehold land and buildings and represents the fair value changes of the land and buildings as at the date of revaluation.

The Bank carried out a revaluation of all its freehold lands and buildings as at December 31, 2014 and recognised Rs. 1,621.489 Mn., as revaluation surplus.

	GRO	UP	BAN	BANK	
	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Balance as at January 01,	6,246,960	4,615,947	5,722,859	4,222,054	
Surplus on revaluation of freehold land and buildings	<del>-</del>	1,802,333	_	1,621,489	
Deferred tax effect on revaluation surplus on freehold buildings	_	(171,320)	_	(120,684)	
Re-instatement of deferred tax on revaluation gains	13,710	_	_	_	
Movement due to change in equity	(1,731)	_	_	_	
Balance as at December 31,	6,258,939	6,246,960	5,722,859	5,722,859	

#### 55.2 General Reserve

The Bank transfers the surplus profit, after payment of interim dividend and after retaining sufficient profits to pay final dividends proposed, from the retained earnings account to the General Reserve account. The purpose of setting up the General Reserve is to meet potential future unknown liabilities.

	GROUP		BANK	
	2015	<b>2015</b> 2014		2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	32,474,478	22,380,819	32,474,478	22,380,819
Transfers of primary dealer special risk reserve [Refer Note 53.2]	_	266,520	_	266,520
Transfers of investment fund account [Refer Note 55.5]	_	5,227,139	_	5,227,139
Transfers during the year	2,885,000	4,600,000	2,885,000	4,600,000
Balance as at December 31,	35,359,478	32,474,478	35,359,478	32,474,478

#### 55.3 Available-for-Sale Reserve

The available-for-sale reserve comprises the cumulative net change in fair value of financial investments available-for-sale until such investments are derecognised or impaired.

	GROUP		BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	2,735,569	2,023,468	2,735,578	2,054,567
Net fair value gains/(losses) on remeasuring financial investments available-for-sale	(6,690,945)	681,002	(6,690,945)	681,011
Reclassification of retained earnings to/from available-for-sale reserve	_	31,099	_	_
Balance as at December 31,	(3,955,376)	2,735,569	(3,955,367)	2,735,578

#### 55.4 Foreign Currency Translation Reserve

The foreign currency translation reserve comprises of all foreign currency differences arising from the translation of the Financial Statements of foreign operations.

As at the Reporting date, the assets and liabilities of the Bank's Bangladesh Operation and Commex - Sri Lanka S.R.L Italy, a subsidiary of the Bank were translated in to the presentation currency (Sri Lankan Rupee) at the exchange rate ruling at the Reporting date and the Statement of Profit or Loss and Other Comprehensive Income was translated at the average exchange rate for the period. The exchange differences arising on the translation of these Financial Statements are taken to foreign currency translation reserve through other comprehensive income.

GROUP		BANK	
2015	2014	2015	2014
Rs. '000	Rs. '000	Rs. '000	Rs. '000
(454,188)	(393,758)	(464,076)	(406,925)
886,677	(60,430)	888,844	(57,151)
432,489	(454,188)	424,768	(464,076)
	2015 Rs. '000 (454,188) 886,677	2015 2014 Rs. '000 Rs. '000  (454,188) (393,758)  886,677 (60,430)	2015 2014 2015 Rs. '000 Rs. '000 Rs. '000  (454,188) (393,758) (464,076)  886,677 (60,430) 888,844

#### 55.5 Investment Fund Account

Banks were required to transfer 8% of the profits calculated for the payment of Value Added Tax (VAT) on financial services and 5% of the profits before tax calculated for the payment of income tax to a fund identified as 'Investment Fund Account' (IFA) for a period of three years as per a proposal made in the Government Budget 2011. Since the above-mentioned three-year period has lapsed the Bank transferred the balance in the above reserve fund to the general reserve during 2014.

	GRO	DUP	BANK	
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 01,	_	4,838,693	_	4,838,693
Transfers during the year	_	388,446	_	388,446
Transfers to general reserve [Refer Note 55.2]	_	(5,227,139)	_	(5,227,139)
Balance as at December 31,	_	_	_	_

### 55.6 Employee Share Option Reserve

The Employee Share Option reserve is used to recognise the value of equity-settled share-based payments to be provided to employees, including Key Management Personnel, as part of their remuneration.

	GROL	GROUP		BANK	
	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Balance as at January 01,	-	-	_	_	
Transfers during the year [Refer Note 18]	223,330	_	223,330	_	
Balance as at December 31,	223,330	-	223,330	_	

### 56. Non-Controlling Interest

Non-Controlling Interest (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

	Commercial Development Company PLC	
	2015	2014
	Rs. '000	Rs. '000
Balance as at January 01,	47,564	38,778
Super Gain Tax for the year of assessment 2013/14	(1,503)	-
Profit for the year	4,088	3,901
Other comprehensive income, net of tax	369	7,501
Dividends paid for the year	(3,270)	(2,616)
Re-instatement of deferred tax on revaluation gains	585	_
Re-instatement of non-controlling interest due to partial disposal of subsidiary	2,375	-
Balance as at December 31,	50,208	47,564

### 57. 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'.

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and guarantees 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.

Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

Operating lease commitments of the Group (as a lessor and as a lessee) form part of commitments and pending legal claims against the Group form part of contingencies.

Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank as disclosed in Note 57.1 on page 359.

In the normal course of business, the Bank makes various irrevocable commitments and incurs certain contingent liabilities with legal recourse to its customers. Even though these obligations may not be recognised on the date of the Statement of Financial Position, they do contain credit risk and are therefore form part of the overall risk profile of the Bank.

	GRO	DUP	BANK		
As at December 31,	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Contingencies	365,874,611	244,635,833	365,874,611	244,635,833	
Guarantees	31,504,779	31,068,055	31,504,779	31,068,055	
Performance Bonds	14,095,269	12,038,017	14,095,269	12,038,017	
Documentary Credits	30,161,623	25,286,563	30,161,623	25,286,563	
Other contingencies [Refer Note 57.1]	290,112,940	176,243,198	290,112,940	176,243,198	
Commitments	155,357,709	107,817,619	155,357,709	107,817,619	
Undrawn commitments [Refer Note 57.2]	153,979,986	106,560,178	153,979,986	106,560,178	
Capital commitments [Refer Note 57.3]	1,377,723	1,257,441	1,377,723	1,257,441	
Total	521,232,320	352,453,452	521,232,320	352,453,452	

# 57.1 Other Contingencies

	GRO	DUP	BAI	NK
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Forward exchange contracts:	77,647,330	32,246,624	77,647,330	32,246,624
Forward exchange sales	44,293,601	12,240,936	44,293,601	12,240,936
Forward exchange purchases	33,353,729	20,005,688	33,353,729	20,005,688
Interest Rate Swap agreements/Currency Swaps:	168,466,179	97,645,723	168,466,179	97,645,723
Interest rate Swaps	_	_	_	_
Currency Swaps	168,466,179	97,645,723	168,466,179	97,645,723
Others:	43,999,431	46,350,851	43,999,431	46,350,851
Acceptances	25,708,732	20,880,240	25,708,732	20,880,240
Bills for collection	17,533,095	24,899,607	17,533,095	24,899,607
Stock of travellers' cheques	586,893	476,369	586,893	476,369
Bullion on consignment	170,711	94,635	170,711	94,635
Sub total	290,112,940	176,243,198	290,112,940	176,243,198

# 57.2 Undrawn Commitments

	GRO	GROUP			
As at December 31,	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
On direct advances	109,755,816	72,366,848	109,755,816	72,366,848	
On indirect advances	44,224,170	34,193,330	44,224,170	34,193,330	
Sub total	153,979,986	106,560,178	153,979,986	106,560,178	

### 57.3 Capital Commitments

The Group has commitments for acquisition of Property, Plant & Equipment and intangible assets incidental to the ordinary course of business which have been approved by the Board of Directors, the details of which are as follows:

	GRO	BANK		
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Commitments in relation to property, plant & equipment	964,469	1,226,843	964,469	1,226,843
Approved and contracted for	725,069	344,026	725,069	344,026
Approved but not contracted for	239,400	882,817	239,400	882,817
Commitments in relation to intangible assets	413,254	30,598	413,254	30,598
Approved and contracted for	413,254	30,598	413,254	30,598
Approved but not contracted for	_	-	_	_
Sub total	1,377,723	1,257,441	1,377,723	1,257,441

### 57.4 Commitments of Subsidiaries and Associates

# 57.4 (a) Contingencies of Subsidiaries

The Subsidiaries of the Group do not have any contingencies as at the Reporting date.

### 57.4 (b) Contingencies of Associates

The Associates of the Group do not have any contingencies as at the Reporting date.

## 58. Net Assets Value Per Ordinary Share

	GR	OUP	BANK		
As at December 31,	2015	2014	2015	2014	
Amounts used as the Numerator:					
Total equity attributable to equity holders of the Bank (Rs. '000)	70,963,639	71,205,835	70,340,804	70,511,730	
Number of ordinary shares used as the denominator:					
Total number of shares	876,866,801	865,857,675	876,866,801	865,857,675	
Net assets value per share (Rs.)	80.93	82.24	80.22	81.44	

### 59. Litigation Against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At the Reporting date the Group had several unresolved legal claims. The significant unresolved legal claims against the Bank for which legal advisor of the Bank is of the opinion that there is possible loss, however there is a probability that the action will not succeed. Accordingly, no provision for any claims has been made in these Financial Statements.

Set out below are unresolved legal claims against the Bank as at December 31, 2015 for which, adjustments to the Financial Statements have not been made due to the uncertainty of its outcome:

- (i) Court action has been initiated by a customer in High Court Civil Case number 236/2011/MR challenging the Bank for transferring a vehicle in the name of a relation of the customer, upon settlement of a lease facility obtained from the Bank. The Bank has executed the transfer on the strength of a letter issued by the Plaintiff who is now challenging the letter. The value of the action is Rs. 3.500 Mn. Next trial is fixed for May 25, 2016.
- (ii) Court action has been initiated by a customer in proceeding number 25831/MR to claim a sum of Rs.2.880 Mn including the refund of interest of an overdraft facility. The judgement was entered against the Bank in the District Court for Rs.1.874 Mn. This amount has been provided for as set out in Note 47. The Bank has appealed (Appeal No. 133/2010) to the Supreme Court. Bank is granted leave by the Supreme Court. Argument re-fixed for May 31, 2016.
- (iii) Court action has been initiated by the plaintiff in the Commercial High Court of the Western Province Case number 571/2008/ MR to prevent the Bank from exercising the right of lien and set off a deposit of the plaintiff amounting to US\$ 15.000 Mn. against a claim made by the Bank in terms of a hedging agreement. Commercial High Court issued the judgement in favour of the Bank and dismissed plaintiff's application for an interim injunction. Presently the case is at the trial stage. Next trial date fixed for May 04, 2016.
- (iv) Court action has been initiated by a third party in Colombo High Court proceedings number 112/2005 (1) to claim Rs. 5.584 Mn. plus Rs. 10.000 Mn. as damages for disposing of the shares owned by the plaintiff which were held under lien to the Bank. Plaintiff alleges that the transaction has taken place without obtaining her consent. Judgement was delivered in favour of the Plaintiff. Bank has appealed to the Supreme Court (Appeal No. 09/2010) against the judgement delivered. The plaintiff has filed an application for the issue of Writ Pending Appeal. Bank had agreed to issue a guarantee for Rs. 5.000 Mn. in favour of the plaintiff, to be claimed only on the final determination of the appeal by the Supreme Court. Appeal is listed for argument on July 07, 2016.
- (v) Court action has been initiated by a customer in Colombo High Court Case number 36/96 (1) to claim a sum of Rs. 183.050 Mn. regarding a forward exchange contract. Judgement was delivered in favour of the Bank dismissing the plaintiff's action, but the plaintiff has appealed against the judgement in the Supreme Court (Appeal No. 38/2006). The appeal is fixed for argument on March 30, 2016.
- (vi) Court action has been initiated by a customer for Rs. 14.000 Mn. in District Court, Colombo proceeding number 315/2015/MR (DMR 3/2014) to recover a sum of Rs. 13.063 Mn. including interest on cheques paid with a fraudulent signature. The case which was filed at the District Court which was not the correct court for cases of high value was latter referred to the Commercial High Court. Trial fixed for March 04, 2016.
- (vii) Court action has been initiated by a customer in proceedings number 52/10 to claim a sum of Bangladesh Taka 35.328 Mn. (approx. Rs. 64.876 Mn.) from the Bank for illegal withdrawal of money from their account by issuing cheques with forged signatures. The Bank refuses the claim of the customer as the Bank is of the view that it had acted in good faith, without negligence and also that the Bank is not responsible for any losses incurred due to inadequacy of the security of cheque books issued to the customer. Next date of the case is fixed for April 06, 2016.
- (viii) Court action has been initiated in proceedings number 03034/14/MR to claim a sum of Rs. 27.870 Mn. being the total amount withdrawn from the company account by an employee by forging authorised customer's signatures in a number of transactions during a period of two years. Trial is fixed for May 20, 2016.

# **60.** Maturity Analysis

# (a) Group

(i) Remaining contractual period to maturity as at the date of Statement of Financial Position of the assets employed by the Group is detailed below:

As at December 31,	Up to 3	3 to 12	1 to 3	3 to 5	More than	Total as at	Total as at
	Months	Months	Years	Years	5 Years	31.12.2015	31.12.2014
	Rs. '000						
Interest earning assets:							
Financial Assets							
Cash and cash equivalents	1,662,487	-	-	-	_	1,662,487	3,601,722
Balances with central banks	5,675,993	30,814	-	_	-	5,706,807	167,496
Placements with banks	17,193,539	_	_	_	_	17,193,539	14,507,861
Securities purchased under resale agreements	8,002,100	_	_	-	-	8,002,100	41,198,266
Other financial instruments held-for-trading	7,330,086	_	_	_	_	7,330,086	5,958,902
Loans and receivables to other customers	181,750,723	94,164,172	128,460,051	67,916,622	37,631,560	509,923,128	406,531,089
Financial investments – Available-for-sale	10,378,165	12,915,465	89,654,360	38,515,358	52,524,158	203,987,506	213,381,388
Financial investments – Held-to-maturity	_	_	_	_	_	_	_
Financial investments – Loans and receivables	3,824,319	20,049,834	21,431,676	12,418,540	_	57,724,369	50,436,064
Total interest earning assets as at 31.12.2015	235,817,412	127,160,285	239,546,087	118,850,520	90,155,718	811,530,022	
Total interest earning assets as at 31.12.2014	244,451,827	136,662,768	145,537,531	129,808,209	79,322,453		735,782,788
Non interest corning spects.							
Non-interest earning assets:							
Financial Assets							
Cash and cash equivalents	18,444,589					18,444,589	17,020,056
Balances with central banks	15,444,763	5,785,437	468,849	397,102	418,059	22,514,210	19,466,250
Derivative financial assets	2,368,201	1,628,577	121,391			4,118,169	459,510
Other financial instruments held-for-trading	326,263	_	_			326,263	367,734
Loans and receivables to banks			601,106			601,106	551,066
Financial investments – Available-for-sale				17,294	257,134	274,428	843,629
Non-Financial Assets							
Investments in subsidiaries	_	_	_	_	_	_	
Investments in associates	_	_	_	_	104,503	104,503	106,287
Property, plant & equipment	_	-	_	_	11,181,433	11,181,433	11,134,861
Intangible assets	_	=	-	_	884,034	884,034	856,230
Leasehold property	_	-	_	_	107,420	107,420	108,872
Other assets	8,347,234	169,805	985,405	374,696	2,219,877	12,097,017	10,560,430
Total non-interest earning assets as at 31.12.2015	44,931,050	7,583,819	2,176,751	789,092	15,172,460	70,653,172	
Total non-interest earning assets as at 31.12.2014	38,217,342	5,435,728	1,461,681	1,279,957	15,080,217		61.474.925
Total assets – as at 31.12.2015	280,748,462	134,744,104	241,722,838	119,639,612	105,328,178	882,183,194	. ,,520
Total assets – as at 31.12.2014	282.669.169	142,098,496	146,999,212	131,088,166	94,402,670		797,257,713
Percentage – as at 31.12.2015(*)	31.83	15.27	27.40	13.56	11.94	100.00	. 07,207,7710
			0				

<sup>(\*)</sup>Total percentage of each maturity bucket out of total assets employed by the Group.

(ii) Remaining contractual period to maturity as at the date of Statement of Financial Position of the liabilities and shareholders' funds employed by the Group is detailed below:

	Up to 3	3 to 12	1 to 3	3 to 5	More than	Total as at	Total as at
	Months	Months	Years	Years	5 Years	31.12.2015	31.12.2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest-bearing liabilities:							
Financial liabilities							
Due to banks	14,516,916	12,938,974	402,969	100,775	_	27,959,634	7,509,404
Securities sold under repurchase agreements	89,269,761	22,648,445	331,497	_	_	112,249,703	124,391,042
Due to other customers/Deposits from customers	372,775,471	164,706,138	14,096,129	9,075,203	10,433,689	571,086,630	484,344,982
Other borrowings	492,184	1,506,179	4,089,640	139,873	3,757,761	9,985,637	11,636,583
Subordinated liabilities	132,361	1,132,677	_	_	10,723,234	11,988,272	11,262,573
Total interest-bearing liabilities as at 31.12.2015	477,186,693	202,932,413	18,920,235	9,315,851	24,914,684	733,269,876	
Total interest-bearing liabilities as at 31.12.2014	409,076,099	181,077,546	20,591,200	8,810,120	19,589,619		639,144,58
Non-interest-bearing liabilities: Financial liabilities							
Due to banks	3,829,762	_	-	-	_	3,829,762	18,159,62
Derivative financial liabilities	1,026,823	783,512	80,435	-	_	1,890,770	1,193,13
Due to other customers/Deposits from customers	52,934,587	_	_	=	_	52,934,587	44,921,60
Non-financial liabilities							
Current tax liabilities	1,527,180	1,498,482	_	-	_	3,025,662	2,037,38
Deferred tax liabilities	497,073	199,449	111,823	471,153	(811,866)	467,632	2,876,19
Other provisions	1,874	_	_	_	_	1,874	1,87
Other liabilities	11,586,659	1,509,154	1,239,799	299,833	1,113,738	15,749,184	17,669,90
Equity							
Stated capital	_	_	_	_	23,254,605	23,254,605	21,457,50
Statutory reserves			_	-	4,922,367	4,922,367	4,327,100
Retained earnings			_	-	4,467,807	4,467,807	4,418,41
Other reserves	_	_	_	-	38,318,860	38,318,860	41,002,81
Non-controlling interest					50,208	50,208	47,56
Total non-interest-bearing liabilities as at 31.12.2015	71,403,958	3,990,597	1,432,057	770,986	71,315,719	148,913,318	
Total non-interest-bearing liabilities as at 31.12.2014	74,388,689	6,168,127	3,112,130	1,767,951	72,676,231		158,113,12
Total liabilities and equity - as at 31.12.2015	548,590,651	206,923,010	20,352,292	10,086,837	96,230,403	882,183,194	
Total liabilities and equity - as at 31.12.2014	483,464,788	187,245,673	23,703,330	10,578,071	92,265,850		797,257,713
Percentage – as at 31.12.2015(*)	62.18	23.46	2.31	1.14	10.91	100.00	
Percentage – as at 31.12.2014(*)	60.64	23.49	2.97	1.33	11.57		100.0

<sup>(\*)</sup> Total percentage of each maturity bucket out of total liabilities and shareholders' funds employed by the Group.

# (b) Bank

Maturity analysis of the assets and liabilities of the Bank is given in Note 67.2.2 on 'Financial Risk Review' on pages 391 to 394.

### **61.** Operating Segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Corporate Management Team headed by the Managing Director/Chief Executive Officer (being the chief operating decision-maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The Group has five strategic divisions which are reportable segments, namely:

Types of Products and Services offered
Refer page 160 to 179 for details on product portfolio by 'Business Lines'
by Business Eines

Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the Consolidated Financial Statements. Income taxes are managed on a Group basis and are not allocated to operating segments.

The following table presents the income, profit, asset and liability information on the Group's strategic business divisions for the year ended December 31, 2015 and comparative figures for the year ended December 31, 2014.

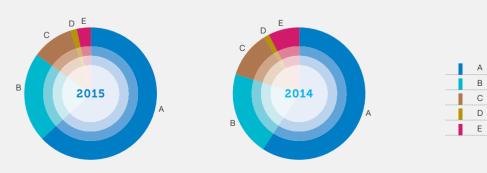
	Retail	Banking	Corporate	e Banking	Internationa	I Operations	Investmen	t Banking	Dealing/	Treasury	Total/Cor	nsolidated
For the year ended	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
December 31,	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
External operating inco	me:											
Net interest income	21,090,898	18,570,933	6,038,268	5,636,808	3,035,880	3,172,536	591,019	342,573	(188,715)	(403,026)	30,567,350	27,319,824
Foreign exchange profit	84,085	73,755	1,270,664	282,246	518,116	452,274	_	_	1,004,405	672,898	2,877,270	1,481,174
Net fees and commission income	3,317,748	2,882,956	1,543,735	1,423,382	524,103	522,241	20,600	14,802	4,124	5,981	5,410,310	4,849,362
Other income	1,381,067	490,481	161,456	217,483	62,360	88,717	40,296	152,487	575,242	2,523,845	2,220,421	3,473,013
Eliminations/ unallocated											458,489	347,456
Total operating income	25,873,798	22,018,125	9,014,123	7,559,919	4,140,459	4,235,768	651,915	509,862	1,395,056	2,799,698	41,533,840	37,470,829
Credit loss expenses	(3,266,263)	(3,173,514)	(478,732)	303,936	(354,743)	(339,060)	-	-	-	-	(4,099,738)	(3,208,638
Net operating income	22,607,535	18,844,611	8,535,391	7,863,855	3,785,716	3,896,708	651,915	509,862	1,395,056	2,799,698	37,434,102	34,262,191
Segment result	8,591,633	8,543,957	5,166,707	4,030,094	2,544,328	2,457,544	345,419	274,864	474,386	546,895	17,122,473	15,853,354
Profit from operations											17,122,473	15,853,354
Share of profit of assoc	iates – (befo	ore tax)									13,638	6,563
Income tax expense											(5,276,851)	(4,617,124
Non-controlling interest											(4,088)	(3,901
Net profit for the year, a	ttributable t	o Equity hold	ers of the pa	rent							11,855,172	11,238,892

	Retail E	Banking	Corporate	e Banking	Internationa	al Operations	Investme	nt Banking	Dealing/	Treasury	Total/Con	solidated
As at December 31,	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Other information												
Segment assets	279,706,505	234,942,876	193,881,080	131,218,372	93,138,952	97,538,500	13,406,914	10,184,101	261,627,206	293,073,401	841,760,657	766,957,250
Investment in associates	-	_	_	_	_	_	104,503	106,287	_	_	104,503	106,287
Unallocated Assets	_	_	_	_	_	_	_	_	_	_	40,318,034	30,194,176
Total assets	279,706,505	234,942,876	193,881,080	131,218,372	93,138,952	97,538,500	13,511,417	10,290,388	261,627,206	293,073,401	882,183,194	797,257,71
Segment liabilities	496,764,815	429,433,726	131,484,574	102,815,075	48,979,303	42,361,090	13,511,417	10,290,388	116,935,944	136,190,448	807,676,053	721,090,72
Unallocated liabilities	_	_	_	_	_	_	_	_	_	_	3,493,294	4,913,587
Total liabilities	496,764,815	429,433,726	131,484,574	102,815,075	48,979,303	42,361,090	13,511,417	10,290,388	116,935,944	136,190,448	811,169,347	726,004,31
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
For the year ended December 31,	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Information on cash flows												
December 31, Information on	Rs. '000		Rs. '000	Rs. '000		Rs. '000			Rs. '000			Rs. '00
December 31,  Information on cash flows  Cash flows from operating activities	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
December 31,  Information on cash flows  Cash flows from operating activities  Cash flows from investing	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
December 31,  Information on cash flows  Cash flows from operating activities  Cash flows from investing activities  Cash flows from financing	Fs. '000	Rs. '000 111,174,633	Rs. '000	10,396,929	Rs. '000 (88,902,894)	8,244,736 (2,621,884)	18,765,38 (6,795,46					
Information on cash flows Cash flows from operating activities Cash flows from investing activities Cash flows from financing activities	5,518,618 - (641,079)	Rs. '000 111,174,633	Rs. '000	10,396,929	Rs. '000 (88,902,894)	8,244,736 (2,621,884)	Rs. '000  18,765,38  (6,795,46)  (749,19)					



Net cash flow generated during the year

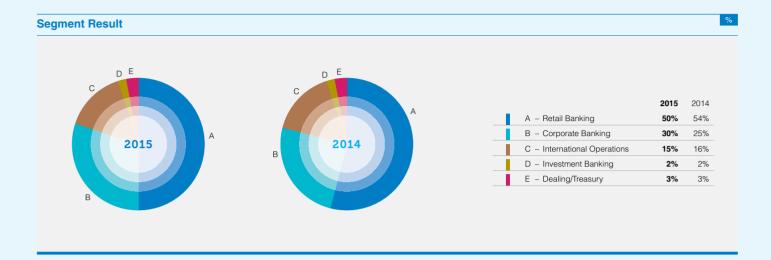
Eliminations/unallocated

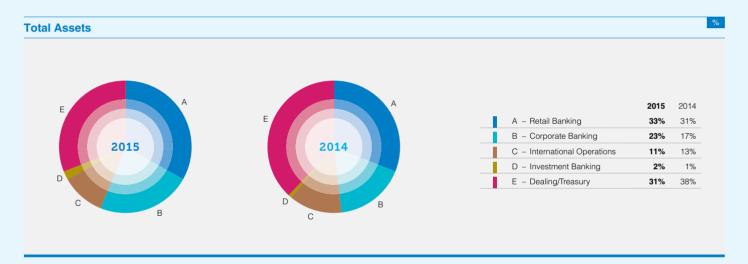


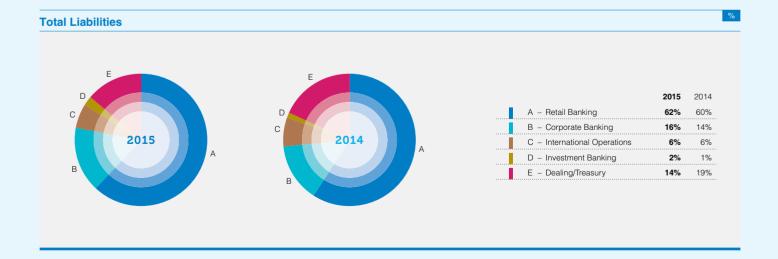


(3,853,580) (3,679,064)

**(514,702)** 6,358,245







### **62. Related Party Disclosures**

The Bank carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as Related Parties as per the Sri Lanka Accounting Standard – LKAS 24 'Related Party Disclosures', except for the transactions that the Key Management Personnel (KMP) have availed under schemes uniformly applicable to all staff at concessionary rates.

### 62.1 Parent and Ultimate Controlling Party

The Bank does not have an identifiable parent of its own.

## 62.2 Key Management Personnel (KMP)

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly.

#### KMP of the Bank

The Board of Directors (including executive and non-executive) of the Bank have been classified as KMP of the Bank.

#### KMP of the Group

As the Bank is the ultimate parent of the Subsidiaries listed out in page 249, the Board of Directors of the Bank have the authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly. Accordingly, the Board of Directors of the Bank (Including executive and non-executive) are also KMP of the Group. Therefore, officers who are only Directors of the subsidiaries and not of the Bank have been classified as KMP only for that respective subsidiary.

#### 6.2.2.1 Transactions with KMP

## 62.2.1.1 Compensation of KMP - Bank

For the year ended December 31,	2015 Rs. '000	2014 Rs. '000
Short term employment benefits	119,089	110,065
Post-employment benefits	6,384	7,010
Total	125,473	117,075

### 62.2.1.2 Compensation of KMP - Group

For the year ended December 31,	2015 Rs. '000	2014 Rs. '000
Short term employment benefits	119,909	110,505
Post-employment benefits	6,384	7,010
Total	126,293	117,515

In addition to the above, the Bank/Group provide non-cash benefits to the KMP.

# 62.2.2 Transactions, Arrangements and Agreements Involving KMP and their Close Family Members (CFM)

CFM of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the entity. They may include KMP's domestic partner and children, children of the KMP domestic partner and dependants of the KMP or the KMP domestic partner. CFM are related parties to the Group/Bank.

# 62.2.2.1 Statement of Financial Position - Bank

	Year-end B	Year-end Balance		Average Balance	
As at December 31,	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Assets					
Loans and advances	7,800	7,750	7,777	4,622	
Credit cards	_	2	144	249	
Total	7,800	7,752	7,921	4,871	
Liabilities					
Deposits	28,686	52,134	49,565	63,999	
Securities sold under repurchase agreements	26,790	27,630	23,732	25,610	
Total	55,476	79,764	73,297	89,609	

# 62.2.2.2 Commitments and Contingencies - Bank

	Year-end Balance		Average Balance	
As at December 31,	2015 Rs. '000	2014 Rs. '000	2015 Rs. '000	2014 Rs. '000
Undrawn facilities	9,195	10,089	9,184	6,086
Total	9,195	10,089	9,184	6,086

# 62.2.2.3 Direct and Indirect Accommodation - Bank

	Year-end Ba	lance
As at December 31,	2015	2014
Direct and indirect accommodation as a percentage of the Bank's Regulatory Capital	0.02	0.02

No impairment losses have been recorded against balances outstanding with KMP and CFM.

# 62.2.2.4 Income Statement

For the Year Ended December 31,	2015	2014
	Rs. '000	Rs. '000
Interest income	433	291
Interest expenses	3,228	6,553
Other income	226	80
Compensation to KMP [Refer Notes 62.2.1.1 and 62.2.1.2]	125,473	117,075

# 62.2.2.5 Share-Based Benefits to KMP and CFM

As at the Year-End	2015	2014
Number of ordinary shares held	694,883	619,454
Dividends paid (in Rs. '000)	3,674	7,741
Number of cumulative exercisable options under the Employee Share Option Plan (ESOP) 2008		
Tranche I		50,231
Tranche II	148,016	148,016
Tranche III	155,603	103,736

# 62.3 Transactions with Group Entities

The Group entities include the Subsidiaries and Associates of the Bank.

## 62.3.1 Transactions with Subsidiaries

## 62.3.1.1 Statement of Financial Position

	Year-end E	Year-end Balance		Average Balance	
	2015	2015 2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Assets					
Loans and advances	859,356	586,800	588,616	213,738	
Lease receivable	-	2,205	465	7,128	
Other receivables	90,596	85,685	88,141	80,613	
Impairment for other receivables	(53,423)	(51,398)	(52,410)	(46,217)	
Total	896,529	623,292	624,812	255,262	
Liabilities					
Deposits	80,593	94,896	100,251	80,391	
Securities sold under repurchase agreements	135,109	173,457	136,559	161,516	
Other	26,212	19,289	22,750	17,487	
Total	241,914	287,642	259,560	259,394	

## 62.3.1.2 Commitments and Contingencies

	Year-end B	Balance	Average B	alance
	2015	5 2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
_etter of credit	-	-	1,126	-
Jndrawn facilities	126,349	100,000	81,333	25,339
Fotal	126,349	100,000	82,459	25,339

# 62.3.1.3 Direct and Indirect Accommodation

	Year-end Bal	ance
	2015 %	2014 %
Direct and indirect accommodation as a % of the Bank's Regulatory Capital	1.28	1.00

# 62.3.1.4 Income Statement

For the year ended December 31,	2015 Rs. '000	2014 Rs. '000
Interest income	45,842	17,608
Interest expenses	60,384	35,080
Other income	84,997	70,482
Impairment charges	2,025	10,362
Expenses	427,106	379,463

# 62.3.1.5 Other Transactions

For the year ended December 31,	2015	2014
	Rs. '000	Rs. '000
Payments made to ONEzero Company Ltd. in relation to purchase of computer hardware and software	70,618	30,312

# 62.3.2 Transactions with Associates

# 62.3.2.1 Statement of Financial Position

Year-end Balance	Average Balance	
2015 2014	2015	2014
Rs. '000 Rs. '000	Rs. '000	Rs. '000
<del>-</del> -	88	227
	20	393
- 127	108	620
<b>23,733</b> 22,331	23,427	25,900
- 5,771	_	490
23,733 28,102	23,427	26,390
23,733 28,102		23,427

## 62.3.2.2 Direct and Indirect Accommodation

	Average Bala	ance
	2015	2014
	%	%
Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.00	0.00

## 62.3.2.3 Income Statement

For the Year Ended December 31,	2015 Rs. '000	2014 Rs. '000
Interest income	23	104
Interest expenses	616	1,627
Other income	22,577	19,003

### 62.3.2.4 Other Transactions

For the Year Ended December 31,	2015	2014
Number of ordinary shares of the Bank held by the associates as at the year-end	4,536	4,485
Dividend paid (Rs. '000)	25	29

# **62.4 Transactions with Other Related Entities**

Other related entities include significant investors (either entities or individuals) that have control, joint control or significant influence, post-employment benefit plans for the Bank's employees.

# 62.4.1 Transactions with the Post-Employment Benefit Plans for the Employees of the Bank

## 62.4.1.1 Statement of Financial Position

	Year-end	Year-end Balance		
	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets				
Loans and advances	_	_	_	_
Total		-	_	-
Liabilities				
Deposits	4,029,010	4,293,158	2,984,576	2,559,011
Securities sold under repurchase agreements	5,060,229	1,171	1,863,801	769
Total	9,089,239	4,294,329	4,848,377	2,559,780

# 62.4.1.2 Income Statement

During the year	2015	2014
	Rs. '000	Rs. '000
Interest income	_	-
Interest expenses	431,322	280,831
Contribution made/taxes paid by the Bank	947,416	901,433

# 63. Non-Cash Items Included in Profit Before Tax

	GRO	UP	BANK		
As at December 31,	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Depreciation of property, plant & equipment	1,024,162	1,087,175	961,492	1,026,730	
Amortisation of leasehold property	1,452	1,452	942	942	
Amortisation of intangible assets	180,558	173,373	179,370	172,874	
Impairment losses on loans and advances	4,099,738	3,208,638	3,904,948	3,189,995	
Other impairment	_	_	38,248	39,149	
Contributions to defined benefit plans - Unfunded schemes	197,676	164,438	190,780	157,687	
Provision made o/a of leave encashment	61,108	54,860	61,108	54,860	
Equity-settled Share-based payments	223,330	_	223,330	-	
Unamortised interest payable o/a subodinated liabilities	12,210	_	12,210	_	
Effect of exchange rate variances on property, plant & equipment	(6,060)	1,833	(6,362)	311	
Effect of exchange rate variances on intangible assets	(214)	1,069	(391)	8	
Effect of exchange rate variances on defined benefit plans	14,579	(381)	14,579	(381)	
Effect of exchange rate variances on subordinated liabilities	900,000	86,250	900,000	86,250	
Net effect of exchange rate variances on net deferred tax liability	(9,701)	207	(9,701)	207	
Net effect of exchange rate variances on income tax liability	121,793	(1,836)	121,793	(1,836)	
Grossed up notional tax and withholding tax credits	(944,176)	(1,207,034)	(942,527)	(1,204,986)	
Total	5,876,455	3,570,044	5,649,819	3,521,810	

# 64. Change in Operating Assets

	GR	OUP	BANK		
As at December 31,	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Net (increase)/decrease in derivative financial instruments	(3,658,659)	378,184	(3,658,659)	378,184	
Net (increase)/decrease in balances with Central Banks	(8,587,271)	(1,201,810)	(8,587,271)	(1,201,810)	
Net (increase)/decrease in placements with banks	(2,685,678)	(10,376,047)	(2,685,678)	(10,376,047)	
Net (increase)/decrease in securities purchased under resale agreements	33,196,166	(32,251,767)	33,196,166	(32,251,767)	
Net (increase)/decrease in other financial assets held-for-trading	(1,371,183)	85,750	(1,371,183)	85,750	
Net (increase)/decrease in loans and receivables to banks	(50,040)	(3,303)	(50,040)	(4,796)	
Net (increase)/decrease in loans and receivables to customers	(107,491,777)	(48,256,796)	(106,588,618)	(48,775,194)	
Net (increase)/decrease in financial investments – available-for-sale	449,351	(80,435,091)	450,364	(80,434,686)	
Net (increase)/decrease in financial investments – loans and receivables	(4,271,016)	(2,950,353)	(4,271,016)	(2,950,353)	
Net (increase)/decrease in other assets	(1,536,587)	(1,111,827)	(1,554,799)	(1,125,449)	
Total	(96,006,694)	(176,123,060)	(95,120,734)	(176,656,168)	

# 65. Change in Operating Liabilities

	GRO	DUP	BANK		
As at December 31,	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Net increase/(decrease) in due to banks	6,120,371	10,436,070	5,058,143	11,066,757	
Net increase/(decrease) in derivative financial instruments	697,631	(218,777)	697,631	(218,777)	
Net increase/(decrease) in securities sold under repurchased agreements	(12,141,339)	85,336,075	(12,179,687)	85,333,860	
Net increase/(decrease) in deposits from banks, customers and debt securities issued	94,754,629	78,167,642	94,740,326	78,208,561	
Net increase/(decrease) in other borrowings	(1,650,946)	(3,305,953)	(1,650,946)	(3,305,953)	
Net increase/(decrease) in other provisions	_	(535)	_	(535)	
Net increase/(decrease) in other liabilities	(2,163,940)	7,453,105	(2,143,433)	7,393,572	
Net increase/(decrease) in due to Subsidiaries	_	_	6,923	3,603	
Total	85,616,406	177,867,627	84,528,957	178,481,088	

## 66. Operating Leases

## 66.1 Operating Lease Commitments (payables)

The Group has leased a number of branches and office premises under operating leases. These leases have an average life of between five to ten years. Lease agreements include clauses to enable upward revision of the rental payments on a periodic basis to reflect market conditions. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	GRO	GROUP		
As at December 31,	2015	2014	2015	2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Less than one year	740,366	510,968	736,784	507,386
Between one to five years	1,901,675	1,400,091	1,897,436	1,395,852
Over five years	848,690	686,146	848,690	686,146
Total	3,490,731	2,597,205	3,482,910	2,589,384

## 66.2 Operating Lease Commitments (receivables)

The Group has entered into operating leases to rent its own properties, (mainly consisting of areas not currently occupied by the branch) and automated teller machines. Lease agreements include clauses to enable upward revision of rental income on a periodic basis to reflect market conditions. These leases have an average life of between three to five years. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	GROU	JP .	BANK		
As at December 31,	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Less than one year	5,190	7,579	4,290	6,679	
Between one to five years	3,320	7,940	2,825	7,445	
Over five years	<del>-</del>	_	_	_	
Total	8,510	15,519	7,115	14,124	

## 67. Financial Risk Review

This note presents information about the Bank's exposure to financial risks and the Bank's management of capital.

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### Introduction

As a financial intermediary, the Bank is exposed to various types of risks including credit, market, liquidity and operational risks which are inherent in the Bank's activities. Managing these risks is critical for the sustainability of the Bank and plays a pivotal role in all activities of the Bank. Risk Management function strives to identify potential risks in advance, analyse them and take precautionary steps to mitigate the impact of risk whilst optimising through risk adjusted returns within the risk appetite of the Bank.

## **Risk Management Framework**

The overall responsibility and oversight of the Risk Management Framework of the Bank is vested with the Board of Directors (BOD). The Board Integrated Risk Management Committee (BIRMC), a mandatory Sub-Committee set up by the Board, in turn is entrusted with the development of the Bank's Risk Management Policies and monitoring of due compliance of same through the Executive Integrated Risk Management Committee (EIRMC).

The Risk Management Policies spell out the risk appetite of the Bank and has incorporated risk exposure limits and controls to monitor adherence to the limits in force. These Policies and systems are reviewed regularly to reflect the changing market conditions and the products and services offered.

The Bank strives to inculcate a Risk Management Culture through continuous training, work ethics and standards.

Refer Note 3 on pages 253 to 256 for more information on the Risk Management Framework of the Bank.

## **Integrated Risk Management Department (IRMD)**

Business Units are the Risk Owners and have the primary responsibility for Risk Management. The IRMD acts as the second line of defence in managing the risk. The IRMD through Chief Risk Officer reports to the BIRMC thus ensuring its independence.

## Risk Measurement and Reporting

The Bank uses robust risk measurement techniques based on the type of risk and industry best practices. The Bank also carries out Stress Testing which is a key aspect of the Internal Capital Adequacy Assessment Process (ICAAP) and the Risk Management Framework and provides an insight on the impact of extreme, but plausible scenarios on the Bank's risk profile. The results are reported to the EIRMC and to the BIRMC on a periodic basis.

The Bank establishes policies, limits and thresholds within the risk appetite. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept (risk appetite). The monitoring and control mechanism therefore, is based on risk appetite of the Bank.

#### 67.1 Credit Risk

The financial loss resulting from a borrower or counterparty to a financial instrument failing or delaying to meet its contractual obligations is referred to as credit risk. It arises principally from the loans and receivables to banks and other customers and investments in debt securities. In addition to the credit risk from direct funding exposure i.e., On-Balance Sheet exposure, indirect liabilities such as Letters of Credit, Guarantees etc. also would expose the Bank to credit risk.

The Bank considers and consolidates all elements of credit risk exposure (such as individual obliger default risk, country and sector concentration risks) to ensure stringent Credit Risk Management.

# 67.1.1 Credit Quality Analysis

# 67.1.1 (a) Maximum Exposure to Credit Risk by Risk Rating

The table below sets out information about the maximum exposure to credit risk (including Off-Balance Sheet exposure) broken down by risk ratings and the related provision for impairment made by the Bank against those assets.

As at December 31,	Notes	Other C	Receivables to customers	Loans and Receivables to Banks			nvestments	Lending Commitments and Financial Guarantees	
		2015	2014	2015	2014	2015	2014	2015	2014
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Maximum Exposure to Credit Risk									
Carrying amount	30-34	508,115,127	405,431,457	601,106	551,066	269,625,007	270,971,070		_
Amount Committed/Guarantees	57	_			_	_	_	519,854,597	351,196,011
At Amortised Cost									
Government Securities (Risk Free Investments)		_	-	_	_	44,925,168	40,850,011	-	_
Rating 0-4: Investment Grade(*)		295,536,012	223,041,038			12,799,201	9,586,053		_
Rating 5-6: Moderate Risk		205,704,910	177,468,590	601,106	551,066				_
Rating S: High Risk		2,937,274	2,791,464	_					_
Rating 7-9: Extreme Risk		21,988,485	19,086,939	_					_
Gross carrying amount		526,166,681	422,388,031	601,106	551,066	57,724,369	50,436,064		
Less: Provision for impairment (individual and collective)		18,051,554	16,956,574	001,100	331,000	07,724,000			
Net carrying amount	31, 32,34	508,115,127		601,106	551,066	57,724,369	50,436,064		
			100, 10 1, 101						
Available-for-Sale									
Government Securities (Risk Free Investments)		_	-	_	_	193,938,549	205,160,033	_	-
Rating 0-4: Investment Grade		_	_	_	-	486,880	843,630	_	=
Rating 5-6: Moderate Risk		_	_	_	-	9,818,860	8,204,707	_	=
Rating S: High Risk		_	_	_	-	_	_	_	_
Rating 7-9: Extreme Risk		_	_	_	_	_	_	_	-
Gross/net carrying amount	33	_	=		-	204,244,289	214,208,370	_	=
Other financial instruments – Held-for-trading									
Government Securities (Risk Free Investments)		_		_	_	3,943,697	2,423,272	_	=
Rating 0-4: Investment Grade		_	_	_	_	326,263	367,732	_	_
Rating 5-6: Moderate Risk		_	_	_	_	3,386,389	3,535,632	_	_
Rating S: High Risk		_		_	_			_	
Rating 7-9: Extreme Risk		_			_		_		
Gross/net carrying amount	30					7,656,349	6,326,636		
Total net carrying amount		508,115,127	405,431,457	601,106	551,066	269,625,007	270,971,070		_
Off-Balance Sheet(**)					· ·				
Maximum Exposure									
Lending Commitments									
•									
Grade 0-6: Investment Grade to Moderate Risk		_		_		_		153,979,986	106,560,178
Financial Guarantees									
Grade 0-6: Investment Grade to Moderate Risk		_		_		_		365,874,611	244,635,833
Total exposure	57							519,854,597	351,196,011
Total exposure								010,004,007	551,130,011

<sup>(\*)</sup> Investment grade also includes Cash, Gold.

<sup>(\*\*)</sup> Amounts reported above does not include capital commitments disclosed in the Note 57 on 'Contingent Liabilities and Commitments' on pages 358 to 360.

67.1.1 (b) Age Analysis by Class of Financial Assets

The maximum exposure to credit risk for class of financial assets by risk rating and by age are given below:

Notes		Loans and Receivables to L Other Customers		Loans and Receivables to Banks		Investment	Lending Commitments and Financial Guarantees		
As at December 31,	2015	2014	2015	2014	2015	2014	2015	2014	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Government Securities (Risk Free investments)	_	_	_	_	242,807,414	248,433,316	_	_	
Gross carrying amount	_	=	_	=	242,807,414	248,433,316		=	
Neither Past Due Nor Individually Impaired									
Rating 0-4: Investment grade	294,042,877	222,897,028	_	=	13,612,344	10,797,415	283,307,261	141,026,873	
Rating 5-6: Moderate risk	203,984,694	176,917,981	601,106	551,066	13,205,249	11,740,339	236,547,336	210,169,138	
Gross carrying amount	498,027,571	399,815,009	601,106	551,066	26,817,593	22,537,754	519,854,597	351,196,011	
Past Due But Not Individually Impaired									
Less than 3 months	5,568,510	3,705,964	-	-	-	-	-	-	
3 to 6 months	914,145	1,868,823	_	-	-	_	_	-	
6 to 12 months	921,336	1,297,997	_	_	-	_	_	-	
12 to 18 months	789,046	1,326,904	_	_	_	_	_	_	
More than 18 months	8,199,444	7,824,652	_	-	_	_	_	-	
Gross carrying amount	16,392,481	16,024,340		-	-	-		-	
Individually Impaired									
Less than 3 months	4,357,858	266,435	_	-	_	-	_	-	
3 to 6 months	1,099,777	1,007,795	_	-	_	=	_	-	
6 to 12 months	284,986	148,659	_	-	_		_	-	
12 to 18 months	906,849	734,831	_	-	_	_	_	-	
More than 18 months	5,097,159	4,390,962	_	-	-	_	_	_	
Gross carrying amount	11,746,629	6,548,682	_	-	-	=	-	=	
Total gross carrying amount	526,166,681	422,388,031	601,106	551,066	269,625,007	270,971,070	519,854,597	351,196,011	
Provisional for Impairment									
Individual	5,369,960	4,334,587	-	-	-	_	-	-	
Collective	12,681,594	12,621,987	_	-	_	-	_	-	
Total Provision for impairment	18,051,554	16,956,574	-	-	-	-	_	-	
Total net carrying amount 30-34,57	508,115,127	405,431,457	601,106	551,066	269 625 007	270,971,070	519,854,597	351.196.011	

The methodology of the impairment assessment is explained in the Note 17 on pages 276 and 277.

67.1.1 (c) Credit Risk Exposure for Each Internal Credit Rating on Facilities and Historical Default Rates
Through adoption of a robust risk grading system that falls in line with Basel requirements, the Bank maintains accurate and consistent risk ratings across the credit portfolio in accordance with the established policy framework to ensure the quality of its credit portfolio. The risk grading framework consists of several ratings of risks to represent varying degrees of risks as an indicator for Lending Officers to evaluate the overall risk profile of counterpart and to arrive at an acceptable risk return trade-off. It also provides a tool for the Management to assess the credit exposures across all lines of business, geographic regions and products. The risk grading of the borrowers are reviewed at least annually or more frequently in a deteriorating risk profile of the counterparties.

The Bank's internal credit rating of the loans and receivable portfolio together with historical default rates and respective gross carrying amounts are given in the table below:

As at December 31,	2	015	20	014
Bank's Internal Credit Rating Note	Historical Default Rates	Gross Carrying Amount	Historical Default Rates	Gross Currying Amount
	%	Rs. '000	%	Rs. '000
Gold	12.13	1,879,893	15.77	2,348,767
Investment Grade				
Rating - 0	0.14	57,957,593	0.15	49,585,111
Rating - 1	0.28	5,343,970	0.40	5,432,532
Rating - 2	0.20	25,937,869	0.39	17,259,834
Rating - 3	0.54	96,615,386	0.59	50,123,205
Rating - 4	0.54	106,308,166	0.31	98,147,579
Sub total		294,042,877		222,897,028
Moderate Risk				
Rating - 5	0.74	172,997,420	0.88	154,362,496
Rating - 6	1.30	30,987,274	1.68	22,555,485
Sub total		203,984,694		176,917,981
Past Due But Not Individually Impaired				
High Risk				
Rating - S	23.29	1,807,302	25.27	2,593,132
Extreme Risk				
Rating - 7	56.39	3,246,400	58.02	1,854,792
Rating - 8	69.86	1,191,771	69.04	1,774,810
Rating - 9	100.00	10,147,008	100.00	9,801,606
Sub total		16,392,481		16,024,340
Impaired				
Individually Impaired(*)	-	11,746,629	_	6,548,682
Total 32		526,166,681		422,388,031

<sup>(\*)</sup> Default rates are not calculated for individually impaired loans and receivables.

67.1.1 (d) Credit Quality by Class of Financial Assets

The table below show the credit quality by the class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating.

As at December 31, 2015		Neither Pas	t Due Nor Individua	ılly Impaired			
	Note	Government Guarantee	Investment Grade	Moderate Risk	Past Due But Not Individually Impaired	Individually Impaired	Total
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and cash equivalents	26	_	20,043,512	_	_	_	20,043,512
Balances with Central Banks	27	28,221,017	_	_	_	_	28,221,017
Placements with banks	28	_	17,193,539	_	_	_	17,193,539
Securities purchased under resale agreements		8,002,100	_	_	_	_	8,002,100
Derivative financial instruments	29	_	4,118,169	_	_	_	4,118,169
Other financial instruments – held-for-trading	30	3,943,697	326,263	3,386,389		_	7,656,349
Loans and receivables to banks	31	_	_	601,106			601,106
Loans and receivables to other customers	32	_	292,140,306	202,385,179	7,212,973	6,376,669	508,115,127
Corporate banking		_	156,450,856	70,818,794	2,377,758	2,368,232	232,015,636
Amortised cost		-	157,741,097	71,573,763	2,743,604	5,029,349	237,087,813
Less-provision for impairment		-	1,290,241	754,969	365,846	2,661,121	5,072,177
Personal banking		_	135,689,450	131,566,385	4,835,215	4,008,441	276,099,491
Amortised cost		-	136,301,780	132,410,931	13,648,878	6,717,280	289,078,869
Less-provision for impairment		_	612,330	844,546	8,813,663	2,708,839	12,979,378
Financial investments – available-for-sale	33	193,938,549	486,880	9,818,860	_	<del>_</del>	204,244,289
Government Securities		193,938,549	_	9,818,860	_	_	203,757,409
Quoted shares		_	234,839	_	-	_	234,839
Unquoted shares		_	46,487	_	_	_	46,487
Investment in unit trust		_	205,554	_		_	205,554
Financial investments – loans and receivables	34	44,925,168	12,799,201	_	_	_	57,724,369
Government Securities		44,925,168	_	_	_	_	44,925,168
Other investments		_	12,799,201	_	-	_	12,799,201
Total		279,030,531	347,107,870	216,191,534	7,212,973	6,376,669	855,919,577

Definition of 'Past Due' – The Bank considers that any amounts uncollected one day or more beyond their contractual due date.

As at December 31, 2014		Neither Pas	t Due Nor Individua	ally Impaired			
	Note	Government Guarantee	Investment Grade	Moderate Risk	Past Due But Not Impaired	Individually Impaired	Total
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and cash equivalents	26	_	20,591,867	_	_	-	20,591,867
Balances with central banks	27	19,633,746	_	_		_	19,633,746
Placements with banks	28	_	14,507,861	_	_	_	14,507,861
Securities purchased under resale agreements		41,198,266	_	_	_	_	41,198,266
Derivative financial instruments	29	_	459,510	_	_	_	459,510
Other financial instruments – held-for-trading	30	2,423,272	367,732	3,535,632		_	6,326,636
Loans and receivables to banks	31	_	_	551,066		_	551,066
Loans and receivables to other customers	32	_	222,039,175	174,801,951	6,376,232	2,214,099	405,431,457
Corporate banking		_	129,230,858	62,137,985	453,448	759,582	192,581,873
Amortised cost		- 1	129,723,348	63,295,937	868,904	2,615,388	196,503,577
Less - provision for impairment		-	492,490	1,157,952	415,456	1,855,806	3,921,704
Personal banking		_	92,808,317	112,663,966	5,922,784	1,454,517	212,849,584
Amortised cost		- 1	93,173,680	113,622,041	15,155,436	3,933,294	225,884,451
Less - provision for impairment		_	365,363	958,075	9,232,652	2,478,777	13,034,867
Financial investments – available-for-sale	33	205,160,033	843,630	8,204,707	_	_	214,208,370
Government Securities		205,160,033	-	8,204,707	_	_	213,364,740
Quoted shares		_	185,132	_	_	_	185,132
Unquoted shares		_	45,057	_	_	_	45,057
Investment in unit trust		_	613,441	_	_	_	613,441
Financial investments – loans and receivables	34	40,850,011	9,586,053	_	_	_	50,436,064
Government securities		40,850,011	-	_	_	-	40,850,011
Other Investments			9,586,053	_	-	_	9,586,053
Total		309,265,328	268,395,828	187,093,356	6,376,232	2,214,099	773,344,843

Definition of 'Past Due' – The Bank considers that any amount uncollected one day or more beyond their contractual due date.

## 67.1.1 (e) Trading Assets

Held-for-Trading Investments in Debt and Equity Securities

The table below sets out the credit quality of debt and equity securities classified as held-for-trading debt securities include investments made by the Bank in Government Securities of Sri Lanka and Bangladesh. The analysis of equity securities is based on Fitch Rating Nomenclature or Equivalent Ratings, where applicable.

As at December 31,	Note	2015	2014
7.5 d. 500	14010	Rs. '000	Rs. '000
Government Securities			
Government Securities - Sri Lanka			
Treasury Bills		1,552,531	781,287
Treasury Bonds		2,391,166	1,641,985
Government Securities – Bangladesh			
Treasury Bills		_	3,442,876
Treasury Bonds		3,386,389	92,756
Total - Government Securities		7,330,086	5,958,904
Equity Securities			
Rated AAA		54,803	58,063
Rated AA+ to AA-		17	5,923
Rated A+ to A		30,380	41,018
Rated BBB+		_	7,545
Unrated		241,063	255,183
Total – Equity securities		326,263	367,732
Total	30	7,656,349	6,326,636

Credit Exposure Arising from Derivative Transactions

Credit risk arising from derivative financial instruments at any time is limited to those with positive fair values, as reported in the Statement of Financial Position. With gross settled derivatives, the Bank is also exposed to a settlement risk, being the risk that the counterparty failing to deliver the counter value.

The tables below shows analysis of credit exposures arising from derivative financial assets and liabilities.

As at December 31,2015			Derivati	ve Type				
	For	ward	SWA	APS	Spc	ot	To	tal
	Notional	Fair	Notional	Fair	Notional	Fair	Notional	Fair
	Amount	Value	Amount	Value	Amount	Value	Amount	Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Derivative financial assets (Note 1)	33,615,548	786,794	119,436,202	3,328,679	4,537,226	2,696	157,588,976	4,118,169
Derivative financial liabilities (Note 2)	37,226,463	(1,098,002)	49,029,977	(791,199)	2,505,341	(1,569)	88,761,781	(1,890,770)
Note 1								
Derivative financial assets by counterparty type								
With Banks	7,233,582	108,548	119,349,712	3,328,679	4,150,359	1,711	130,733,653	3,438,938
Other customers	26,381,966	678,246	86,490	_	386,867	985	26,855,323	679,231
	33,615,548	786,794	119,436,202	3,328,679	4,537,226	2,696	157,588,976	4,118,169
Note 2								
Derivative financial liabilities by counterparty type								
With Banks	31,120,972	(851,679)	49,029,977	(787,433)	2,412,484	(1,513)	82,563,433	(1,640,625)
Other customers	6,105,491	(246,323)	_	(3,766)	92,857	(56)	6,198,348	(250,145)
	37,226,463	(1,098,002)	49,029,977	(791,199)	2,505,341	(1,569)	88,761,781	(1,890,770)

As at December 31,2014			Derivativ	ле Туре				
	Forw	ard earl	SWA	APS	Spo	t	To	otal
	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
	Rs. '000	Rs. '000						
Derivative financial assets (Note 1)	20,358,635	233,300	37,306,791	222,533	2,845,959	3,677	60,511,385	459,510
Derivative financial liabilities (Note 2)	8,222,097	(368,886)	60,338,932	(823,596)	549,217	(657)	69,110,246	(1,193,139)
Note 1								
Derivative financial assets by counterparty type								
With Banks	6,328,908	54,701	37,306,791	222,533	2,092,045	2,437	45,727,744	279,671
Other customers	14,029,727	178,599	_		753,914	1,240	14,783,641	179,839
	20,358,635	233,300	37,306,791	222,533	2,845,959	3,677	60,511,385	459,510
Note 2								
Derivative financial liabilities by counterparty type								
With Banks	3,747,560	(24,499)	60,338,932	(823,596)	336,711	(501)	64,423,203	(848,596)
Other customers	4,474,537	(344,387)	_	_	212,506	(156)	4,687,043	(344,543)
	8,222,097	(368,886)	60,338,932	(823,596)	549,217	(657)	69,110,246	(1,193,139)

# 67.1.2 Impaired Loans and Receivables and Investment Debt Securities

Reconciliation of changes in the carrying amount of individually impaired loans and receivables as detailed below:

As at December 31,	2015 Rs. '000	2014 Rs. '000
Impaired loans and receivables to other customers as at January 01,	2,214,099	2,598,374
Newly classified as impaired loans and receivables during the year	5,282,954	628,790
Net change in already impaired loans and receivables during the year	(608,652)	(100,073)
Net payment, write-off and recoveries and other movement during the year	(511,732)	(912,992)
Impaired loans and receivables to customers as at December 31,	6,376,669	2,214,099

No impairment provision has been made for investment in debt securities as at December 31, 2015 (2014 - nil).

For methodology of the impairment assessment, refer Note 17 on impairment of finance assets which carried at amortised cost on pages 276 and 277.

For details of provision for impairment for loans and receivables to banks and for loans and receivable to other customers, refer Notes 31 and 32 on pages 299 to 307.

Set out below is an analysis of the gross and net carrying amounts of individually impaired loans and receivables by risk rating.

As at December 31,	2015	2015			
	Loans and Receivab	le to Customers	Loans and Receivable to Custom		
	Gross	Net	Gross	Net	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Rating 0-4: Investment Grade	1,493,134	1,418,234	144,010	103,374	
Rating 5-6: Moderate Risk	1,720,216	1,620,746	550,610	335,272	
Rating S: High Risk	1,129,972	807,046	198,333	184,071	
Rating 7-9: Extreme Risk	7,403,307	2,530,643	5,655,729	1,591,382	
	11,746,629	6,376,669	6,548,682	2,214,099	

### 67.1.3 Collateral Held

Loan to Value Ratio of Residential Mortgage Lending

The table below stratifies mortgaged credit exposures to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral which is also used to compute the risk weighted assets for the calculation of Capital Adequacy ratios. The value of the collateral for residential mortgage loan is based on the forced sale value determined by professional valuers.

As at December 31,	20	2014		
	Rs. '000	Composition (%)	Rs. '000	Composition (%)
LTV ratio				
Less than 50%	4,706,206	21.68	4,351,805	24.04
51 - 70%	5,443,350	25.08	4,690,017	25.90
71 - 90%	6,693,133	30.84	5,244,165	28.96
91 - 100%	958,034	4.41	821,071	4.53
More than 100%*	3,903,690	17.99	3,001,235	16.57
	21,704,413	100.00	18,108,293	100.00

<sup>\*</sup> LTV ratio of more than 100% was due to the inflated numerator resulted from subsequent disbursements made to the borrower which was compared against the initial fair value of the property (the denominator).

#### Assets Obtained by taking the Possession of Collaterals

Repossession of collaterals is resorted to in extreme situations where action is necessitated to recover the dues. The repossessed assets are disposed, in an orderly and transparent manner and the proceeds are used to reduce or recover the outstanding claims.

## 67.1.4 Concentrations of Credit Risk

By setting various concentration limits under different criteria within the established risk appetite framework (i.e., single borrower/ group, industry sectors, product, counterparty and country etc.), the Bank ensures that an acceptable level of risk diversification is maintained on an ongoing basis. These limits are continuously monitored and periodically reviewed by the Credit Policy Committee, the Executive Integrated Risk Management Committee and the Board Integrated Risk Management Committee to capture the developments in market, political and economical environment both locally and internationally to strengthen the dynamic portfolio management practices and to provide an early warning on possible credit concentrations.

The maximum exposure to credit risk to the components of financial assets in the Statement of Financial Position as at December 31, broken down by industry sector and by geographical region of financial assets are given below:

67.1.4 (a) Industry-wise Distribution

As at December 31, 2015	Agriculture and Fishing	Manu- facturing	Tourism	Transport	Cons- truction	Traders	New Economy	Financial and Business Services	Government	Infras- tructure	Other Services	Other Customers	Tota
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets													
Cash and cash equivalents	-	-	-	-	-	-	-	20,043,512	-	-	-	-	20,043,512
Balances with Central Banks	_	-	_	_	-	-	_	_	28,221,017	_	-	-	28,221,017
Placements with banks	_	_	_	_	_	_	-	17,193,539	-	-	_	_	17,193,539
Securities purchased under resale agreements		_	_	_	_	_	_	_	8,002,100	_	_	_	8,002,100
Derivative financial assets	_	166,252	6,600	8,353	262	317,574	_	3,602,206	_		16,422	500	4,118,169
Other financial instruments – held-for-trading		155,422	9,495		15,599	35,019	30,516	52,106	7,330,086	28,106			7,656,349
Government Securities	_	_							7,330,086				7,330,08
Quoted equity securities	_	155,422	9,495	_	15,599	35,019	30,516	52,106	_	28,106	_	_	326,26
Loans and receivables to banks								601,106					601,10
Loans and receivables to other customers	43,880,354	70,756,644	31,704,922	16,229,559	59,068,173	74,515,538	13,733,055	43,678,286	_	18,958,293	49,292,548	86,297,755	508,115,12
Loans & advances*	43,880,354	70,756,644	31,704,922	16,229,559	59,068,173	74,515,538	13,733,055	43,678,286	-	18,958,293	49,292,548	86,297,755	508,115,12
Financial investments – available-for- sale	_	12,427	_	_	_	_	_	437,966	203,764,668	_	29,228	_	204,244,28
Government Securities	_	_	_	_	_	_	_	_	203,757,409	_	_	_	203,757,4
Equity securities – Quoted shares	_	12,427	_	_	_	_	_	222,412	_	_	_	_	234,83
Equity securities - Unquoted shares	_	_	_	_	_	_	_	10,000	7,259	_	29,228	_	46,48
Investment in unit trusts	_	_	_	_	_	_	_	205,554	_	_	_	_	205,55
Financial investments – loans and receivable	_	2,875,163	_	_	_	1,083,961	_	8,602,910	44,925,168	-	237,167	_	57,724,36
Government Securities	_	_	_	_	_	_	_	_	44,925,168	_	_	_	44,925,16
Investment in Unit trusts	-	2,875,163	-	-	-	1,083,961		8,602,910	-	-	237,167		12,799,20

<sup>(\*)</sup> Industry wise loans and receivables appearing in the Note 32.1 (c) on page 301 do not agree due to the impairment.

As at December 31, 2014	Agriculture and Fishing	Manu- facturing	Tourism	Transport	Cons- truction	Traders	New Economy	Financial and Business Services	Government	Infras- tructure	Other Services	Other Customers	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets													
Cash and cash equivalents	_	_	-	_	_	_	-	20,591,867	_	_	_	-	20,591,867
Balances with Central Banks	_	_	_	_	_	_	_		19,633,746	_	_	-	19,633,746
Placements with banks	_	_	_	_	_	_	_	14,507,861	_	_	_	_	14,507,861
Securities purchased under resale									44 400 000				44 400 000
agreements									41,198,266				41,198,266
financial assets	25,308	4,397	306	_	32,984	255	_	366,871	_	620	6,823	21,946	459,510
Other financial instruments – held-for-trading	_	177,415	11,856	-	20,850	33,821	19,954	51,817	5,958,904	52,019	_	_	6,326,636
Government Securities	_	_							5,958,904				5,958,904
Quoted securities Quoted shares	-	177,415	11,856	_	20,850	33,821	19,954	51,817		52,019	_	_	367,732
Loans and receivables to banks  Loans and	-	_	-	-	_	_	-	551,066	_	_	_	_	551,066
receivables to other customers	43,581,619	52,662,465	16,888,688	12,940,410	40,351,177	58,916,183	6,209,585	28,751,154	_	15,590,465	39,593,074	89,946,637	405,431,45
Loans & advances*	43,581,619	52,662,465	16,888,688	12,940,410	40,351,177	58,916,183	6,209,585	28,751,154	_	15,590,465	39,593,074	89,946,637	405,431,45
Financial investments – available-for- sale	_	11,356	_	_	_	_	_	789,467	213,380,603	_	26,944	_	214,208,37
Government Securities	_	_	_	_	_	_	_	_	213,364,740	_	_	_	213,364,74
Equity securities – Quoted shares	_	11,356	_	_	_	_	_	173,777	_	_	_	_	185,133
Equity securities – unquoted shares	_	_	_	_	_	_	_	2,250	15,863	_	26,944		45,05
Investment in unit trusts	_	_	_	_	_	_	_	613,440	_	_	_	_	613,440
Financial investments – loans and receivable	-	960,696	_	_	_	953,298	_	6,987,597	41,297,306	_	237,167	_	50,436,064
Government Securities	_	_	_	_	_	_	_	_	40,850,011	_	_	_	40,850,01
Investment in Unit trusts	_	960,696	_	_	_	953,298		6,987,597	447,295	_	237,167		9,586,053

<sup>(\*)</sup> Industry wise loans and receivables appearing in the Note 32.1 (c) on page 301 do not agree due to the impairment.

## 67.1.4 (b) Geographical Distribution of Loans and Receivables Portfolio

The Western Province has recorded a higher percentage of lending based on geographical distribution of the Bank's lending portfolio. It has accounted for 76% (approximately) of total advances portfolio of the Bank (excluding Bangladesh operation) as at December 31, 2015. Although, Western Province is vested with highest credit concentration, we believe that a sizable portion of these lending has been utilised to facilitate industries scattered around the country. For example, most of the large corporates which have island-wide operations are being accommodated by the Branches and Corporate Banking Division situated in the Western Province thereby reflecting a fairly diversified geographical concentration on such borrowers.

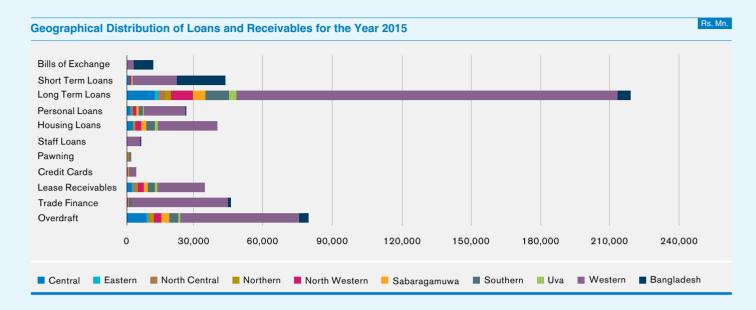
As at December 31, 2015

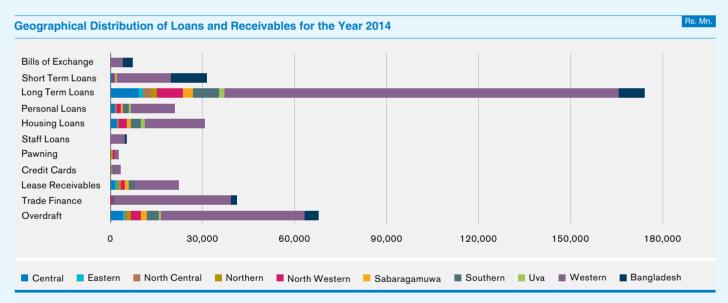
Province	Loans and Receivables by Product												
	Overdraft	Trade Finance	Lease Receivables	Credit Card	Pawning	Staff Loans	Housing Loans	Personal Loans	Long Term Loans	Short Term Loans	Bills of Exchange	Tota	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Sri Lanka													
Central	8,554,213	180,407	2,066,547	256,801	103,425	-	2,480,416	1,438,608	12,100,975	1,005,681	50,194	28,237,267	
Eastern	671,967	27,151	479,533	59,211	35,273	-	228,346	435,810	1,490,021	28,071	1,599	3,456,982	
North Central	691,180	71,533	1,384,839	68,702	8,779	-	355,277	281,563	2,948,036	199,250	2,901	6,012,060	
Northern	1,709,859	47,798	735,285	73,501	486,231	-	536,945	557,278	2,504,367	29,811	967	6,682,042	
North Western	3,531,249	406,243	2,579,974	220,765	192,368	-	2,756,994	1,414,967	9,546,347	558,536	3,212	21,210,655	
Sabaragamuwa	3,222,608	139,125	1,912,235	121,407	78,159	-	1,961,883	882,740	5,437,548	255,548	8,833	14,020,086	
Southern	4,071,013	1,328,383	3,062,705	238,144	126,180	_	3,961,944	1,958,579	10,612,183	213,666	21,603	25,594,400	
Uva	828,363	2,409	998,925	75,521	31,476	-	1,359,779	481,967	3,049,962	145,196	7	6,973,605	
Western	51,816,858	41,965,436	20,425,439	2,868,609	803,814	5,999,407	25,570,432	17,918,380	165,670,040	19,425,636	2,838,338	355,302,389	
Bangladesh	3,943,380	911,569	176,685	57,608	-	100,426	170,182	279,043	5,861,989	20,825,415	8,299,344	40,625,641	
Total	79,040,690	45,080,054	33,822,167	4,040,269	1,865,705	6,099,833	39,382,198	25,648,935	219,221,468	42,686,810	11,226,998	508,115,127	

### As at December 31, 2014

Province		Loans and Receivables by Product										
	Overdraft	Trade	Lease	Credit Card	Pawning	Staff	Housing	Personal	Long Term	Short Term	Bills of	Total
		Finance	Receivables			Loans	Loans	Loans	Loans	Loans	Exchange	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Sri Lanka												
Central	3,597,148	101,125	1,394,106	253,347	144,102	-	1,814,563	1,165,655	8,968,284	377,338	46,093	17,861,761
Eastern	694,683	-	265,758	57,678	73,238	-	222,426	347,563	1,386,989	39,441	-	3,087,776
North Central	629,465	101,423	935,383	66,909	14,389	-	371,416	282,964	2,548,677	220,747	22,533	5,193,906
Northern	1,476,474	-	465,942	66,899	534,999	-	473,853	453,957	2,337,898	21,598	1,989	5,833,609
North Western	3,104,692	248,329	1,683,351	206,582	234,631	-	2,160,393	1,141,875	8,439,507	477,588	8,507	17,705,455
Sabaragamuwa	2,431,968	95,459	947,590	117,884	99,293	-	1,432,771	651,940	3,303,445	238,764	9,637	9,328,751
Southern	3,812,054	866,546	1,808,851	225,498	149,548	-	3,303,663	1,796,194	8,272,388	191,654	24,891	20,451,287
Uva	754,494	4,219	567,142	65,392	50,375	-	1,126,814	413,966	2,068,858	78,252	-	5,129,512
Western	46,910,669	37,926,034	13,894,422	2,404,226	1,007,100	4,873,068	19,440,762	14,375,984	128,245,662	18,126,426	3,595,742	290,800,095
Bangladesh	4,089,012	1,906,658	184,585	52,085	-	132,023	125,585	266,094	8,515,342	11,272,274	3,495,647	30,039,305
Total	67,500,659	41,249,793	22,147,130	3,516,500	2,307,675	5,005,091	30,472,246	20,896,192	174,087,050	31,044,082	7,205,039	405,431,457

Please refer Note 32 on page 300 for the Gross carrying amount of the Loans and Advances.





### 67.1.5 Exposures to Unrated Countries

This note summarises the Bank's on-balance sheet and off-balance sheet exposure to countries which are not rated by an established rating company.

As at December 31,	205	2014
	Rs. '000	Rs. '000
On-Balance Sheet Exposures		
Loans and receivables to customers		
Net carrying value	12,565,857	6,025,118
Gross carrying value	14,177,263	7,124,420
Less - Provision for impairment	1,611,406	1,099,302
Fair value net of provision for impairment(*)	12,565,857	6,025,118
Fair value before impairment	14,177,263	7,124,420
Less – Provision for impairment	1,611,406	1,099,302
Off-Balance Sheet Exposures		
Loan commitments and financial guarantees	9,301,980	360,557
Financial guarantees	47,419	135,082
Loan commitments	9,254,561	225,475
Total on-balance sheet and off-balance sheet exposure	21,867,837	6,385,675

<sup>(\*)</sup> There is no difference between the net carrying amount and the fair value, as all facilities have been granted under floating interest rates.

# 67.2 Liquidity Risk

Liquidity risk is the Bank's inability to meet On or Off-Balance Sheet contractual and contingent financial obligations, as they fall due without incurring unacceptable losses. The principal objective in liquidity risk management is to assess the need for funds to meet such obligations and to ensure the availability of adequate funding to fulfil those needs at the appropriate time, under both normal and stressed conditions.

Therefore, the Bank continuously analyses and monitors its liquidity profile, maintains adequate levels of high quality liquid assets, ensures access to diverse funding sources and has contingency funding agreements with peer banks to meet any unforeseen the liquidity requirements. Exposures and ratios against tolerance limits as well as stressed scenarios are regularly monitored in order to identify the Bank's liquidity position and potential funding requirements.

Assets and Liability Management Committee (ALCO)

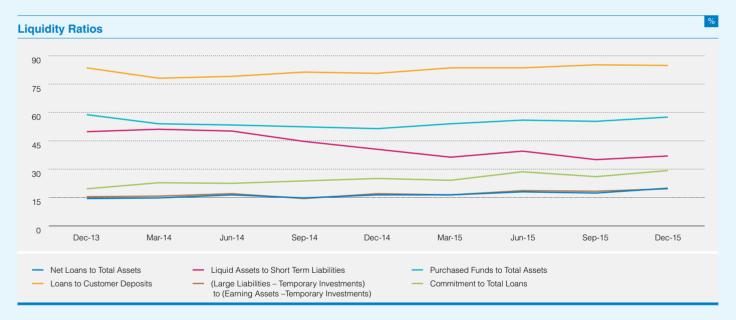
ALCO chaired by the Managing Director, has representatives from Treasury, Corporate Banking, Personal Banking, Risk and Finance Departments. The Committee meets fortnightly or more frequently to monitor and manage the assets and liabilities of the Bank and also the overall liquidity position to keep the Bank's liquidity at healthy levels, whilst satisfying the regulatory requirements.

## 67.2.1 Exposure to Liquidity Risk

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to total liabilities excluding shareholders' funds. For this purpose, 'liquid assets' include cash and cash equivalents, placements with banks and Government Securities (net). Details of the reported ratio of liquid assets to external liabilities of the Domestic Banking Unit (DBU) and the Off-shore Banking Centre (OBC) as at the Reporting date are as follows:

	DBU		OBC	
	2015 %	2014 %	2015 %	2014 %
As at December 31,	26.24	33.15	49.13	31.43
Average for the period	28.50	35.26	43.90	32.13
Maximum for the period	34.29	37.10	51.20	38.54
Minimum for the period	24.99	33.15	32.05	27.35
Statutory minimum requirement	20.00	20.00	20.00	20.00

The graph below depicts the trends in quarterly regulatory liquidity ratios of the Bank during the period from December 2013 to December 2015:



The ratio between net loans to total On-Balance Sheet assets has gradually increased during 2015, while the ratio between total, gross loans and advances to customer deposits has remained below 90%. Ratios of both purchased funds [including inter-bank and Money Market (MM) borrowing and institutional deposits] to total assets and large liabilities after deducting temporary investments to earning assets and temporary investments have been marginally below 20%. The ratio of commitments to total loans has gradually increased. The ratio of liquid assets to short term liabilities has remained above 30%. All above ratios indicate strong liquidity position maintained by the Bank.

# Liquidity Risk

# 67.2.2 Maturity Analysis of Financial Assets and Financial Liabilities

# 67.2.2 (a) Remaining Contractual Period to Maturity – Bank

(i) Remaining contractual period to maturity as at December 31, of the assets employed by the Bank is detailed below:

,	•						
A vi D v vi h v O t	Up to 3	3 to 12	1 to 3	3 to 5	More than	Total as at	Total as a
As at December 31,	Months Rs. '000	Months Rs. '000	Years Rs. '000	Years Rs. '000	5 Years Rs. '000	31.12.2015 Rs. '000	31.12.2014 Rs. '000
Interest Earning Assets:							
Financial Assets							
Cash and cash equivalents	1,652,959	-	-	-	_	1,652,959	3,596,658
Balances with Central Banks	5,675,993	30,814	_	_	_	5,706,807	167,496
Placements with banks	17,193,539	-	-	-	_	17,193,539	14,507,86
Securities purchased under resale agreements	8,002,100	_	-	_	_	8,002,100	41,198,266
Derivative financial assets	_	_	_	_	_	_	_
Other financial instruments – held-for-trading	7,330,086	_	_	_	_	7,330,086	5,958,902
Loans and receivables to banks	_	-	_	_	_	_	_
Loans and receivables to other customers	181,932,485	93,551,108	127,512,029	67,570,875	37,548,630	508,115,127	405,431,45
Financial investments – available-for-sale	10,378,165	12,897,944	89,654,360	38,515,358	52,524,034	203,969,861	213,364,74
Financial investments – held-to-maturity	_	_	-	_	_	_	_
Financial investments – loans and receivables	3,824,319	20,049,834	21,431,676	12,418,540	_	57,724,369	50,436,06
Total interest earning assets as at 31.12.2015	235,989,646	126,529,700	238,598,065	118,504,773	90,072,664	809,694,848	
Total interest earning assets as at 31.12.2014	244,284,877	136,075,473	144,797,100	130,181,657	79,322,338	-	734,661,44
Non-Interest Earning Assets:							
Financial Assets							
Cash and cash equivalents	18,390,553	_	_	_	_	18,390,553	16,995,20
Balances with Central Banks	15,444,763	5,785,437	468,849	397,102	418,059	22,514,210	19,466,25
Placements with banks	_	_	_	_	_	_	
Securities purchased under resale agreements	_	_	_	_	_	_	
Derivative financial assets	2,368,201	1,628,577	121,391	_	_	4,118,169	459,51
Other financial instruments – held-for-trading	326,263	_	_	_	_	326,263	367,73
Loans and receivables to banks		_	601,106	_	_	601,106	551,06
Loans and receivables to other customers	_	_	_	_	_	_	_
Financial investments – available-for-sale	_	_	_	17,294	257,134	274,428	843,629
Financial investments – held-to-maturity	_	_	_	_	_	_	_
Financial investments – loans and receivables	_	_	_	_	_	_	

As at December 31,	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.12.2015	Total as at 31.12.2014
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Non-Financial Assets							
Investments in subsidiaries	_	_	_	_	1,237,146	1,237,146	1,211,000
Investments in associates		_	_	_	44,331	44,331	44,331
Property, plant & equipment	_	_	_	_	9,968,985	9,968,985	9,953,091
Intangible assets	_	_	_	-	465,960	465,960	439,128
Leasehold property	_	_	_	_	74,478	74,478	75,420
Other assets	8,344,808	169,805	985,405	374,696	2,219,877	12,094,591	10,541,817
Total non-interest earning assets as at 31.12.2015	44,874,588	7,583,819	2,176,751	789,092	14,685,970	70,110,220	_
Total non-interest earning assets as at 31.12.2014	38,184,360	5,428,275	1,460,320	1,278,646	14,596,584	_	60,948,185
Total assets – as at 31.12.2015	280,864,234	134,113,519	240,774,816	119,293,865	104,758,634	879,805,068	-
Total assets – as at 31.12.2014	282,469,237	141,503,748	146,257,420	131,460,303	93,918,922	_	795,609,630
Percentage – as at 31.12.2015(*)	31.92	15.24	27.37	13.56	11.91	100.00	_
Percentage – as at 31.12.2014(*)	35.51	17.79	18.38	16.52	11.80	_	100.00

<sup>(\*)</sup> Total percentage of each maturity bucket out of total assets employed by the Bank.

(ii) Remaining contractual period to maturity as at the date of Statement of Financial Position of the liabilities and shareholders' funds employed by the Bank is detailed below:

As at December 31,	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.12.2015	Total as at 31.12.2014
As at December 51,	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest-bearing liabilities:							
Financial Liabilities							
Due to banks	14,236,607	12,252,750	_	-	_	26,489,357	7,101,355
Derivative financial liabilities		_				_	_
Securities sold under repurchase agreements	89,404,870	22,648,445	331,497	_	_	112,384,812	124,564,499
Other financial liabilities – held-for-trading		_	_	_	_	_	
Due to other customers/ Deposits from customers	372,821,253	164,738,055	14,096,129	9,075,203	10,433,689	571,164,329	484,439,838
Other borrowings	492,184	1,506,179	4,089,640	139,873	3,757,761	9,985,637	11,636,583
Subordinated liabilities	132,361	1,117,677	-	-	10,723,234	11,973,272	11,044,775
Total interest-bearing liabilities as at 31.12.2015	477,087,275	202,263,106	18,517,266	9,215,076	24,914,684	731,997,407	
Total interest-bearing liabilities as at 31.12.2014	409,117,698	180,713,705	20,555,908	8,810,120	19,589,619		638,787,050

As at December 31,	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.12.2015	Total as at 31.12.2014
As at December 31,	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	115. 000	113. 000	113. 000	113. 000	113. 000	113. 000	113. 000
Non-interest bearing liabilities:							
Financial Liabilities							
Due to banks	3,829,762	-	-	-	_	3,829,762	18,159,621
Derivative financial liabilities	1,026,823	783,512	80,435	_	_	1,890,770	1,193,139
Due to other customers/ Deposits from customers	52,937,481	_	_	-	_	52,937,481	44,921,646
Non-Financial Liabilities							
Current tax liabilities	1,503,502	1,498,482	-	_	_	3,001,984	1,997,990
Deferred tax	260,056	199,449	111,823	471,153	(811,866)	230,615	2,573,760
Other provisions	1,874	_	_	_	_	1,874	1,874
Other liabilities	11,385,635	1,509,154	1,239,799	299,833	1,113,738	15,548,159	17,443,531
Due to subsidiaries	26,212	_	-	_	_	26,212	19,289
Equity							
Stated capital	_	_	_	_	23,254,605	23,254,605	21,457,501
Statutory reserves	_	_	_	_	4,922,264	4,922,264	4,327,103
Retained earnings	_	_	_	_	4,388,867	4,388,867	4,258,287
Other reserves	_	_	-	_	37,775,068	37,775,068	40,468,839
Total non-interest bearing liabilities as at 31.12.2015	70,971,345	3,990,597	1,432,057	770,986	70,642,676	147,807,661	
Total non-interest bearing liabilities as at 31.12.2014	74,289,006	6,032,858	3,055,498	1,512,995	71,932,223		156,822,580
Total liabilities and equity – as at 31.12.2015	548,058,620	206,253,703	19,949,323	9,986,062	95,557,360	879,805,068	
Total liabilities and equity – as at 31.12.2014	483,406,704	186,746,563	23,611,406	10,323,115	91,521,842		795,609,630
Percentage – as at 31.12.2015(*)	62.29	23.44	2.27	1.14	10.86	100	
Percentage – as at 31.12.2014(*)	60.76	23.47	2.97	1.30	11.50		100
							·

<sup>(\*)</sup> Total percentage of each maturity bucket out of total liabilities and shareholders' funds employed by the Bank.

67.2.2 (b) Non-derivative financial assets and financial liabilities expected to be recovered or settled after 12 months from the Reporting date

The table below sets out the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled after 12 months from the Reporting date.

As at December 31,	2015	2014
	Rs. '000	Rs. '000
Financial Assets		
Non-Derivative Financial Assets		
Balances with central banks	1,284,010	1,047,349
Loans and receivables to banks	601,106	551,066
Loans and receivables to other customers	232,631,534	198,905,938
Financial investments – Available-for-sale	180,968,180	155,625,347
	415,484,830	356,129,700
Financial Liabilities		
Non-Derivative Financial Liabilities		
Securities sold under repurchase agreements	331,497	-
Due to other customers/deposits from customers	33,605,021	27,844,004
Other borrowings	7,987,274	10,327,959
Subordinated liabilities	10,723,234	10,783,684
	52,647,026	48,955,647

# 67.2.3 Liquidity Reserves

The table below sets out the components of the Bank's liquidity reserves:

As at December 31,	20	2015		2014	
	Carrying Amount Rs. '000	Fair Value Rs. '000	Carrying Amount Rs. '000	Fair Value Rs. '000	
Balances with central banks	28,221,017	28,221,017	19,633,746	19,633,746	
Cash and balances with other banks	4,170,033	4,170,033	6,943,357	6,943,357	
Other cash and cash equivalents	15,873,479	15,873,479	13,648,510	13,648,510	
Unencumbered debt securities issued by sovereigns	106,704,783	107,319,745	135,957,411	137,548,651	
Total liquidity reserves	154,969,312	155,584,274	176,183,024	177,774,264	

# 67.2.4 Financial Assets Available to Support Future Funding

The table below sets out the availability of the Bank's financial assets to support future funding:

December 31, 2015		Encumb	ered	Unencum	bered	
	Note	Pledged as Collateral Rs. '000	Other** Rs. '000	Available as Collateral Rs. '000	Other	Total
Cash and cash equivalents	26			20,043,512		20,043,512
Balances with central banks	27			28,221,017		28,221,017
Placements with banks	28			17,193,539		17,193,539
Securities Purchased Under Resale Agreements				8,002,100		8,002,100
Derivative financial assets	29			4,118,169		4,118,169
Other financial instruments – Held-for-trading	30			7,656,349		7,656,349
Loans and receivables to banks	31		601,106	_		601,106
Loans and receivables to other customers	32			508,115,127		508,115,127
Financial investments – Available-for-sale*	33	112,384,812		91,859,477		204,244,289
Financial investments – Loans and Receivables	34			57,724,369		57,724,369
Total financial assets		112,384,812	601,106	742,933,659	_	855,919,577

December 31, 2014		Encumb	ered	Unencum	bered	
	Note	Pledged as Collateral Rs. '000	Other**	Available as Collateral Rs. '000	Other	Total
		113. 000	113. 000	113. 000	113. 000	113. 000
Cash and cash equivalents	26			20,591,867		20,591,867
Balances with central banks	27			19,633,746		19,633,746
Placements with banks	28			14,507,861		14,507,861
Securities Purchased Under Resale Agreements				41,198,266		41,198,266
Derivative financial assets	29			459,510		459,510
Other financial instruments – Held-for-trading	30			6,326,636		6,326,636
Loans and receivables to banks	31		551,066	_	_	551,066
Loans and receivables to other customers	32			405,431,457		405,431,457
Financial investments – Available-for-sale*	33	124,564,499	_	89,643,871		214,208,370
Financial investments – Loans and Receivables	34			50,436,064		50,436,064
Total financial assets		124,564,499	551,066	648,229,278	-	773,344,843

<sup>\*</sup> Market value of securities pledged as collateral is Rs. 126,431,123 – 2015 (Rs. 149,640,324 – 2014).

<sup>\*\*</sup>Represents an amount where the Bank is prevented from exercising the right of lien against the claim made by the Bank due to a Court action.

# 67.3 Market Risk

Market risk is the risk of losses in, On or Off-Balance Sheet positions arising out of movements in prices affecting foreign exchange exposures, interest rate instruments, equity/debt instruments and commodity exposures. The Bank monitors market risk in both trading and non-trading portfolios.

# 67.3.1 Exposure to Market Risk - Trading and Non-Trading Portfolios

The table below sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios:

As at December 31, 2015			Market Risk Measu	rement
	Note	Carrying Amount	Trading Portfolios	Non-Trading Portfolios
		Rs. '000	Rs. '000	Rs. '000
Assets Subject to Market Risk				
Cash and cash equivalents	26	6,012,136		6,012,136
Balances with central banks	27	8,145,887		8,145,887
Placements with banks	28	17,193,539		17,193,539
Securities purchased under resale agreements		8,002,100		8,002,100
Derivative financial assets	29	4,118,169	4,118,169	_
Other financial instruments – Held-for-trading	30	7,656,349	7,656,349	_
Loans and receivables to banks	31	601,106		601,106
Loans and receivables to other customers	32	508,115,127		508,115,127
Financial investments – Available-for-sale	33	204,244,289		204,244,289
Financial investments – Loans and Receivables	34	57,724,369		57,724,369
		821,813,071	11,774,518	810,038,553
Liabilities Subject to Market Risk				
Due to banks	41	30,319,119		30,319,119
Derivative financial liabilities	42	1,890,770	1,890,770	_
Securities sold under repurchase agreements		112,384,812		112,384,812
Due to other customers/deposits from customers	43	624,101,810		624,101,810
Other borrowings	44	9,985,637		9,985,637
Subordinated liabilities	50	11,973,272		11,973,272
		790,655,420	1,890,770	788,764,650

As at December 31, 2014			Market Risk Measu	rement
	Note	Carrying Amount	Trading Portfolios	Non-Trading
		Rs. '000	Rs. '000	Portfolios Rs. '000
Assets Subject to Market Risk				
Cash and cash equivalents	26	8,369,802		8,369,802
Balances with central banks	27	2,199,888		2,199,888
Placements with banks	28	14,507,861		14,507,861
Securities purchased under resale agreements		41,198,266		41,198,266
Derivative financial assets	29	459,510	459,510	_
Other financial instruments – Held-for-trading	30	6,326,636	6,326,636	_
Loans and receivables to banks	31	551,066		551,066
Loans and receivables to other customers	32	405,431,457		405,431,457
Financial investments – Available-for-sale	33	214,208,370		214,208,370
Financial investments – Loans and receivables	34	50,436,064		50,436,064
		743,668,920	6,786,146	736,902,774
Liabilities Subject to Market Risk				
Due to banks	41	25,260,976		25,260,976
Derivative financial liabilities	42	1,193,139	1,193,139	-
Securities sold under repurchase agreements		124,564,499		124,564,499
Due to other customers/deposits from customers	43	529,361,484		529,361,484
Other borrowings	44	11,636,583		11,636,583
Subordinated liabilities	50	11,044,775		11,044,775
		703,061,456	1,193,139	701,868,317

# 67.3.2 Exposure to Interest Rate Risk – Sensitivity Analysis

# 67.3.2 (a) Exposure to Interest Rate Risk – Non-Trading Portfolio

The possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments gives rise to interest rate risk. The Bank's policy is to continuously monitor portfolios and adopt hedging strategies to ensure that interest rate risk is maintained within prudent levels.

The tables below analyse the Bank's interest rate risk exposure on financial assets and financial liabilities. The Bank's assets and liabilities are included at carrying amount and categorised by the earlier of contractual re-pricing or maturity dates.

# Interest rate gap position of the non-trading portfolio of the Bank is given below:

As at December 31, 2015	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Non- Sensitive	Total as at 31.12.2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets							
Cash and cash equivalents	-	-	_	_	_	20,043,512	20,043,512
Balances with central banks	5,707,697	_	_	_	_	22,513,320	28,221,017
Placements with banks	16,472,789	720,750	_	_	_	_	17,193,539
Securities purchased under resale agreements	8,002,100	_	_	_	_	_	8,002,100
Derivative financial assets	_	_	_	_	_	_	_
Other financial instruments – held-for-trading	_	_	_	_	_	_	_
Loans and receivables to banks	_	_	_	_	_	601,106	601,106
Loans and receivables to other customers	305,050,450	102,751,351	45,161,485	29,482,071	20,557,607	5,112,163	508,115,127
Financial investments – available-for-sale	13,236,069	10,905,467	81,166,272	35,687,455	51,541,198	11,707,828	204,244,289
Financial investments – loans and receivables	45,991,446	1,493,686	5,025,175	5,211,040	_	3,022	57,724,369
Total Financial Assets	394,460,551	115,871,254	131,352,932	70,380,566	72,098,805	59,980,951	844,145,059
Financial Liabilities							
Due to banks	15,872,928	12,252,750	_	_	_	2,193,441	30,319,119
Derivative financial liabilities	_		_	_	_	_	
Securities sold under repurchase agreements	89,404,870	22,648,445	331,497	_	_	_	112,384,812
Due to other customers/deposits from customers	376,414,265	164,654,425	13,448,855	8,416,197	7,222,343	53,945,725	624,101,810
Other borrowings	7,935,160	419,463	348,618	264,069	1,018,327	_	9,985,637
Subordinated liabilities	10,855,595	1,117,677	_	_	_	_	11,973,272
Total Financial Liabilities	500,482,818	201,092,760	14,128,970	8,680,266	8,240,670	56,139,166	788,764,650
Interest rate sensitivity gap	(106,022,267)	(85,221,506)	117,223,962	61,700,300	63,858,135	3,841,785	55,380,409

As at December 31, 2014	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Non- Sensitive	Total as at 31.12.2014
	Rs. '000		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets							
Cash and cash equivalents	1,000,000	_	-	-	-	19,591,867	20,591,867
Balances with central banks	167,497	_	_	_	-	19,466,249	19,633,746
Placements with banks	13,450,661	1,057,200	_	_	_	_	14,507,861
Securities purchased under resale agreements	40,023,056	1,175,210	_	_	_	_	41,198,266
Derivative financial assets	_	_	_	_	_	_	_
Other financial instruments – held-for-trading	_	_	_	_	_	_	_
Loans and receivables to banks	_	_	_	_	-	551,066	551,066
Loans and receivables to other customers	257,183,352	76,633,731	30,417,239	18,773,170	16,191,616	6,232,349	405,431,457
Financial investments – available-for-sale	14,533,119	43,167,687	30,614,319	72,339,271	52,710,345	843,629	214,208,370
Financial investments – loans and receivables	41,639,748	845,575	4,215,747	3,734,994	_	_	50,436,064
Total Financial Assets	367,997,433	122,879,403	65,247,305	94,847,435	68,901,961	46,685,160	766,558,697
Financial Liabilities							
Due to banks	10,300,549	13,307,653	_	_	_	1,652,774	25,260,976
Derivative financial liabilities	_	_	_	_	-	_	_
Securities sold under repurchase agreements	84,774,772	37,921,798	1,867,929	_	_	_	124,564,499
Due to other customers/deposits from customers	318,124,063	134,432,410	12,187,265	5,977,239	13,598,934	45,041,573	529,361,484
Other borrowings	2,827,263	966,982	633,385	6,922,301	286,652	_	11,636,583
Subordinated liabilities	9,943,394	129,121	972,260	-	-	_	11,044,775
Total Financial Liabilities	425,970,041	186,757,964	15,660,839	12,899,540	13,885,586	46,694,347	701,868,317
Interest rate sensitivity gap	(57,972,608)	(63,878,561)	49,586,466	81,947,895	55,016,375	(9,187)	64,690,380

# 67.3.2 (b) Exposure to Interest Rate Risk – Non-Trading Portfolio (Rate Shocks)

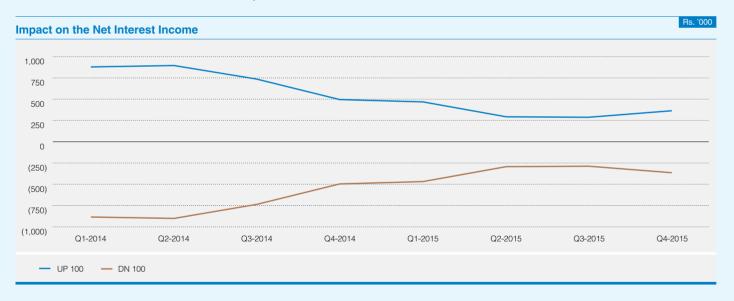
The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and financial liabilities to various interest rate scenarios.

The following table demonstrates the sensitivity of the Bank's Income Statement as at Reporting date to a reasonable possible change in interest rates, with all other variables held constant.

Sensitivity of Projected Net Interest Income

	2	2014		
Net Interest Income (NII)	100 bp Parallel Increase Rs. '000	100 bp Parallel Decrease Rs. '000	100 bp Parallel Increase Rs. '000	100 bp Parallel Decrease Rs. '000
As at December 31,	363,173	(362,303)	494,488	(495,461)
Average for the period	336,601	(335,541)	751,326	(753,968)
Maximum for the period	469,161	(468,336)	893,537	(901,327)
Minimum for the period	267,117	(266,063)	494,488	(495,461)

The Graph below depicts the impact on the Net Interest Income (NII) of Sri Lankan Operations – Rate shock of 100 bp on Rupee denominated Assets and Liabilities and 10 bp on FCY denominated Assets and Liabilities.



The impact of changes in interest rates on NII is measured using a static Balance Sheet which is subjected to 100bps and 10bps shocks on rupee and foreign currency denominated interest earning assets and interest bearing liability portfolios, respectively. Thereafter, the potential impact on the Bank's profitability due to changes in rupee and foreign currency interest rates is evaluated to ensure that the volatilities are prudently managed within the internal tolerance limits. Above graph depicts the sensitivity of NII to rate shocks during the years 2014 and 2015. Right throughout 2015, the impact of rate shocks on projected NII has been well below the Management Action Trigger (MAT) limit. Since August, 2014 the impact has gradually decreased due to the conscious decision of the Bank to rebalance the Fixed Income Securities (FIS) portfolio.

# 67.3.3 Exposure to Currency Risk – Non-Trading Portfolio

Currency risk arises as a result of fluctuations in the value of a financial instrument due to changes in foreign exchange rates. There are set limits on position by currency and these positions are monitored on a daily basis.

The table below indicates the currencies to which the Bank had significant exposures as at December 31, 2015 and 2014 and the exposure as a percentage of the total capital funds:

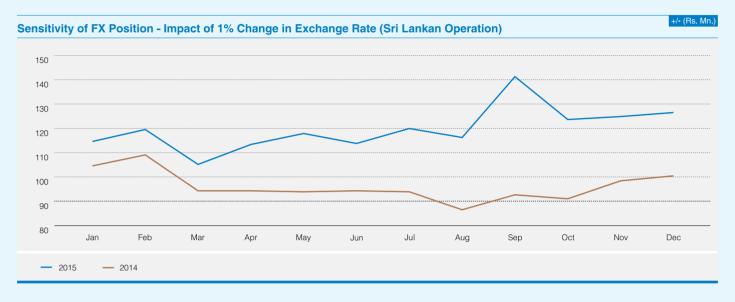
Foreign Exchange Position as at December 31, 2015

Currency	Assets	Spot Liabilities	Net	Assets	Forward  Liabilities	Net	Net Open Position	Net Position in Other Exchange Contracts	Overall Exposure in Respective Foreign	Overall Exposure in LKR
	Assets 2	Liabilities	4=2-3	Assets 5	Liabilities 6	7=5-6	8	9	Currency 10	11
	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000
United States Dollar	27,147	27,207	(60)	15,410	14,568	842	1,096		1,877	270,602
Great Britain Pound	191	183	8	60	100	(40)	46		15	3,171
Euro	2,751	753	1,998	172	2,143	(1,971)	(58)		(31)	(4,886)
Japanese Yen	16,056	12,095	3,961	12,040	9,734	2,306	(420)		5,848	6,999
Indian Rupee	_	_	_	_	_	_	_		_	_
Australian Dollars	503	569	(66)	1,350	1,250	100	(33)		1	86
Canadian Dollars	354	347	7	_	-	_	_		7	716
Other currencies in US\$	363	144	219	168	99	69	44		333	47,951
Total exposure							US\$ 1,117		US\$ 2,252	324,639
Total capital funds as per the (capital base of the Bank				nents						79,687,972
Total exposure as a % of to	tal canital	funds as ne	r the latest	Audited Fi	nancial Stat	ements				0.41%

# Foreign Exchange Position as at December 31, 2014

Currency		Spot			Forward		Net Open Position	Net Position in Other Exchange Contracts	Overall Exposure in Respective Foreign	Overall Exposure in LKR
	Assets	Liabilities	Net	Assets	Liabilities	Net		Contracts	Currency	
	2 '000	3 '000	4=2-3 '000	5 '000	6 '000	7=5-6 '000	8 '000	9	10 '000	11 '000
United States Dollar	22,916	22,921	(5)	6,974	2,804	4,170	(5,132)	_	(967)	(127,730)
Great Britain Pound	181	149	32	809	816	(7)	(48)	_	(23)	(4,750)
Euro	1,260	74	1,186	144	1,317	(1,173)	16	_	29	4,611
Japanese Yen	3,781	45,351	(41,570)	47,803	12,580	35,223	52	_	(6,294)	(6,974)
Indian Rupee	_	_	_	_	_	_	_	_	_	_
Australian Dollars	252	263	(11)	100	120	(20)	(19)	_	(50)	(5,458)
Canadian Dollars	124	216	(92)	_	_	_	55	_	(37)	(4,166)
Other currencies in US\$	614	216	398	75	460	(385)	147	_	161	21,233
Total exposure							US\$ (5,041)		US\$ (938)	(123,234)
Total capital funds as per the (capital base of the Bank				nents						72,177,447
Total exposure as a % of to	tal capital	funds as p	er the latest	: Audited Fi	nancial Sta	tements				-0.17%

The Bank regularly conducts sensitivity analysis on Net Open Position (NOP) due to possible changes in the USD/LKR exchange rate to assess the exposure to Foreign Exchange Risk. An appropriate shock based on historical US\$/LKR exchange rate is applied on the NOP which is measured against the Board approved threshold limits.



# 67.3.4 Exposure to Equity Price Risk

Impact on profit or loss and equity as a result of a change in market price by 10%.

Equity price risks arises as result of any change in prices and volatilities of individual equities. The Bank conducts mark-to-market calculations on a daily, quarterly and on a need basis to identify the impact due to changes in equity prices.

The table below summarises impact (both to the profit or loss and to the equity) due to a shock of 10% on equity price.

		2015		2014			
	Held-for-Trading Rs. '000	Available-for-Sale Rs. '000	Total Rs. '000	Held-for-Trading Rs. '000	Available-for-Sale Rs. '000	Total Rs. '000	
Market value of equity securities as at December 31,	326,263	234,839	561,102	367,732	185,132	552,864	
Stress Level	Impact on P&L	Impact on OCI	Impact on Equity	Impact on P&L	Impact on OCI	Impact on Equity	
Shock of 10% on equity price (upward)	32,626	23,484	56,110	36,773	18,513	55,286	
Shock of 10% on equity price (downward)	(32,626)	(23,484)	(56,110)	(36,773)	(18,513)	(55,286)	

#### 67.4 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk events which include legal and regulatory implications could lead to financial and reputation losses to the Bank.

The Operational Risk Management Framework of the Bank has been defined under the Board approved Operational Risk Management Policy. Operational risk is managed by establishing an appropriate internal control system that requires a mechanism for segregation of related responsibilities within the Bank, and a detailed testing and verification of the Bank's overall operational systems, and achieving a full harmony between internal and external systems and establishing a fully independent back-up facility for Business Continuity Planning.

For more details on 'Operational Risk' refer page 135 of the section on 'Managing Risk at Commercial Bank'.

## 67.5 Capital Management

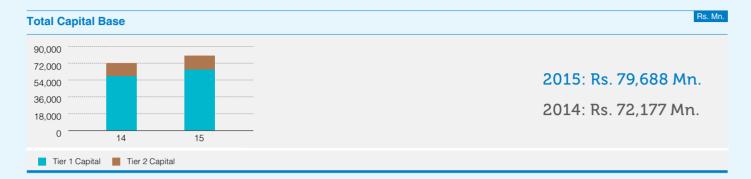
#### Objective

The Bank is required to manage its capital taking into account the need to meet the regulatory requirements as well as the current and future business needs, stakeholder expectations and available options for raising capital.

#### 67.5.1 Regulatory Capital

Capital Adequacy Ratio (CAR) is calculated based on the CBSL Directions stemming from Basel II Accord. These guidelines require the Bank to maintain a CAR of not less than 5% with core capital (Tier I) in relation to total risk-weighted assets and a minimum overall CAR of 10% inclusive of Tier I and Tier II (Supplementary Capital) in relation to total risk-weighted assets.

As at December 31,	2015	2014
As at December 51,	Rs. '000	Rs. '000
		110. 000
Tier I: Core Capital		
Paid-up ordinary shares/Common stock/Assigned capital++	23,254,605	21,457,502
Statutory reserve fund	4,922,265	4,327,103
Published retained profits/(accumulated losses)(+/-)	1,582,894	1,568,605
General and other reserves	36,007,573	32,010,399
Minority interests (consistent with the above capital constituents)	_	_
Tier I: Deductions/Adjustments		
Goodwill	_	_
Other intangible assets	(465,962)	(439,129)
Advances granted to employees of the Bank for the purchase of shares of the Bank (ESOP)	(499)	(786)
50% of Investments in unconsolidated banking and financial subsidiary companies	(458,023)	(458,023)
50% Investments in the capital of other banks and financial institutions	(402)	(402)
Total Eligible Core Capital (Tier I Capital)	64,842,451	58,465,269
Tier II: Supplementary Capital		
Revaluation reserves (as approved by Central Bank of Sri Lanka)	2,034,231	2,034,231
General provisions	2,351,948	1,836,058
Approved subordinated term debt	10,917,767	10,300,314
Tier II: Deductions/Adjustments		
50% of investments in unconsolidated banking and financial subsidiary companies	(458,023)	(458,023)
50% investments in the capital of other banks and financial institutions	(402)	(402)
Total eligible supplementary capital (Tier II Capital)	14,845,521	13,712,178
Total capital base	79,687,972	72,177,447



The Bank's regulator, the Central Bank of Sri Lanka sets and monitors capital requirements for the Bank as a whole.

Historically, the Bank has been maintaining a relatively higher CAR, stability and reliance.

The higher level of capital maintained by the Bank too contributed to the growth of the Bank.

The Bank has a well-structured Corporate Planning and Budgeting Procedure. Capital budgeting decisions are arrived at after evaluating the impact of such decisions on the income of the Bank.

# 67.5.2 Capital Allocation

Management uses regulatory capital ratios to monitor its capital base. The allocation of capital between specific operations and activities, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases the regulatory requirements do not fully reflect the varying degree of risk associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum requirements for regulatory.

# 68. Events After the Reporting Date

No circumstances have arisen since the Reporting date which would require adjustments or disclosure in the Financial Statements other than disclosed below:

# 68.1 Final Dividend - 2015

The Board of Directors of the Bank have recommended the payment of a final dividend of Rs. 5/- per share which consist of a cash dividend of Rs. 3/- per share and the balance entitlement of Rs. 2/- per share that will be satisfied in the form of issue and allotment of new shares for both voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2015.

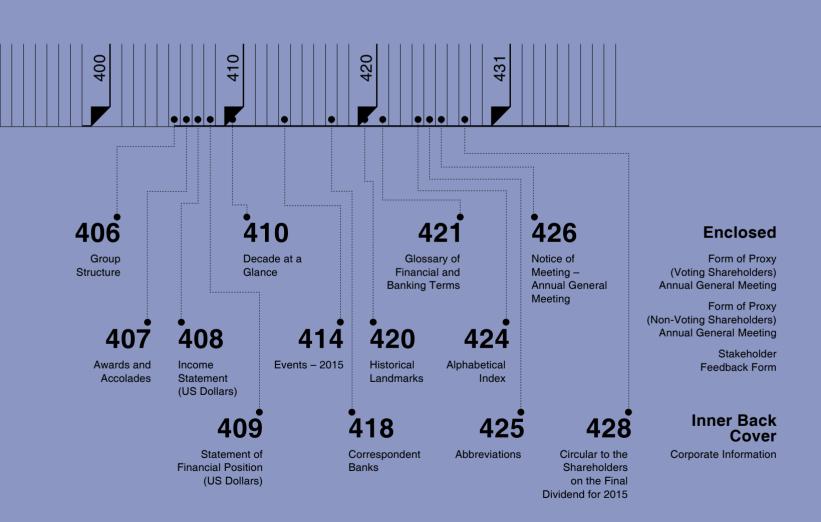
This dividend is yet to be approved at the Annual General Meeting to be held on March 31, 2016. In accordance with the Sri Lanka Accounting Standard No.10 – 'Events after the Reporting Period', this proposed final dividend has not been recognised as a liability as at December 31, 2015. Under the Inland Revenue Act No. 10 of 2006, a withholding tax of 10% has been imposed on dividends declared.

# Compliance with Sections 56 and 57 of the Companies Act No. 07 of 2007

As required by Section 56 of the Companies Act No. 07 of 2007, the Board of Directors of the Bank satisfied the solvency test in accordance with the Section 57, prior to recommending the final dividend. A statement of solvency completed and duly signed by the Directors on February 24, 2016 has been audited by KPMG.

# **Supplementary Information**

Other useful information in tracking our progress



# Group Structure

	Commercial Development Co. PLC	ONEzero Co. Ltd.	Commex Sri Lanka S.R.L. – Italy ❤	Serendib Finance Ltd.*	Equity Investments Lanka Ltd.	Commercial Insurance Brokers (Pvt) Ltd.
Company Profile						
Relationship to the Bank	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Associate	Associate
Incorporated on	March 14, 1980 in Sri Lanka	February 17, 2003 in Sri Lanka	December 02, 2008 in Italy	February 18, 1987 in Sri Lanka	August 08, 1990 in Sri Lanka	August 17, 1987 in Sri Lanka
Bank's Holding	94.28%	100%	100%	100%	22.92%	18.86%
Principal Business Activities	Property Development	Provision of IT Related Services	Money Transfer and Money Exchange	Leasing & Hire Purchase Financing	Venture Capital Financing	Insurance Brokering
Business Address		'Commercial House', No. 21, Sir Razik Fareed Mawatha, Colombo 01.	No. 34, Leopardi, Rome, Italy	No. 187, Katugastota Road, Kandy.	108 A, 2/1, Maya Avenue, Colombo 06.	No. 347, Dr. Colvin R. De Silva Mawatha, Colombo 02.
Contact Numbers	2447300	2430420	+39 06 48905707	081 2213498, 081 2200272	5373745, 2507605-6	2447297, 2447299
Board of Directors	<b>.</b>					
Chairman	B.R.L. Fernando	Prof. A.K.W. Jayawardane	K.G.D.D. Dheerasinghe	K.G.D.D. Dheerasinghe	M.J.C. Amarasuriya	M.P. Jayawardena
Managing Director/CEO	J. Durairatnam			A.J.D. Samarasinghe	H.R. Pieris	R.A.M. Seneviratne
Director	A.L. Gooneratne	K.S.A. Gamage	M.E.P. Perera	Ms. J.P. Kuruppu	Deshamanya S. E. Captain	D.M.D.K. Thilakaratne
Director	A.T.P. Edirisinghe	K.D.N. Buddhipala	K.D.N. Buddhipala	S.R. Pushpakumara	J.D. Peiris	U.I.S. Tillakawardana
Director	L.D.A. Jayasinghe	M.E.P. Perera	U.K.P. Banduwansa	A.N.P. Sooriyaarachchi	J.B. Adu Baker	S.P.S. Ranatunga
Director	U.I.S. Tillakawardana	S.C.U. Manatunga	Prof. Francesco Bellini	Y.S.H.R.S. Silva	W.I. Arambage	
Director		Mrs. S.A. Walgama			L.A. Rajapakse (Alternate Director)	
Director					H.A. Pieris	
Company Secretary	L.W.P. Indrajith	M.P. Dharmasiri	Antonia Coppola (Commercialista)	R.A.P. Rajapaksha	Mrs. R.R. Dunuwille	Ms. Y.A. Kularathna

# **Summary of Financial Information**

	2015 Rs. Mn.	2014 Rs. Mn.										
Total assets	2,064.361	1,873.596	103.132	91.009	66.432	29.700	2,925.295	1,957.298	302.543	322.843	257.851	230.677
Total liabilities	356.523	344.512	47.054	31.094	77.365	65.537	2,452.044	1,414.609	8.593	7.276	61.502	50.421
Net assets	1,707.838	1,529.084	56.078	59.915	(10.933)	(35.837)	473.251	542.689	293.950	315.567	196.349	180.256
Total revenue	316.988	275.997	181.725	128.107	3.405	6.559	356.233	139.835	55.536	39.701	212.673	189.420
Profit before tax	321.897	341.904	38.177	42.060	(37.257)	(42.990)	(85.125)	39.667	42.510	20.042	32.151	15.362
Profit after tax	259.795	275.434	27.523	30.286	(37.257)	(42.990)	(72.676)	26.684	43.264	22.288	19.683	7.693
Dividend (per share) (Rs.)	5.00	5.00	50.00	50.00	_	_	_	_	_	_	5.00	7.50

<sup>\*</sup> Acquired on September 01, 2014. (formally known as Indra Finance Ltd.)

Awards and Accolades

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
In Sri Lanka										
Ratings by Fitch Ratings Lanka Ltd. – National Long Term Rating	AA (lka)	AA (lka)	AA (lka)	AA (lka)	AA (lka)	AA (lka)	AA+ (lka)	AA+ (lka)	AA+ (lka)	AA+ (lka)
Sri Lankan Bank amongst the Top 1000 Banks of the world – The Banker, UK	Entrant	Entrant	Entrant	Entrant	Entrant			Entrant		
Awards by The 'Global Finance' Magazine (USA) Best Bank in Sri Lanka		Winner	Winner	Winner	Winner	Winner	Winner	Winner	Winner	Winner
<ul> <li>Award for Excellence by Euro Money Magazine (UK) Best Bank in Sri Lanka (1st Bank in Sri Lanka to win this award)</li> </ul>	Winner			Winner	Winner				Winner	
Award for Excellence by Trade Finance Magazine (UK)     Best Local Trade Bank			Winner	Winner	Winner		Winner			
Award for Best Bank in Sri Lanka by FinanceAsia	Winner			Winner	Winner	Winner	Winner			
Asia Best Employer Brand Awards     Asia's Best Employer Brand     Talent Management	Winner Winner									
Annual Report Awards by The Institute of Chartered Accountants of Sri Lanka										
Overall	2nd R-up		Winner	Joint 2nd R-up	Winner	Joint 1st R-up		Joint Winner	1st R-up	Winner
Banking Sector	Winner	1st R-up	Winner	Winner	Winner	1st R-up	Joint 1st R-up	Winner	Winner	Winner
Corporate Governance Disclosure	1st R-up	Joint Winner	1st R-up	1st R-up	1st R-up	2nd R-up	Joint 1st R-up			
Corporate Social Responsibility	2nd R-up					2nd R-up				
Management Commentary	Winner	1st R-up	Winner		2nd R-up	1st R-up	2nd R-up	Joint 1st R-up		
Annual Report Awards by the South Asian Federation of Accountants (SAFA)										
Financial/Banking Sector	Joint 2nd R-up	Winner			1st R-up	Joint 2nd R-up	Joint 1st R-up	Winner	Winner	Winner
Corporate Governance Disclosure	Winner	1st R-up		1st R-up	1st R-up	2nd R-up				Winner
Bank's Achievements in Bangladesh Operations										
Credit Ratings by Credit Rating Information Services Ltd.	AAA	AAA	AAA	AAA	AAA	AA+	AA+	AA+	AA	AA
Institute of Cost and Management Accountants of Bangladesh National Best Corporate Award		2nd R-up		2nd R-up	2nd R-up		2nd R-up		2nd R-up	

Income Statement (US Dollars)

		GROUP			BANK	
For the year ended December 31,	2015 US \$ '000	2014 US \$ '000	Change %	2015 US \$ '000	2014 US \$ '000	Change %
Gross income	542,667	551,254	(1.56)	540,187	550,528	(1.88)
Interest income	460,210	468,656	(1.80)	458,068	467,893	(2.10)
Less: Interest expenses	248,158	261,922	(5.25)	247,556	261,901	(5.48)
Net interest income	212,052	206,734	2.57	210,512	205,992	2.19
Fees and commission income	43,912	42,480	3.37	43,533	42,321	2.86
Less: Fees and commission expenses	6,379	5,784	10.29	6,252	5,763	8.49
Net fees and commission income	37,533	36,696	2.28	37,281	36,558	1.98
Net gains/(losses) from trading	5,643	(2,312)	(344.07)	5,643	(2,312)	(344.07)
Net gains/(losses) from financial instruments designated at fair value through profit or loss		_	_	_	_	_
Net gains/(losses) from financial investments	4,814	17,197	(72.01)	4,814	17,197	(72.01)
Other income (net)	28,088	25,233	11.31	28,130	25,429	10.62
Total operating income	288,130	283,548	1.62	286,380	282,864	1.24
Less: Impairment charges for loans and other losses	28,441	24,280	17.14	27,355	24,435	11.95
Net operating income	259,689	259,268	0.16	259,025	258,429	0.23
Less: Expenses						
Personnel expenses	71,181	67,774	5.03	70,625	67,371	4.83
Depreciation and amortisation	8,367	9,550	(12.39)	7,921	9,085	(12.81)
Other operating expenses	41,308	41,635	(0.79)	41,505	42,546	(2.45)
Total operating expenses	120,856	118,959	1.59	120,052	119,002	0.88
Operating profit before Value Added Tax (VAT) and Nation Building Tax (NBT)	138,833	140,309	(1.05)	138,974	139,427	(0.32)
Less: Value Added Tax (VAT) on financial services and Nation Building Tax (NBT)	20,050	20,345	(1.45)	20,044	20,348	(1.49)
Operating profit after Value Added Tax (VAT) and Nation Building Tax (NBT)	118,783	119,964	(0.98)	118,930	119,079	(0.13)
Share of profits of associates, net of tax	95	50	90.00	_	_	_
Profit before tax	118,878	120,014	(0.95)	118,930	119,079	(0.13)
Less: Income tax expense	36,607	34,939	4.77	36,354	34,476	5.45
Profit for the year	82,271	85,075	(3.30)	82,575	84,603	(2.40)
Profit Attributable to:						
Equity holders of the Bank	82,243	85,045	(3.29)	82,576	84,603	(2.40)
Non-controlling interest	28	30	(6.67)	_	_	_
Profit for the year	82,271	85,075	(3.30)	82,576	84,603	(2.40)
Earnings per Share						
Basic earnings per ordinary share (US \$)	0.09	0.10	(10.00)	0.09	0.10	(10.00)
Diluted earnings per ordinary share (US \$)	0.09	0.10	(10.00)	0.09	0.10	(10.00)

# **US Dollar Accounts**

The Income Statement and the Statement of Financial Position given on pages 408 and 409 are solely for the convenience of stakeholders and do not form part of the Financial Statements.

# Statement of Financial Position (US Dollars)

		GROUP			BANK	
As at December 31,	2015 US \$ '000	2014 US \$ '000	Change %	2015 US \$ '000	2014 US \$ '000	Change %
Assets						
Cash and cash equivalents	139,487	156,048	(10.61)	139,046	155,822	(10.77
Balances with Central Banks	195,775	148,572	31.77	195,775	148,572	31.77
Placements with banks	119,275	109,783	8.65	119,275	109,783	8.6
Securities purchased under resale agreements	55,512	311,754	(82.19)	55,512	311,754	(82.19
Derivative financial assets	28,569	3,477	721.66	28,569	3,477	721.6
Other financial instruments - Held-for-trading	53,114	47,875	10.94	53,114	47,875	10.9
Loans and receivables to banks	4,170	4,170	_	4,170	4,170	-
Loans and receivables to other customers	3,537,448	3,076,285	14.99	3,524,905	3,067,964	14.8
Financial investments – Available-for-sale	1,417,010	1,621,075	(12.59)	1,416,887	1,620,949	(12.5
Financial investments – Held-to-maturity	_	_	_	_	_	-
Financial investments – Loans and receivables	400,447	381,658	4.92	400,447	381,658	4.9
Investments in subsidiaries	_	_	_	8,582	9,164	(6.3
Investments in associates	725	804	(9.83)	308	335	(8.0
Property, plant & equipment	77,568	84,259	(7.94)	69,157	75,317	(8.1
Intangible assets	6,133	6,479	(5.34)	3,232	3,323	(2.7
Leasehold property	745	824	(9.59)	517	571	(9.4
Other assets	83,920	79,912	5.02	83,903	79,769	5.1
Total assets	6,119,898	6,032,975	1.44	6,103,399	6,020,503	1.3
Liabilities						
Due to Banks	220,530	194,242	13.53	210,330	191,154	10.0
Derivative financial liabilities	13,117	9,029	45.28	13,117	9,029	45.2
Securities sold under repurchase agreements	778,701	941,287	(17.27)	779,638	942,599	(17.2
Other financial liabilities - Held-for-trading						-
Due to other customers/Deposits from customers	4,328,971	4,005,044	8.09	4,329,530	4,005,762	8.0
Other borrowings	69,273	88,056	(21.33)	69,273	88,056	(21.3
Current tax liabilities	20,990	15,417	36.15	20,825	15,119	37.7
Deferred tax liabilities	3,244	21,765	(85.10)	1,600	19,476	(91.7
Other provisions	13	14	(7.14)	13	14	(7.1
Other liabilities	109,256	133,709	(18.29)	107,860	131,998	(18.2
Due to subsidiaries		-	- (10.20)	182	146	24.6
Subordinated liabilities	83,165	85,226	(2.42)	83,061	83,578	(0.6
Total liabilities	5,627,260	5,493,789	2.43	5,615,429	5,486,931	2.3
Equity Stated conital	101 000	100.070	(0.05)	101.000	100.070	/0.0
Stated capital	161,322	162,372	(0.65)	161,322	162,372	(0.6
Statutory reserves	34,148	32,744	4.29	34,147	32,744	4.2
Retained earnings	30,994	33,435	(7.33)	30,447	32,223	(5.5
Other reserves	265,826	310,275	(14.32)	262,054	306,233	(14.4
Total equity attributable to equity holders of the Bank	492,290	538,826	(25.59)	487,970	533,572	(8.5
Non-controlling interest	348	360	(3.33)	-	-	-
Total equity	492,638	539,186	(8.63)	487,970	533,572	(8.5
Total liabilities and equity	6,119,898	6,032,975	1.44	6,103,399	6,020,503	1.3
Contingent liabilities and commitments	3,615,902	2,667,071	35.22	3,615,902	2,667,071	35.5
Net assets value per ordinary share (US \$)	0.56	0.62	(9.68)	0.56	0.62	

Exchange Rate of 1 US \$ was Rs. 144.15 as at December 31, 2015 (Rs. 132.15 as at December 31, 2014).

→ Decade at a Glance

# Bank - Based on Financial Statements Prepared Under SLASs

Year ended December 31, Rs. Mn.	2006	2007	2008	2009	2010
Operating Results					
Income	24,470	35,223	44,115	43,741	41,522
Interest income	19,532	30,503	37,188	35,925	34,740
Interest expenses	(11,955)	(18,951)	(24,336)	(23,515)	(18,328)
Foreign exchange profit	1,439	1,545	2,633	2,962	1,741
Commission and other income	3,499	3,175	4,294	4,854	5,041
Operating expenses and provisions	(8,301)	(9,567)	(12,259)	(13,035)	(13,876)
Profit before income tax	4,214	6,705	7,520	7,191	9,318
Income tax on profit	(2,201)	(2,601)	(3,252)	(2,887)	(3,794)
Net profit for the year	2,013	4,104	4,268	4,304	5,524

As at December 31, Rs. Mn.	2006	2007	2008	2009	2010
Assets					
Cash and short-term funds	13,739	16,208	24,115	24,057	10,557
Balances with Central Banks	12,574	11,576	10,322	11,795	12,189
Government Treasury Bills, Bonds and other Securities	32,065	49,863	51,633	96,671	114,541
Commercial paper	423	_	_	_	_
Securities purchased under resale agreements	4,593	3,804	3,400	5,203	68
Dealing securities	145	207	58	81	283
Investments – Held-for-sale	218	205	_	_	_
Investments – Held-to-maturity	1,394	1,756	1,197	1,025	2,366
Bills of Exchange	3,204	3,195	3,059	2,847	5,291
Lease receivable	9,482	10,945	9,484	7,794	11,019
Loans and advances	137,846	160,184	167,858	161,329	200,729
	215,683	257,943	271,126	310,802	357,043
Investments in subsidiaries	434	434	434	279	354
Investments in associates	44	44	44	44	44
Property, plant & equipment and intangible assets	3,477	3,768	4,098	4,382	6,428
Other assets	4,336	5,751	5,512	6,808	6,191
Total assets	223,974	267,940	281,214	322,315	370,060
Liabilities					
Deposits from customers	157,496	183,110	199,881	234,745	259,779
Dividends payable	113	113	_	_	_
Borrowings	18,944	18,752	13,620	11,639	14,371
Securities sold under repurchase agreements	14,330	23,342	25,075	29,905	45,774
Other liabilities	9,122	10,308	10,646	12,888	12,259
Tax payable	1,446	1,698	1,665	1,203	2,448
Debentures	6,680	6,680	4,436	3,436	2,127
Total liabilities	208,131	244,003	255,323	293,816	336,758

Bank - Based on Financial Statements Prepared Under SLFRSs and LKASs

Year ended December 31, Rs. Mn.	2011	2012	2013	2014	2015	CAGR %
Operating Results						
Income	45,860	63,395	73,736	72,753	77,868	14.15
Interest income	38,356	52,685	62,764	61,832	66,030	
Interest expenses	(19,650)	(29,830)	(36,879)	(34,610)	(35,685)	
Foreign exchange profit	2,322	4,687	1,996	2,877	1,481	
Commission and other income	5,182	6,023	8,976	8,044	10,357	
Operating expenses and provisions	(15,313)	(19,270)	(22,347)	(22,407)	(25,040)	
Profit before income tax	10,897	14,295	14,510	15,736	17,143	12.00
Income tax on profit	(3,014)	(4,197)	(4,065)	(4,556)	(5,240)	
Net profit for the year	7,883	10,098	10,445	11,180	11,903	10.85

As at December 31, Rs. Mn.	2011	2012	2013	2014	2015	CAGR %
Assets						
Cash and cash equivalents	12,911	19,733	14,262	20,592	20,044	
Balances with Central Banks	17,343	18,168	18,432	19,634	28,221	
Placements with banks	11,674	16,163	4,132	14,508	17,194	
Securities purchased under resale agreements	1,542	3,697	8,946	41,198	8,002	
Derivative financial assets	40	1,351	838	460	4,118	
Other financial investments – Held-for-trading	6,418	6,041	6,379	6,327	7,656	
Loans and receivables to banks	580	629	546	551	601	1
Loans and receivables to other customers	286,314	337,247	353,062	405,431	508,115	16.33
Financial investments – Available-for-sale	61,415	57,963	131,757	214,208	204,244	
Financial investments – Loans and receivables	26,630	31,971	48,943	50,436	57,724	
	424,867	492,963	587,297	773,345	855,919	
Investments in subsidiaries	315	303	289	1,211	1,237	
Investments in associates	44	44	44	44	44	
Property, plant & equipment	7,907	8,221	8,387	9,953	9,969	
Intangible assets	467	497	468	439	466	
Leasehold property	78	77	76	75	74	
Deferred tax assets	360	449	_	_	_	
Other assets	7,291	9,189	9,426	10,543	12,096	
Total assets	441,329	511,743	605,987	795,610	879,805	18.82
Liabilities						
Due to banks	11,574	4,894	14,194	25,261	30,319	
Derivative financial liabilities	435	84	1,412	1,193	1,891	
Securities sold under repurchase agreements	41,235	31,760	45,519	124,564	112,385	
Other financial liabilities – Held-for-trading		_	_		_	
Due to other customers/Deposits from customers	323,755	390,612	451,153	529,361	624,102	17.83
Other borrowings	8,368	15,823	8,654	11,637	9,986	
Current tax liabilities	1,305	2,802	1,759	1,998	3,002	
Deferred tax liabilities	1,594	1,698	1,563	2,574	231	
Other provisions	1	2	2	2	2	
Other liabilities	8,162	10,363	9,827	17,444	15,547	
Due to subsidiaries	30	22	16	19	26	
Subordinated liabilities	1,106	1,106	10,944	11,045	11,973	
Total liabilities	397,565	459,166	545,043	725,098	809,464	

**Bank – Based on Financial Statements Prepared Under SLASs** 

Year ended December 31, Rs. Mn.	2006	2007	2008	2009	2010
Equity					
Share capital	2,428	10,515	10,548	10,608	10,811
Statutory reserve fund	1,429	1,634	1,896	2,164	2,472
Reserves	11,986	11,788	13,447	15,727	20,019
Total liabilities and equity	223,974	267,940	281,214	322,315	370,060
Commitments and contingencies	56,418	116,212	115,809	146,072	196,617
Ratios					
Return on average shareholders' funds (%)	12.73	20.63	17.13	15.83	17.87
Income growth (%)	51.99	43.95	25.25	(0.85)	(5.07)
Return on average assets (%)	1.00	1.67	1.55	1.43	1.60
Rate of dividend (%)	50.00	_		_	_
Dividend per share (Rs.)		7.00	7.00	7.00	7.00
Ordinary share dividend cover (times)	2.54	2.29	2.42	2.46	2.09
Gross dividends to ordinary shareholders (Rs. Mn.)	714.00	1,743.13	1,745.81	1,751.47	2,642.25
Advances to deposits and refinance (%)	92.49	91.75	87.12	70.88	80.97
Property, Plant & Equipment to shareholders' funds (%)	21.33	15.74	15.83	15.38	19.30
Total assets to shareholders' funds (times)	14.14	11.19	10.86	11.31	11.11
Capital funds to liabilities including contingent liabilities (%)	6.05	7.87	6.98	6.48	6.26
Cost/income ratio (%)	61.10	47.87	50.46	56.86	54.69
Liquid assets to liabilities (%)	22.64	24.24	24.83	38.80	29.74
(As specified in the Banking Act No. 30 of 1988)					
Group Capital Adequacy (%) Tier I	7.62	10.60	10.55	11.92	10.86
Tier I & II	11.58	13.71	13.13	13.93	12.26
Share Information					
Market value of a share (Rs.)	190.00	147.00	67.00	189.50	259.90
Earnings per share (Rs.)	3.00	5.00	6.00	6.00	7.00
Price earnings ratio (times)	15	9	4	11	18
Net assets value per share (Rs.)	24.00	30.00	34.00	38.00	44.00
Earnings yield (%)	5	11	25	9	6
Dividend payout ratio (%) - Cash	39	44	41	41	34
Total dividend payout ratio (%)		_			48
Other Information					
Number of employees	3,415	3,745	4,041	4,071	4,321
Number of delivery points – Sri Lanka	150	163	170	172	187
Number of delivery points – Bangladesh	7	9	11	15	17
Number of automated teller machines	278	301	346	368	414

Bank - Based on Financial Statements Prepared Under SLFRSs and LKASs

Year ended December 31, Rs. Mn.	2011	2012	2013	2014	2015	CAGR %
Equity						
Stated capital	16,474	18,009	19,587	21,458	23,255	
Statutory reserves	2,890	3,433	4,035	4,327	4,922	
Retained earnings	2,547	4,178	4,233	4,258	4,389	
Other reserves	21,853	26,957	33,089	40,469	37,775	
Total Liabilities and Equity	441,329	511,743	605,987	795,610	879,805	18.82
Commitments and contingencies	234,551	279,593	295,452	352,453	521,232	
Ratios						
Return on average shareholders' funds (%)	20.28	20.96	18.40	17.01	16.90	
Income growth (%)	10.45	38.24	16.31	(1.33)	7.03	
Return on average assets (%)	1.94	2.12	1.87	1.60	1.42	
Dividend per share (Rs.)	6.00	6.50	6.50	6.50	6.50	
Ordinary share dividend cover (times)	1.61	1.86	1.89	1.99	2.09	
Gross dividends to ordinary shareholders (Rs. Mn.)	4,904.70	5,421.42	5,522.47	5,630.32	5,699.59	
Advances to deposits and refinance (%)	83.30	82.01	77.48	75.89	80.84	
Property, plant & equipment to equity (%)	19.31	16.73	14.65	14.85	14.94	
Total assets to equity (times)	9.92	9.73	9.94	11.28	12.51	
Capital funds to liabilities including contingent liabilities (%)	6.92	7.12	7.25	6.54	5.29	
Cost/income ratio (%)	50.70	47.02	45.59	49.26	48.92	
Liquid assets to liabilities (%)	26.35	25.79	34.05	33.11	27.72	
(As specified in the Banking Act No. 30 of 1988)						
Group Capital Adequacy (%) Tier I	12.11	12.63	13.30	13.07	11.55	
Tier I & II	13.01	13.84	16.93	16.22	14.28	
Share Information						
Market value of a share (Rs.)	100.00	103.00	120.40	171.00	140.20	
Earnings per share (Rs.)	9	12	12	13	14	
Price earnings ratio (times)		9	10	13	10	
Net assets value per share (Rs.)	54	63	72	81	80	
Earnings yield (%)	9	12	10	8	10	
Dividend payout ratio (%) - Cash	42	37	37	35	33	
Total dividend payout ratio (%)	62	54	53	50	48	
Other Information						
Number of employees	4,524	4,602	4,730	4,852	4.951	
Number of delivery points – Sri Lanka	213	227	235	239	246	14.4
Number of delivery points – Bangladesh		17	18	18	18	5.6
	• •					0

#### **January**

Commercial Bank's 238th Service Point opens in Nochchiyagama



# **February**

Commercial Bank's 239th Service Point opens at Chankanai in Jaffna



#### March

Commercial Bank's 240th Service Point opens in Batapola



Commercial Bank takes digital banking to Jaffna



The Bank actively promoted digital banking options such as Online and Mobile Banking services to customers in the Jaffna Peninsula

#### **April**

Commercial Bank helps empower sea weed cultivators of North West



The Bank extended its support to sea weed cultivators in the North West of Sri Lanka, as part of the Bank's ongoing initiative to empower Small and Medium Enterprises (SMEs) and micro entrepreneurs with the technical knowledge and financial literacy required to develop their businesses.

Commercial Bank launches 'Millionaire Account'



A new, aspiration targeted investment plan that enables account holders to build up a minimum balance of Rs. 1 Mn. within a specific period without a high initial investment, was launched by the Bank.

Commercial Bank launches 'Sipnena' e-learning on Microsoft Cloud



A new educational website that will bring the universe of knowledge closer to Sri Lankan children was launched by the Bank as a community initiative that builds on the Bank's ongoing commitments on a national scale, in the spheres of IT literacy and online education.

#### May

Commercial Bank launches 'Divisaru' Savings Account to help micro businesses



A special Savings Account designed to support micro entrepreneurs and promote financial inclusivity to this segment has been launched by the Bank.

# **June**

Commercial Bank adjudged among Best in Asia by FinanceAsia in 2015



The Bank has been adjudged the 'Best Bank' in Sri Lanka in 2015 by Hong Kong based 'FinanceAsia' magazine. This will be the fifth 'FinanceAsia Country Award for Achievement' presented to Commercial Bank in the seven years since the Bank became the first entity in Sri Lanka to receive this prestigious accolade in 2009.

Indra Finance, a fully-owned subsidiary of Commercial Bank, renamed Serendib Finance



Nine months after it acquired Indra Finance Ltd., the Bank announced the renaming of its fully-owned subsidiary as Serendib Finance Ltd.

Commercial Bank begins Myanmar operations with opening of Yangon office



The Bank opened its representative office in Yangon, formally launching its operations in Myanmar, initially to offer advisory services to Sri Lankan and Bangladeshi businesses wishing to enter that country, and to arrange banking and advisory facilities, funds transfer and encashment services.

#### Commercial Bank opens 241st & 242nd Service Points in Wattegama and Katugastota





# July

Commercial Bank launches new paperless Green Banking facility



The Bank commissioned the first of a new generation of automated cash deposit terminals that completely eliminate the use of paper, in another example of the Bank's continuing investment in Green technology and sustainable development.

Commercial Bank in World's Top 1000 Banks for 5th successive year in 2015



The Bank was once again been ranked among the Top 1000 Banks of the World, in the prestigious rankings published annually by 'The Banker' Magazine of the UK, becoming the only Sri Lankan Bank to achieve this feat, five years in a row.

# Commercial Bank Bangladesh receives highest rating of AAA for 5th consecutive year

The AAA (Triple A) long term credit rating accorded to the Bangladesh operations of Commercial Bank PLC has been reaffirmed by Credit Rating Information and Services Ltd. (CRISL) for the fifth consecutive year. Triple A is the highest credit rating given to any financial institution in Bangladesh by CRISL.

# Commercial Bank rated the strongest Bank in Sri Lanka by Fitch

The National Long Term Rating of Commercial Bank of Ceylon PLC has been affirmed at 'AA(Ika); Stable Outlook' by Fitch Ratings Lanka.

# Commercial Bank is Euromoney's Best Bank in Sri Lanka in 2015



Euromoney, widely considered one of the world's leading financial magazines, has adjudged Commercial Bank as the Best Bank in Sri Lanka in 2015 at the magazine's Asia Awards for Excellence presented in Hong Kong.

# **August**

Commercial Bank launches low cost insurance for micro borrowers



A low cost insurance scheme that will protect micro borrowers was launched by the Bank in association with two insurance companies, Ceylinco Insurance and BIMA a Swedenbased micro insurance service provider.

# Commercial Bank Balangoda branch moves to new eco-friendly building



The Bank launched a new eco-friendly model for branches in buildings owned by the Bank, in yet another initiative to align its operations with the needs of the planet.

# Commercial Bank 'Most Respected Bank in Sri Lanka' for 11th consecutive year in 2015 by the LMD



The Bank has been rated the 'Most Respected Bank in Sri Lanka' for the 11th consecutive year and the second 'Most Respected Corporate Entity' in the country overall for the fifth successive year in the 2015 LMD rankings of the Most Respected Entities in Sri Lanka.

#### September

Commercial Bank supports 'Construct 2015' as Official Banker



The Bank supported Sri Lanka's construction sector as Official Banker to 'Construct 2015', one of the largest construction sector exhibitions in the South Asian region.

Commercial Bank wins international recognition for its Green Banking efforts



The Bank's efforts to make its operations more eco-friendly was acknowledged internationally with the Award for 'Best Sustainability – Green Initiative' at the 2015 Asian Customer Engagement Forum (ACEF) Awards in Mumbai.

# Commercial Bank to commence fully-fledged banking operations in Maldives

The Bank announced plans to extend its services to the Republic of Maldives following the receipt of regulatory approval for the establishment of a fully-fledged Tier I Bank in the idyllic archipelago. Maldives operation will be the third overseas banking operation of the Bank.

# Commercial Bank adjudged 'Bank of the Year' 2015 by the UK-based International Banker

Commercial Bank has been adjudged Sri Lanka's 'Commercial Bank of the Year 2015' by the UK-based International Banker.

The award is the first from International Banker to a bank in Sri Lanka.

#### **October**

Commercial Bank ranked 2nd in Business Today's Top 25 PLCs

The Bank was ranked second in Business Today's 'Top 25' public listed corporate entities in Sri Lanka in 2014/15 on the basis of financial performance.

Thousands of kids at Commercial Bank's commemoration of World Children's Day



Unbridled fun befitting children was in ample evidence when the Bank celebrated World Children's Day by treating more than 2,000 little Sri Lankans to a special event at the Leisure World theme park in Hanwella on 1st October.

Commercial Bank's 'Arunalu' rewards country's brightest young students



The Bank presented the three top achievers at the 2015 Year 5 Scholarship Examination with rewards under the aegis of 'Arunalu' – the Bank's signature Savings Account for Children.

Commercial Bank opens 243rd, 244th, 245th and 246th Service Points in Bandarawatte, Wennappuwa, Badulla (2nd outlet) and Arrivals Terminal of BIA Katunayake



#### **November**

Commercial Bank launches Green Development Loans to support country's sustainability agenda



Loans of up to Rs. 25 Mn. are now available at concessionary interest for Small and Medium Enterprises (SMEs) and entrepreneurs that wish to invest in energy saving, energy efficiency or off-grid renewable energy projects including investments in solar power.

Commercial Bank integrates with BFC's 'EzRemit' for instant remittances to Sri Lanka



Users of EzRemit, a leading remittance service in Bahrain, who send funds to beneficiaries in Sri Lanka via the Commercial Bank, are now offered an instant, real-time transfer, following the integration of the web systems of the two entities.

#### **December**

Commercial Bank bags Gold for Best Annual Report in Banking Sector for 12th time









Commercial Bank Annual Report 2014 was awarded the Edmund J. Cooray Memorial Trophy for the Best Annual Report among Banking Institutions, the Gold Award for Management Commentary, the Silver Award for Corporate Governance Disclosure, the Bronze Award for the Best Annual Report Overall across all sectors and the Bronze for CSR Reporting at the 2015 Annual Report Awards of The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

# Commercial Bank branches go green



The Bank announced that its environment-related initiatives have made steady progress in 2015 with the installation of solar power systems at four branches, the award of tenders for five more branch conversions, and the acquisition of 20 more paperless deposit machines.

Commercial Bank unveils new initiative to sharpen students' math and analytical skills



A ground-breaking new initiative to stimulate and develop the mathematical and analytical skills of schoolchildren in Sri Lanka was launched by the Commercial Bank as a project aligned with the Bank's education-centric corporate social responsibility agenda.

Commercial Bank the highest ranked Bank in latest LMD 100



The Bank topped the LMD 100 ranking of Sri Lanka's leading listed companies in terms of Assets, taken second place overall on Profit After Tax (PAT) and fifth place overall on Turnover in the magazine's rankings for 2014/15. The Bank also won the Sector Award for Banking.

Commercial Bank Annual Report 2014 wins 'Asia's Best Integrated Report' Award



Commercial Bank Annual Report 2014 was adjudged 'Asia's Best Integrated Report' at the Asia Sustainability Reporting Awards in Singapore.

# → Correspondent Banks

#### 01. United States of America

#### Bank of America NT & SA (US \$)

International Deposit Services 1850, Gateway BL VD, 6th Floor. Concord CA 94520.

BIC: BOFAUS6S A/C: 6290890098

#### Citi Bank (US \$)

111, Wall Street, 19th Floor, New York 10043. BIC: CITIUS33

A/C: 36141446, 36241316\* & 36242538\*

# Deutsche Bank Trust Company

Americas (US \$)

P.O. Box 318, Church Street Station, NY 10008

BIC: BKTRUS33

A/C: 4034566 & 4447395\*

#### JP Morgan Chase Bank (US \$)

Head Office, 270, Park Avenue, NY 10017.

BIC: CHASUS33

A/C: 400808625 & 400809176\*

# Standard Chartered Bank (US \$)

One Madison Avenue, New York, NY 10010-3603

BIC: SCBLUS33

A/C: 3582052360001, 3582052360002

& 3582052637001\*

### Wells Fargo Bank N.A. (US \$)

11, Penn Plaza, 4th Floor,

NY 10038.

BIC: PNBPUS3NNYC A/C: 2000191002407 &

15. United Kingdom

A/C: 58335536\* (GBP)

59398188\* (GBP) & 59448448\* (EUR)

Standard Chartered Bank (GBP)

City Office, Branch No. 37, Grace Church Street, London,

HSBC Bank PLC 8, Canada Square, London.

BIC: MIDLGB22

2000193003365\*

#### 02. Canada

#### Bank of Nova Scotia (CAD)

Global Wholesale Services 720, King Street West,

Toronto. BIC: NOSCCATT A/C: 72214

#### Bank of Montreal (CAD)

100, King Street West,

24th Floor, Toronto.

BIC: BOFMCAM2

A/C: 3144-1044-203 & 3144-1044-190\*

#### 03. United Arab Emirates

#### Blom Bank France (AED)

P.O. Box 4370, Al Maktoum Street, Deira, Dubai,

BIC: BLOMAFAD

A/C: 510035395784101000

#### Mashreq Bank (AED)

P.O. Box 1250, Dubai. BIC: BOMLAEAD

A/C: AE270330000010195511268

#### 04. Pakistan

#### Standard Chartered Bank (ACU \$)

1.1, Chundrigar Road, Karachi 75600.

BIC: SCBLPKK

A/C: 15000297601LISD & 15000288701USD\*



#### 17. Norway

### Den Norske Bank (NOK)

Stranden 21, 0021,

Oslo

**BIC: DNBANOKK** A/C: 7002.02.04808

18. Netherlands

Amsterdam.

BIC: INGBNL2A

A/C: 50908928

ING Bank N.V. (EUR)

P.O. Box 1800 1000 BV,

### Nordea Bank Denmark A/S (DKK)

P.O. Box 850, DK-0900, Copenhagen.

BIC: NDEADKKK

A/C: 5000408909 & 5000017703\*

18 19 (21)

# Skandinaviska Enskilda Banken (SEK)

Utlandsreskontran Stockholm S 106 40. BIC: ESSESESS

A/C: 52018529803

Svenska Handelbanken Stockholm (SEK)

BIC: HANDSESSA A/C: 40324079\*

# 21. Germany

#### Commerz Bank AG (EUR) ZTB BC Mitte 6.4, Mainzer Landstrass

277-293, 60261, Frankfurt AM Main.

BIC: COBADEFE

A/C: 400872103701 & 400871436200\*

#### Standard Chartered Bank (EUR)

Data & Exposure Control,

P.O. Box 110162 Theodor - Heuss -Allee 112, D60036 Frankfurt AM Main.

BIC: SCBLDEF

A/C: 18109406, 18149205 & 018112204\*

# UniCredit Bank AG (EUR)

D - 80311 Muenchen BIC: HYVEDEMM

A/C: 69101429

#### 16. France

EC3V OBX.

BIC: SCBLGB2L

A/C: 1804813401

Paris 702 U 020.

BIC: AGRIFRPP A/C: 20533624000\*

# Credit Agricole SA (EUR)

75710 Paris Cedex 15, CCP,

# 22. Switzerland

# UBS AG (CHF)

P.O. Box CH-8098, Zurich. BIC: UBSWCHZH

A/C: 02300000085408050000W & 02300000036535050000N\*

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#### 05. Sri Lanka

#### Commercial Bank of Ceylon PLC (ACU \$)

'Commercial House'. 21, Sir Razik Fareed Mawatha, PO Box 856 Colombo 1 BIC: CCEYLKLX

(6)

(14)

5

A/C: 1420825031\*

#### 06. Bangladesh

#### Commercial Bank of Ceylon PLC (ACU \$)

Corporate Branch and Head Office Hadi Mansion, 2 Dilkusha C/A Dhaka 1000.

BIC: CCEYBDDH A/C: 2802000017

#### Standard Chartered Bank (CNY)

22nd Floor, Standard Chartered Tower, 201, Century Avenue, Pudong, Shanghai. BIC: SCBLCNSX

A/C: 501510533540

#### 08. Hong Kong

#### Standard Chartered Bank

P.O. Box 21, 9th Floor, 4-4A, Des Voeux Road. BIC: SCBLHKHH A/C: 41109468048 (HKD), 44709419107\* (HKD) & 44709448344 (CNY)

#### 10. Korea

#### Hana Bank (US \$)

No 101-1, 1KA, EULJIRO, Chung-ku, Seoul 100-191. BIC: HNBNKRSE

A/C: 06091000119831

#### Kookmin Bank (US \$)

9-1, 2GA, Namdaemun -RO, Jung - GU, Seoul 100-703. BIC: CZNBKBSE

A/C: 7598USD010 & 7618USD013\*

#### Korea Exchange Bank (US \$)

66 Euljiro, Chung-ku, Seoul. BIC: KOEXKRSE

A/C: 0963THR051080010

#### Woori Bank (US \$)

No. 203, Hoehyeon-dong 1-gaJung-gu,

Seoul.

BIC: HVBKKRSE A/C: W1027001US



# Citibank NA (US \$)

3, Temasek Avenue, # 14-00, Sennial Tower. BIC: CITISGSG A/C: 851122001

#### Oversea - Chinese Banking Corp Ltd. (US \$)

65. Chulia Street, OCBC Centre. BIC: OCBCSGSG A/C: 1503-212862-301

# Standard Chartered Bank (SGD)

P.O. Box 1901, 6, Battery Road, 7th Storey. BIC: SCBLSGSG

A/C: 109344561 & 102318735\*

### 11. Japan

#### Bank of Tokyo Mitsubishi Ltd. (JPY)

P.O. Box 191, Nihonbashi, Tokyo. BIC: BOTKJPJT

A/C: 653-0461318\*

### Standard Chartered Bank (JPY)

P.O. Box 9997, 21st Floor,

Sanno Park,

Tower 2-11-1, Nagata-cho, Chiyoda-ku,

Tokyo 100-6155. BIC: SCBI JPJT A/C: 2168531110

# Sumitomo Mitsui Banking

Corporation (JPY)

International Business Operations Dept.

1-5-3, Kudanminami, Chiyoda-ku, Tokyo, 102-0074. BIC: SMBCJPJT A/C: 4395

# 23. Italy

# Banca Intesa BCI (EUR)

#2612, Head Office Int'l Money Transfer Dept., Piazza Della Scala 6, 20121 Milan. BIC: BCITITMM A/C: 100100003820

#### Banco Popolare Society Coperation (EUR)

Piazza Nogara 2, 37121 Verona, Vr. BIC: BAPPIT22

# Unicredito Italiano SPA (EUR)

Viale, Mberto, Tupini, 180, 1-00144 Rome BIC: UNCRITMM A/C: 0995 4268

A/C: 400000082

#### 14. India

13

# Axis Bank Limited (ACU \$)

4th Floor, Axis House, Bombay Dyeing Mills Compound, Pandurang Budhkar Marg. Mumbai - 400 025 BIC: AXISINBB A/C: 910020049396568\*

#### Bank of Ceylon, Chennai (ACU €)

1090, Poonamallee High Road, Chennai 600 084. BIC: BCEYIN5M A/C: 1-119

#### ICICI Bank Ltd. (ACU \$)

ICICI Bank Towers, Bandra-Kurla Complex, Bandra (East), Mumbai 400 051. BIC: ICICINBB A/C: 406000181 & 000406000220\*

# Standard Chartered Bank

23-25, Mahathma Gandhi Road, P.O. Box 558. Mumbai 400 001 BIC: SCBLINBB A/C: 22205031885 (ACU \$) & 22205394120 (ACU €)

# 12. Australia

#### Bank of America NA (AUD)

Level 37, Governor Philip Tower 1 Farrer Place, Sydney NSW 2000. BIC: BOFAAUSXXX A/C:16421015\*

# HSBC Bank Australia Ltd. (AUD)

580, George Street, Sydney NSW. **BIC: HKBAAU2S** A/C: 011-796323-041\*

#### National Australia Bank (AUD) 500, Bourke Street,

Melbourne. VIC 3000 BIC: NATAAU33 A/C: 1803020052500

## 13. New Zealand

#### Bank of New Zealand (NZD)

P.O. Box 2392, 1, Willis Street, Wellington.

BIC: BKNZNZ22985

A/C: 2659680000 & 2690700000\*

<sup>\*</sup> Accounts of Bangladesh Operations

# → Historical Landmarks

#### 1920

The Eastern Bank Ltd. (EBL) opened a branch in Chatham Street.

#### 1957

The share capital of EBL was acquired by the Chartered Bank.

#### 1969

The Commercial Bank of Ceylon Ltd. was incorporated with EBL holding 40% of its equity.

#### 1971

The business of the EBL was taken over by the Chartered Bank.

#### 1973

The Galle, Jaffna and Kandy branches of the Mercantile Bank Ltd. were acquired by the Bank.

#### 1979

The Offshore Banking Unit (OBC) [formally Foreign Currency Banking Unit (FCBU)] was formed.

#### 1980

Commercial Development Company Ltd. (CDC) was incorporated to construct a Headquarters for the Bank with a 40% equity participation.

#### 1984

The Headquarters of the Bank was shifted to 'Commercial House', No. 21, Sir Razik Fareed Mawatha (Formally known as Bristol Street), Colombo 01.

#### 1987

EBL changed its name to Standard Chartered (UK) Holdings Ltd.

#### 1990

Introduced ATM facilities to its customers.

#### 1993

Introduced the Core Banking Software – International Comprehensive Banking System (ICBS).

#### 1994

Bank celebrated its 25th Anniversary.

#### 1996

Shareholdings in CDC was increased to 94.55% through a share Swap.

#### 1997

Standard Chartered Bank sold its 40% stake in the Bank.

#### 1998

First 365-day branch at Colombo 7 was opened.
All branches except Jaffna were linked to the ICBS.

#### 1999

Banking and supermarketing were combined by opening the first 'MiniCom'.

#### 2000

Internet Banking was launched.

#### 200

Opened the 100th branch at Kaduruwela and the Gold Trading Unit at the Foreign branch.

#### 2003

The operations of Credit Agricole Indosuez in Bangladesh was taken over.

#### 2005

Raised US \$ 65 Mn. two-year syndicated loan with an option to extend it for a further year at the option of the lender, the first such loan by a non-sovereign corporate in the country.

Introduced the first mobile ATM in the country.

#### 2006

Raised US \$ 10 Mn. by issuing a five-year bond, the first of its kind by an indigenous bank in Sri Lanka.

Opened 150th branch at Mahiyanganaya.

#### 2008

Became the first Sri Lankan Bank to be ranked among the 'Top 1000 Banks in the World'.

#### 2009

Became the First and only Bank in Sri Lanka to be CMMi certified.

#### 2010

Installed its 400th ATM at the Ruwanwella branch adding 50 ATMs during the year.

#### 201

Became the only Sri Lankan Bank to be ranked among the 'Top 1000 Banks in the World' for the 2nd time.

Opened the 200th delivery point at Kataragama and installed the 500th ATM.

Set up Elite Branch for high networth customers.

#### 2012

Became the only Sri Lankan Bank to be ranked among the 'Top 1000 Banks in the World' for the 3rd time and for the second consecutive year.

Raised US \$ 65 Mn. from the International Finance Corporation (IFC).

#### 2013

Became the only Sri Lankan Bank to be ranked among the 'Top 1000 Banks in the World' for the 4th time and for the third consecutive year.

Adjudged as the 'Best Local Trade Bank in Sri Lanka' by 'Trade Finance (UK)' for 4th time since Trade Finance began presenting this award since 2009

Raised US \$ 75 Mn. from the IFC as a ten year Subordinated Term Debt that qualifies for Tier II Capital.

#### 2014

Became the only Sri Lankan Bank to be ranked among the 'Top 1000 Banks in the World' for the 5th time and for the fourth consecutive year.

Adjudged as Sri Lanka's 'Best Bank' for the 16th consecutive year by one of the world's most respected financial publications, 'Global Finance (USA)'.

Adjudged 'The Strongest Bank in Sri Lanka in 2014' by The Asian Banker, a leading provider of strategic intelligence on the financial services industry.

The Bank received a license to established a Representative Office in Myanmar.

Bank acquired the 100% ownership of Indra Finance Ltd

Bank installed its 600th ATM at the Gold Centre branch.

#### 2015

Became the only Sri Lankan Bank to be ranked among the 'Top 1000 Banks in the World' for the 6th time and for the fifth consecutive year.

Euromoney, widely considered as one of the world's leading financial magazines, adjudged the Bank as the 'Best Bank in Sri Lanka in 2015' at the Asia Awards for Excellence presented in Hong Kong.

Hong Kong based 'FinanceAsia,' one of the most eminent financial publications in the region adjudged the Bank as the 'Best Bank' in Sri Lanka in 2015. This was the fifth 'FinanceAsia Country Award for Achievement' presented to the Bank in the seven years since 2009.

The Bank was adjudged 'Sri Lanka's 'Commercial Bank of the Year 2015' by the UK-based International Banker and the Bank became the first Sri Lankan Bank to receive an award from this prestigious UK-based publication.

The Bank obtained license to establish subsidiaries in Italy and Maldives.

Acknowledged internationally with the award for 'Best Sustainability – Green Initiative' at the 2015 Asian Customer Engagement Forum (ACEF) Awards in Mumbai.

Bank Annual Report 2015 made history by winning coveted 'Asia's Best Integrated Report' Award at the Asia Sustainability Reporting Awards in Singapore. The Annual Report 2015 was also won the Award for the Best Annual Report in the Banking Sector - Edward J. Cooray Memorial Trophy and four other awards at the Annual Report Awards, The Institute of Chartered Accountants of Sri Lanka.

The name of Indra Finance Ltd. was changed to Serandib Finance Ltd.



#### **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.

#### **Actuarial Gain/Loss**

Gain or loss arising from the difference between estimates and actual experience in an entity's pension plan.

#### **Amortised Cost**

Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or uncollectability.

#### **Associate**

An entity over which the investor has significant influence.

# Available-for-Sale Investments

All non-derivative financial assets that are not in any of the three categories, namely, Held-to-Maturity, Fair value through profit or loss and Loans and receivables.



#### Basel II

The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in the form of the 'International Convergence of Capital Measurement and Capital Standards'.

#### **Basel III**

The BCBS issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity.

#### **Basis Point (BP)**

One hundredth of a percentage point (0.01 per cent); 100 basis points is 1 percentage point. Used in quoting movements in interest rates or yields on securities.



#### **Capital Adequacy Ratio**

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

#### **Cash Equivalents**

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### **Collective Impairment Provisions**

Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified at the Reporting date.

#### Commitments

Credit facilities approved but not yet utilised by the clients as at the date of the Statement of Financial Position.

#### Contingencies

A condition or situation existing at the date of the Statement of Financial Position, where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

#### **Corporate Governance**

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

#### **Correspondent Bank**

A bank in a foreign country that offers banking facilities to the customers of a bank in another country.

# Cost/Income Ratio

Represents the proportion of total operating expenses to total operating income.

#### **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.

#### Credit Risk

Risk of financial loss, if a customer or counterparty fails to meet an obligation under a contract.

#### **Currency Swaps**

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.



# **Deferred Taxation**

Sum set aside for income tax in the Financial Statements that may become payable/ receivable in a financial year other than the current financial year.

#### **Derivatives**

A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (e.g., interest rate).

#### **Dividend Cover**

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

## **Dividend Yield**

Dividend per share as a percentage of its market value.



#### Earnings per Ordinary Share (EPS)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

#### **Effective Interest Rate**

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

#### **Effective Tax Rate**

Provision for taxation excluding deferred tax expressed as a percentage of the profit before taxation

# **Equity Method**

This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss and other comprehensive income of the investor include the investor's share of the profit or loss and other comprehensive income of the investee.



#### Fair Value

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.

# Fair Value Through Profit or Loss Investments

A financial asset/liability acquired/incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract).

#### **Finance Lease**

A lease in which the lessee acquires all the financial benefits and risks attaching to ownership of the asset under lease.

#### **Financial Instrument**

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

### **Forward Exchange Contract**

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



#### Group

A parent and all its subsidiaries.

#### Guarantees

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



#### Hedging

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (Interest rate, Prices and Commodities, etc.).

# **Held-to-Maturity Investments**

Non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

#### High Quality Liquid Assets (HQLA)

Assets that are unencumbered, liquid in markets during a time of stress and, ideally, be Central Bank eligible. These include, for example, cash and claims on central governments and central banks.



#### **Impaired loans**

Loans where individual identified impairment provisions have been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans which, while impaired, are still performing.

# Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

# **Impairment Provisions/Allowances**

Impairment provisions are a provision held as a result of the raising of a charge against profit for the incurred loss. An impairment provisions may either be identified or unidentified and individual (specific) or collective (portfolio).

#### **Intangible Asset**

An intangible asset is an identifiable nonmonetary asset without physical substance.

#### **Interest Rate Swap**

An agreement between two parties (known as counterparties) where one stream of future interest payments are exchanged for another based on a specified principal amount.

### **Interest Spread**

Represents the difference between the average interest rate earned on interest earning assets and the average interest rate paid on interest bearing liabilities.



#### Key Management Personnel (KMP)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.



#### 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 and Treasury Bills and Bonds.

#### Loans and Receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

# Loan-to-Value Ratio (LTV)

The LTV ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

#### Loss Given Default (LGD)

LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.



# **Market Capitalisation**

Number of ordinary shares in issue multiplied by the market value of a share as at a date.

#### Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Glossary of Financial and Banking Terms

#### **Materiality**

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.



#### **Net Interest Income (NII)**

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

# **Net Interest Margin (NIM)**

The margin is expressed as net interest income divided by average interest earning assets.

#### **Non-Controlling Interest (NCI)**

Equity in a subsidiary not attributable, directly or indirectly, to a parent.



### **Open Credit Exposure Ratio**

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

#### **Operational Risk**

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.



#### **Parent**

An entity that controls one or more entities.

#### **Price Earnings Ratio (P/E Ratio)**

Market price of a share divided by earnings per share.

# **Probability of Default (PD)**

PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

# **Provision Cover**

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



#### **Related Parties**

One party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

#### **Related Party Transaction (RPT)**

RPT is a transfer of resources, services or obligations between a reporting entity and a related party, regardless whether a price is charged.

#### Repurchase Agreement

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

#### Return on Average Assets (ROA)

Profit after tax expressed as a percentage of the average assets.

#### Return on Average Equity (ROE)

Net profit attributable to owners expressed as a percentage of average ordinary shareholders' equity.

# **Risk-Weighted Assets**

The sum total of assets as per the Statement of Financial Position and the credit equivalent of assets that are not on the Statement of Financial Position multiplied by the relevant risk weighting factors.

# Reverse Repurchase Agreement

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



# **Segment Reporting**

Disclosure of Bank's assets, income and other information, broken down by activity and geographical area.

#### **Specific Impairment Provisions**

Impairment is measured individually for loans that are individually significant to the Bank.

# **Statutory Reserve Fund**

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

#### Subsidiary

An entity that is controlled by another entity.



#### Tier I Capital

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

#### Tier II Capital

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



# **Yield to Maturity**

Discount rate at which the present value of future cash flows would equal the security's current price.

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# Abbreviations

AGM	Annual General Meeting
ALCO	Assets & Liabilities Committee
BAC	Board Audit Committee
BCC	Board Credit Committee
BHRRC	Board Human Resources & Remuneration Committee
BIC	Board Investment Committee
BIRMC	Board Integrated Risk Management Committee
BNC	Board Nomination Committee
BRPTRC	Board Related Party Transactions Review Committee
BTC	Board Technology Committee
CAR	Capital Adequacy Ratio
CBSL	Central Bank of Sri Lanka
CEO	Chief Executive Officer
CFM	Close Family Members
CFO	Chief Financial Officer
COO	Chief Operating Officer
CPC	Credit Policy Committee
CRO	Chief Risk Officer
CSE	Colombo Stock Exchange
EIRMC	Executive Integrated Risk Management Committee
ESOP	Employee Share Ownership Plan
FS	Financial Statements
FY	Financial Year
GDP	Gross Domestic Product
GRI	Global Reporting Initiatives
HR	Human Resources
ICAAP	Internal Capital Adequacy Assessment Process

- <del></del>
Key Management Personnel
Liquidity Coverage Ratio
Loan to Value Ratio
Net Interest Income
Net Interest Margin
Non Performing Assets
Non Performing Loans
Profit After Tax
Profit Before Tax
Return on Assets
Return on Equity
Related Party Transactions
Securities and Exchange Commission of Sri Lanka
Statutory Liquid Assets Ratio
United Nations Global Compact
Year-on-Year

# Notice of Meeting – Annual General Meeting

Notice is hereby given that the Forty-Seventh (47th) Annual General Meeting (AGM) of the Commercial Bank of Ceylon PLC (the 'Company') will be held at the Galadari Hotel, 'Grand Ballroom', No. 64, Lotus Road, Colombo 01, on Thursday, March 31, 2016 at 2.00 p.m. for the following purposes:

- To receive and consider the Annual Report of the Board of Directors on the affairs of the Company, the Statement of Compliance and the Financial Statements for the year ended December 31, 2015 together with the Report of the Auditors thereon.
- 2. To declare a dividend as recommended by the Board of Directors and to consider and if thought fit, to pass the following resolutions:
  - (i) Declaration of a final dividend and approval of its method of satisfaction [Dividend Resolution No. 1]: To consider and if thought fit to pass the following resolution by way of an ordinary resolution. [To be passed only by the ordinary (voting) Shareholders]

THAT a final dividend of Rs. 5/- per issued and fully paid ordinary (voting) and (nonvoting) share constituting a total sum of Rs. 4,384,689,705/- based on the issued ordinary (voting) and (non-voting) shares as at February 23, 2016 [subject however to necessary amendments being made to such amount to include the dividends pertaining to the options that may be exercised by employees under the Commercial Bank of Ceylon PLC (the 'Company') ESOP schemes] be and is hereby declared for the financial year ended December 31, 2015 on the issued and fully paid ordinary (voting) and (non-voting) shares of the Company;

THAT such dividend so declared be paid out of exempt dividends received (if any), dividends received on which Withholding Tax has already been paid by the paying companies (if any), and the balance out of the profits of the Company, which balance would be liable to a Withholding Tax of ten percent (10%);

THAT the Shareholders entitled to such dividend would be those Shareholders [both ordinary (voting) and (non-voting)], whose names have been duly registered in the Shareholders' Register maintained by the Registrars of the Company [i.e. SSP Corporate Services (Pvt) Ltd., No. 101, Inner Flower Road, Colombo 03] and also those Shareholders whose names appear on the Central Depository Systems (Pvt) Ltd. ('CDS') as at end of trading

on the date on which the requisite resolution of the Shareholders in regard to the final dividend is passed ('entitled Shareholders');

THAT subject to the Shareholders (a) waiving their pre-emptive rights to new share issues; and (b) approving the proposed allotment and issue of new ordinary (voting) and (non-voting) shares by passing the resolutions set out in Items 2 (ii) and 2 (iii) below, the declared final dividend of Rs. 5/- per issued and fully paid ordinary (voting) and (non-voting) share, be distributed and satisfied partly by the payment of cash and partly by the allotment and issue of new ordinary (voting) and (non-voting) shares (the 'distribution scheme') based on the share prices of ordinary (voting) and (non-voting) shares as at February 23, 2016 in the manner following:

- The payment in cash of Rs. 3/- per issued and fully paid ordinary (voting) and (nonvoting) share (less any Withholding Tax); and
- The allotment and issue of new ordinary (voting) and (non-voting) shares in satisfaction of the balance Rs. 2/- dividend entitlement (less any Withholding Tax).

THAT accordingly and subject to the approval of the Shareholders being obtained in the manner aforementioned the implementation of the said distribution scheme shall be as follows:

(a) By way of a cash distribution:

A cash distribution of a sum of Rs. 2,461,914,765/-, (subject however to necessary amendments being made to such amount to include the dividend payable on the options that may be exercised by the employees under the Company's ESOP schemes) shall be made to the entitled Shareholders ordinary (voting) shares; and a sum of Rs. 168,899,058/- shall be made to the entitled Shareholders of the ordinary (non-voting) shares, on the basis as aforesaid of Rs. 3/- per ordinary (voting) and (non-voting) share respectively (less any Withholding Tax);

And

(b) By way of the allotment and issue of new shares:

The balance sum of:

 Rs. 1,641,276,510/-, (subject however to necessary amendments being made to such amount to include the dividend payable on the options that may be exercised by employees under the Company's ESOP schemes) to which the ordinary (voting) Shareholders are entitled (less any Withholding Tax); and  Rs. 112,599,372/-, to which the ordinary (non-voting) Shareholders are entitled (less any Withholding Tax),

shall be satisfied by the allotment and issue of new ordinary (voting) and (non-voting) shares to the entitled Shareholders of the ordinary (voting) and (non-voting) shares respectively, on the basis of the following ratios:

- 01 new fully paid ordinary (voting) share for every 69.444444 existing issued and fully paid ordinary (voting) shares calculated on the basis of the market value of the ordinary (voting) shares as at the end of trading on February 23, 2016; and
- 01 new fully paid ordinary (non-voting) share for every 61.666667 existing issued and fully paid ordinary (non-voting) shares calculated on the basis of the market value of the ordinary (non-voting) shares as at the end of trading on February 23, 2016

THAT the ordinary (voting) and (non-voting) residual share fractions, respectively, arising in pursuance of the aforementioned allotment and issue of new ordinary (voting) and (non-voting) shares, be aggregated, and the ordinary (voting) and (non-voting) shares, respectively, arising consequent to such aggregation be allotted to a Trustee to be nominated by the Board of Directors of the Company, and that the Trustee so nominated and appointed be permitted to hold the said shares in trust until such shares are sold by the Trustee on the trading floor of the Colombo Stock Exchange, and that the net sale proceeds thereof be donated to a charity or charities approved by the Board of Directors of the Company;

THAT the new shares to be issued in pursuance of the said distribution scheme constituting a total issue of 11,817,190 new ordinary (voting) shares, based on the issued and fully paid ordinary (voting) shares as at February 23, 2016, (subject however to the necessary amendments being made to such number to include the dividend on the options that may be exercised by the employees under the Company's ESOP schemes) and 912,967 new ordinary (non-voting) shares based on the issued and fully paid ordinary (non-voting) shares as at February 23, 2016 shall, immediately consequent to due allotment thereof to the entitled Shareholders rank equal and pari passu in all respects with the existing issued and fully paid ordinary (voting) shares and the existing issued and fully paid ordinary (non-voting) shares of the Company respectively including the entitlement to participate in any dividend that may be declared after the date of allotment thereof and shall be listed on the Colombo Stock Exchange; and

THAT the new ordinary (voting) and (non-voting) shares to be so allotted and issued shall not be eligible for the payment of the dividend declared hereby and which dividend shall accordingly be payable only on the 820,638,255 existing issued and fully paid ordinary (voting) shares as at February 23, 2016 and 56,299,686 existing issued and fully paid ordinary (non-voting) shares as at February 23, 2016 (subject to amendments thereto to include the shares arising on the options that may be exercised by the employees under the Company's ESOP schemes)

# (ii) Waiver of Pre-emption Rights [Dividend Resolution No. 2]:

Subject to the passing of the Ordinary Resolution set out in Dividend Resolution No. 1 above, to consider and if thought fit to pass the following Resolution by way of an Ordinary Resolution (To be passed by a separate vote of the ordinary (voting) Shareholders and of the ordinary (non-voting) Shareholders respectively):

THAT the pre-emptive right to a new issue of shares provided for by Article 9 A of the Articles of Association of Commercial Bank of Ceylon PLC (the 'Company'), be and is hereby waived in respect of the following proposed issue of new shares to be effected by the Company for purposes of satisfying in part the final dividend for the year ended December 31, 2015:

"The allotment and issue of 11,817,190 new ordinary (voting) shares (subject however to the necessary amendments being made to such number to include the dividend on the options that may be exercised by the employees under the Company's ESOP schemes), and 912,967 new ordinary (non-voting) shares credited as fully paid to Shareholders registered in the Company's Share Register and on the Central Depository Systems (Pvt) Ltd. ('CDS') as at the end of trading on the day when the relevant resolutions to be passed by Shareholders are, in fact, duly passed by Shareholders ('entitled Shareholders') and which new shares shall rank equal and pari passu with the existing issued and fully paid ordinary (voting) and (nonvoting) shares of the Company including the

right to participate in any dividend which may be declared after the date of allotment of such shares"

# (iii) Approval of an Issue of Ordinary (voting) and (non-voting) shares (Dividend Resolution No. 3)

Subject to the passing of the Ordinary Resolution set out in Dividend Resolution No. 1 above, to consider and if thought fit to pass the following resolution by way of a Special Resolution [To be passed by a separate vote of the ordinary (voting) Shareholders and of the ordinary (nonvoting) Shareholders respectively]:

THAT the proposed allotment and issue of 11.817.190 new ordinary (voting) shares [subject however to the necessary amendments being made to such number to include the dividend on the options that may be exercised by the employees under the Commercial Bank of Ceylon PLC (the 'Company') ESOP schemes], and 912,967 new ordinary (non-voting) shares credited as fully paid to Shareholders registered in the Share Register of the Company and on the Central Depository Systems (Pvt) Ltd. ('CDS') as at the end of trading on the day when the relevant resolutions to be passed by Shareholders in relation to the final dividend are, in fact, duly passed by Shareholders ('entitled Shareholders') and which new shares shall rank equal and pari passu with the existing issued and fully paid ordinary (voting) and (non-voting) shares of the Company including the right to participate in any dividend which may be declared after the date of allotment of such shares be and is hereby approved in pursuance of Section 99 of the Companies Act No. 07 of 2007 and Article 10 of the Articles of Association of the Company; and

THAT accordingly the Company's management be and is hereby authorised to take all necessary steps to give effect to the aforesaid proposed issue of new ordinary (voting) and (non-voting) shares of the Company.

- 3. To re-elect the following Directors who, in terms of the Company's Articles of Association, retire by rotation or otherwise as given below:
- (a) Mr. K.G.D.D. Dheerasinghe
- (b) Mr. S. Swarnajothi
- (c) Prof. A.K.W. Jayawardane
- (d) Mr. K. Dharmasiri

- 4. (a) To reappoint Messrs KPMG, Chartered Accountants, as recommended by the Board of Directors as the Company's Auditors for the financial year ending December 31, 2016; and
  - (b) To authorise the Board of Directors to determine the remuneration of the Auditors for the financial year ending December 31, 2016.
- To authorise the Board of Directors to determine donations for the year 2016.

By Order of the Board of Commercial Bank of Ceylon PLC,



Ms. Ranjani Gamage Company Secretary March 04, 2016 Colombo

#### Notes

- A duly registered and entitled holder of the Company's ordinary (voting) shares is entitled to attend, speak and vote at the AGM and is entitled to appoint a Proxyholder to attend, speak and vote in his/her stead.
- ii. A duly registered and entitled holder of the Company's ordinary (non-voting) shares is entitled only to attend and speak at the AGM and to vote only on the resolutions set out in items 2 (ii) and 2 (iii) of the Notice of Meeting. Such a Shareholder is entitled to appoint a Proxyholder to attend and speak on his/her behalf and to vote only on the resolutions set out in items 2 (ii) and 2 (iii) of the Notice of Meeting.
- iii. A Proxyholder need not be a Shareholder of the Company.
- iv. A Form of Proxy is sent along with this Report. The completed Form of Proxy should be deposited at the Registered Office of the Company, 'Commercial House', No. 21, Sir Razik Fareed Mawatha, Colombo 01, not less than forty eight (48) hours before the time appointed for the holding of the AGM.

#### SUPPLEMENTARY INFORMATION

 Circular to the Shareholders on the Final Dividend for 2015



Dear Shareholder/s.

Final Dividend for the year ended December 31, 2015 to be Satisfied Partly by the Distribution of Cash and Partly by the Allotment and Issue of New Shares

The Board of Directors of Commercial Bank of Ceylon PLC (the 'Company'), is pleased to inform its Shareholders that from and out of the Company's profits for the financial year ended December 31, 2015 a final dividend distribution of Rs. 5/- per each existing issued and fully paid ordinary (voting) and (non-voting) share is recommended for the financial year ended December 31, 2015 for due declaration by the Shareholders at the Annual General Meeting ('AGM') to be held on March 31, 2016.

The Board of Directors is confident that the Company will be able to satisfy the solvency test set out in Section 57 of the Companies Act No. 07 of 2007 ['CA 2007'] immediately post-payment of such dividend. A Certificate of Solvency has been provided by the Company's Auditors, Messrs KPMG, Chartered Accountants.

Subject to obtaining the approval of the Shareholders, the said dividend will be satisfied in accordance with a distribution scheme whereby:

- (i) A cash distribution totalling Rs. 2,630,813,823/- based on the issued and fully paid ordinary (voting) and (non-voting) shares of the Company as at February 23, 2016 [subject however to necessary amendments being made to such sum to accommodate the dividend payable on the options that may be exercised by employees under the Company's ESOP schemes] will be made in part satisfaction of such dividend.
- (ii) New ordinary (voting) and (non-voting) shares will be allotted and issued, in satisfaction of the remaining dividend entitlement, constituting a total sum of Rs. 1,753,875,882/- based on the issued and fully paid ordinary (voting) and (non-voting) shares of the Company as at February 23, 2016 [subject however to necessary amendments being made to such sum to accommodate the dividend payable on the options that may be exercised by employees under the Company's ESOP schemes].

Accordingly, and in pursuance of the aforesaid distribution scheme, the Company proposes to issue:

(a) 11,817,190 number of new ordinary (voting) shares, calculated based on the issued and fully paid ordinary (voting) shares as at February 23, 2016 [subject however to necessary amendments being made to such number to include the dividend on the options that may be exercised by employees under the Company's ESOP schemes], and on the basis of their market value (closing price) as at the end of trading on February 23, 2016; and

(b) 912,967 number of new ordinary (non-voting) shares calculated based on the issued and fully paid ordinary (non-voting) shares as at February 23, 2016 and on the basis of their market value (closing price) as at the end of trading on February 23, 2016

The said shares shall be issued in the following ratios to the entitled Shareholders:

- (a) One new fully paid ordinary (voting) share for every 69.444444 existing issued and fully paid ordinary (voting) shares calculated on the basis of the market value of the ordinary (voting) shares as at the end of trading on February 23, 2016; and
- (b) One new fully paid ordinary (non-voting) share for every 61.666667 existing issued and fully paid ordinary (non-voting) shares calculated on the basis of the market value of the ordinary (non-voting) shares as at the end of trading on February 23, 2016

The above share ratio is based on a value of Rs. 125/- per ordinary (voting) share and Rs. 111/- per ordinary (non-voting) share [subject to ten percent (10%) Withholding Tax, as may be applicable] as at the end of trading on February 23, 2016. The Board of Directors is satisfied that the aforementioned values which constitutes the consideration for which the new shares are to be allotted and issued is fair and reasonable to the Company and to all its existing Shareholders.

#### **Entitled Shareholders**

Shareholders entitled to participate in the said dividend (the 'entitled Shareholders') are those who are duly registered in the Company's Share Register and also those Shareholders whose names appear on the Central Depository Systems (Pvt) Ltd. ('CDS') as at the end of trading on the date on which the requisite resolution of the Shareholders in this regard is duly passed.

In calculating the number of shares held by a Shareholder as at the relevant date for the proposed allotment and issue of new shares, the shareholding of the Shareholder as appearing in the CDS and the Shareholders' Register maintained by the Registrars of the Company (SSP Corporate Services (Pvt) Ltd., No. 101, Inner Flower Road, Colombo 03) will not be aggregated. However, if a Shareholder holds shares with multiple stockbrokers, the shares held with multiple stockbrokers will be aggregated for calculation purposes, and the shares arising as a result of the proposed issue and allotment of new shares will be uploaded proportionately to the respective CDS accounts held with each broker. The Company has obtained the approval in principle of the Colombo Stock Exchange ('CSE') for the proposed allotment and issue of new shares.

#### Residual Fractions of Shares

The residual fractions arising from the aforementioned allotment and issue of new ordinary (voting) and (non-voting) shares respectively, will be aggregated and the shares arising consequent thereto will, subject to receiving the approval of the Shareholders therefore, be allotted to a Trustee to be nominated by the Board of Directors. The Trustee so nominated, will hold the said shares in trust until such shares are sold by the Trustee on the trading floor of the CSE. The net sale proceeds arising there from shall, subject to receiving the approval of the Shareholders therefore, be distributed to a charity/ charities approved by the Board of Directors. The sale of such shares will be effected by the Company within a reasonable period of time, following the date on which the approval of the Shareholders has been obtained in this regard.

#### **Status of the New Shares**

The new ordinary (voting) and (non-voting) shares to be so issued, immediately consequent to due allotment thereof to the entitled Shareholders, shall rank equal and *pari passu* in all respects with the existing issued and fully paid ordinary (voting) and (non-voting) shares, respectively, of the Company.

#### **Listing/Exchange Control Approval**

An application has been made to the CSE for listing the new ordinary (voting) and (non-voting) shares on the official list of the CSE. This application has been approved 'in principle' by the CSE. The Company will obtain approval of the Controller of Exchange in principle for the allotment and issue of the new ordinary (voting) and (non-voting) shares to the Company's non-resident Shareholders, where applicable.

#### **Shareholder Approvals**

The proposed method of satisfying the abovementioned final dividend is subject to Shareholders granting approval therefor by passing the resolutions set out in the attached Notice of Meeting pertaining to the following matters:

 Authorisation to satisfy the final dividend partly by an allotment and issue of new shares:

Article 124 of the Company's Articles of Association provides, in effect, that, subject to the CA 2007 the Board is empowered to pay a dividend or otherwise make a distribution in whole or in part by the distribution of specific assets and in particular of paid up shares. In pursuance of principles of transparency, the Board seeks the authorisation of Shareholders for the satisfaction of the final dividend by the issue of new ordinary (voting) and (non-voting) shares in the manner set out above. The relevant ordinary resolution to be passed by the Shareholders in this regard is set out in item 2 (i) of the attached Notice of Meeting.

Circular to the Shareholders on the Final Dividend for 2015

 Waiver of pre-emption rights to new share issues [Article 9 A]:

In terms of Article 9 A of the Company's Articles of Association, any issue of shares beyond 500,000 shares must be first offered to the Shareholders in proportion to their holding at the time of the offer, unless otherwise authorised by an ordinary resolution of the Company.

As mentioned previously, the final dividend is proposed to be satisfied, by the allotment and issue of new ordinary (voting) and (non-voting) shares in the manner set out above and on the application of the abovementioned ratio. The said allotment and issue of new shares would accordingly be in excess of 500,000 shares. As such, the authorisation of Shareholders is sought under and in terms of the abovementioned Article 9 A for the waiver by Shareholders of their pre-emption rights to the new shares to be issued exceeding 500,000 ordinary (voting) and (non-voting) shares. The relevant ordinary resolution to be passed by the Shareholders in this regard is set out in item 2 (ii) of the attached Notice of Meeting.

 Alteration of Shareholder Rights [Section 99 of the CA 2007 and Article 10 of the Articles of Association]:

The Company is required, in compliance with the above provisions, to seek Shareholder approval by a special resolution for the proposed method of satisfaction of the final dividend by an allotment and issue of new ordinary (voting) and (non-voting) shares in the manner set out above. The relevant special resolution to be passed by the Shareholders in this regard is set out in item 2 (iii) of the attached Notice of Meeting.

# **Confirmation of Compliance**

The Board of Directors hereby confirms that the allotment and issue of new shares is in compliance with the Articles of Association of the Company, the Listing Rules of the CSE and the provisions of the CA 2007.

### **Allotment of the New Shares**

The Board of Directors emphasises that the aforementioned allotment and issue of new shares is in part satisfaction of the final dividend for the year ended December 31, 2015 and shall be dependent on and subject to the Shareholders passing the requisite resolutions.

#### **Uploading of Shares Into CDS Accounts**

In the event that the requisite resolution declaring the dividend [including its manner of satisfaction] thereof] by way of the issue and allotment of new shares is passed by the Shareholders, the accounts of the Shareholders whose shares are deposited in the CDS would be directly uploaded with the new shares to the extent that such Shareholder has become entitled thereto. The shares would be uploaded within seven market days from and excluding the date on which the requisite resolutions are passed. If a Shareholder holds multiple CDS accounts the total entitlement will be directly deposited to the respective CDS accounts proportionately. Pursuant to a Direction issued by the Securities and Exchange Commission of Sri Lanka ('SEC') pertaining to the de-materialisation of listed securities, the Shareholders who hold shares in scrip form (i.e. Share Certificates) as per the Share Register maintained by the Registrars of the Company, will not be issued Share Certificates for the new shares allotted and issued in their favour. Such Shareholders are accordingly requested to open an account with the CDS and to deposit their Share Certificates in the CDS prior to the date of the AGM of the Company. This will enable the Company to deposit the new shares directly into the Shareholder's CDS Account.

If a Shareholder fails to deposit his/her existing ordinary (voting) and/or (non-voting) shares in the CDS prior to the date of the AGM, such Shareholder's entitlement of new ordinary (voting) and/or (non-voting) shares will be deposited by the Company after such Shareholder has opened a CDS Account and has informed the Company's Registrars in writing of his/her CDS account number. Until such CDS account is opened by a Shareholder as aforementioned, the new ordinary (voting) and (non-voting) shares that are allotted in his/her favour will be registered in such Shareholder's account in the Share Register maintained by the Company [subject to compliance with Exchange Control requirements as may be applicable in respect of non-resident Shareholders]. Consequent to the opening of the CDS account by such Shareholder, the new shares will be credited to such CDS account. Direct uploads pertaining to written requests received from Shareholders to deposit such shares will be done on a weekly basis.

#### AGM

Attached hereto is the Annual Report comprising the Notice convening the AGM for March 31, 2016 and setting out in item 2 thereof, the relevant resolution to be passed by the Shareholders in the above regard.

#### Form of Proxy

Shareholders who are unable to attend the AGM in person are entitled to appoint a proxy to attend and speak and also vote on their behalf, depending on their voting rights. If you wish to appoint such a proxy, kindly complete and return the enclosed Form of Proxy (in accordance with instructions specified therein) to the Registered Office of the Company, not less than forty eight (48) hours before the time scheduled for the holding of the AGM.

Yours faithfully,

By Order of the Board of Commercial Bank of Ceylon PLC

(Sgd.)
Ms. Ranjani Gamage
Company Secretary

March 04, 2016

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# SUPPLEMENTARY INFORMATION

Form of Proxy (Voting Shareholders) ← Annual General Meeting

of		being a Sl	hareholder/s	of
	ommercial Bank of Ceylon PLC hereby appoint	_		
				,
	r. Kankanam Gamage Don Dharmasena Dheerasinghe	whom failing		
	r. Mahinda Preethiraj Jayawardena	whom failing		
	r. Jegatheesan Durairatnam	whom failing		
	r. Sembakuttige Swarnajothi	whom failing		
Mr	r. Hakan John Wilson	whom failing		
Mr	r. Sivakrishnarajah Renganathan	whom failing		
Pr	of. Ananda Kithsiri Wijenayaka Jayawardane	whom failing		
ıM	r. Kumbukage Dharmasiri			
be he	my/our Proxyholder to represent me/us and to speak at the half as indicated below at the Forty-Seventh (47th) Annua eld on Thursday, March 31, 2016 and at any adjournment to lease indicate your preference with an 'X' in the relevant b	I General Meeting (AGM) of Commercial Bank of Ceylon hereof and at every poll which may be taken in conseque	PLC to be	
	T		For Again	ıst
1.	To receive and consider the Annual Report of the Board of Dir Compliance and the Financial Statements for the year ended thereon.			
2.	To declare a dividend as recommended by the Directors and resolutions set out in the attached Notice of Meeting:	to consider and if thought fit, to pass the following		
	(i) Declaration of a final dividend and approval of its method	of satisfaction [Dividend Resolution No. 1]		
	(ii) Waiver of Pre-emption Rights [Dividend Resolution No. 2]			╡
	(iii) Approval of an issue of ordinary (voting) and (non-voting)	shares [Dividend Resolution No. 3]		╡
3.	To re-elect the following Directors who, in terms of the Comparotherwise as given below:	-		
	(a) Mr. K.G.D.D. Dheerasinghe			$\neg$
	(b)Mr. S. Swarnajothi			ヿ゙
	(c) Prof. A.K.W. Jayawardane			ᆿ
	(d)Mr. K. Dharmasiri			╡
4.	<ul><li>(a) To re-appoint Messrs KPMG, Chartered Accountants as recomfor the Financial Year ending December 31, 2016.</li></ul>	nmended by the Board of Directors, as Auditors to the Company		
	<ul><li>(b) To authorise the Board of Directors to determine the remur December 31, 2016.</li></ul>	neration of the Auditors for the Financial Year ending		
5.	To authorise the Board of Directors to determine donations for	r the year 2016.		
Sig	gned on this day of	Two Thousand and Sixteen.		_
 Fo	lio Number Signature/s of Shareholder/s NIC	:/PP/Co. Reg. No. of Shareholder/s		

#### Notes

- (i) Instructions as to completion of this Form of Proxy are given overleaf.
- (ii) As regards voting on the Resolutions indicated in the Form of Proxy, if no words are struck out or there is in the view of the Proxyholder doubt (by reason of the way in which the instructions in the Form of Proxy have been stated by the Shareholder) as to the way in which the Proxyholder should vote, the Proxyholder will vote as he/she thinks fit.
- (iii) If the Form of Proxy is signed by an attorney, the relative Power of Attorney (POA) should accompany the completed Form of Proxy for registration in the event such POA has not already been registered with the Company.
- (iv) If the Shareholder is a company or a corporate body, the Form of Proxy should be executed under its common seal or in such other manner as provided for in its Constitutional Documents, if any, or be signed by its attorney or by an officer on behalf of the company/corporate body, in accordance with its Articles of Association/Statute.
- (v) Every alteration or addition to the Form of Proxy must be duly authenticated by the full signature of the Shareholder signing the Form of Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.
- (vi) The use of the word 'Member/s' herein is a reference to 'Shareholder/s'.

Form of Proxy (Voting Shareholders) Annual General Meeting

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

- (a) Article 68 of the Articles of Association of the Company provides that: "An instrument appointing a proxy shall be in writing, and
  - (i) In the case of an individual shall be signed by the appointor or by his attorney; or in the case of a corporation shall be either under the common seal or signed by its attorney or by an officer authorised to do so on behalf of the corporation. The Company may, but shall not be bound to require evidence of the authority of any such attorney or officer.
  - (ii) A proxy need not be a Member of the Company."
- (b) In terms of Article 63 of the Articles of Association of the Company:
  - "In the case of joint-holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint-holders, and for this purpose, seniority shall be determined by the order in which the name stands in the Register of Members in respect of the joint holding."
- (c) The full name and address of the Proxyholder and of the Shareholder appointing the Proxyholder should be entered legibly in the Form of Proxy.
- (d) The completed Form of Proxy should be deposited at the Registered Office of the Company, 'Commercial House', No. 21, Sir Razik Fareed Mawatha, Colombo 01, not less than forty eight (48) hours before the time appointed for the holding of the Meeting.
- (e) Articles 57 to 60 of the Articles of Association of the Company, dealing with voting are quoted below, for information of Shareholders.

#### "57. Method of Voting

At any General Meeting, a resolution put to the vote of the Meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by:

- (i) The Chairman of the Meeting; or
- (ii) Not less than five persons present in person or by attorney or representative or by proxy and entitled to vote; or
- (iii) A member or members present in person or by attorney or representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the Meeting. A demand for a poll may be withdrawn. Unless a poll be demanded (and the demand be not withdrawn), a declaration by the Chairman of the Meeting that a resolution has been carried or carried unanimously, or by a particular majority, or lost and an entry to that effect in the minute book, shall be conclusive evidence of the fact without proof of the number of proportion of the votes recorded for or against such resolution.

#### 58. How a Poll is to be Taken

If a poll is duly demanded (and the demand be not withdrawn), it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the Chairman of the Meeting may direct, and the result of the poll shall be deemed to be the resolution of the Meeting at which the poll was demanded. The Chairman may (and if so requested shall), appoint scrutineers and may adjourn the Meeting to some place and time fixed by him for the purpose of taking and declaring the result of the poll.

#### 59. Chairman's Casting Vote

In the case of an equality of votes, whether on a show of hands or poll, the Chairman of the Meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a second or casting vote.

#### 60. Time for Taking a Poll

A poll demanded on the election of a Chairman of the Meeting or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken either immediately or at such subsequent time (not being more than thirty days from the date of the Meeting) and place as the Chairman may direct. No notice need be given of a poll not taken immediately."

#### SUPPLEMENTARY INFORMATION

Form of Proxy (Non-Voting Shareholders) ←
Annual General Meeting

1/ ** •	of		
	being a Shareholder/s of Commercial Bank of Ceylon PLC	hereby appo	int
	(NIC No		) of
	whom failing:		
Mr. Kankanam Gamage Don Dharmasei			
Mr. Mahinda Preethiraj Jayawardena	whom failing		
Mr. Jegatheesan Durairatnam	whom failing		
Mr. Sembakuttige Swarnajothi	whom failing		
Mr. Hakan John Wilson	whom failing		
Mr. Sivakrishnarajah Renganathan	whom failing		
Prof. Ananda Kithsiri Wijenayaka Jayaw	rardane whom failing		
Mr. Kumbukage Dharmasiri			
adjournment thereof and at every poll w the relevant box):  Item in the Notice of Meeting	vhich may be taken in consequence thereof. (Please indicate you	r preference v	with an 'X' in  Against
		1 01	7 tgairiot
To declare a dividend as recomme the following resolutions set out in	ended by the Directors and to consider and if thought fit, to pass the attached Notice of Meeting:		
(ii) Waiver of Pre-emption Rights (	Dividend Resolution No. 2)		
(iii) Approval of an issue of ordinar	ry (voting) and (non-voting) shares (Dividend Resolution No. 3)		
. , 11			

#### Notes

- (i) Instructions as to completion of this Form of Proxy are given overleaf.
- (ii) Shareholders of non-voting shares are entitled only to attend and speak at the Meeting and to vote only in respect of the resolutions set out in items 2 (ii) and 2 (iii) of the Notice of Meeting.
- (iii) If the Form of Proxy is signed by an attorney, the relative Power of Attorney (POA) should accompany the completed Form of Proxy for registration in the event such POA has not already been registered with the Company.
- (iv) If the Shareholder is a company or a corporate body, the Form of Proxy should be executed under its common seal or in such other manner as provided for in its Constitutional Documents, if any, or be, signed by its attorney or by an officer on behalf of the company/corporate body in accordance with its Articles of Association/Statute.
- (v) Every alteration or addition to the Form of Proxy must be duly authenticated by the full signature of the Shareholder signing the Form of Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.
- (vi) The use of the word "member/s" herein is a reference to "Shareholder/s".

Form of Proxy (Non-Voting Shareholders)
Annual General Meeting

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

- (a) Article 68 of the Articles of Association of the Company provides that: "An instrument appointing a proxy shall be in writing, and
  - (i) In the case of an individual shall be signed by the appointor or by his attorney; or in the case of a corporation shall be either under the common seal or signed by its attorney or by an officer authorised to do so on behalf of the corporation. The Company may, but shall not be bound to require evidence of the authority of any such attorney or officer.
  - (ii) A proxy need not be a Member of the Company".
- (b) In terms of Article 63 of the Articles of Association of the Company:
  - "In the case of joint-holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint-holders, and for this purpose, seniority shall be determined by the order in which the name stands in the Register of Members in respect of the joint holding".
- (c) The full name and address of the Proxyholder and of the Shareholder appointing the Proxyholder should be entered legibly in the Form of Proxy.
- (d) The completed Form of Proxy should be deposited at the Registered Office of the Company, 'Commercial House', No. 21, Sir Razik Fareed Mawatha, Colombo 01, not less than forty eight (48) hours before the time appointed for the holding of the Meeting.
- (e) Articles 57 to 60 of the Articles of Association of the Company, dealing with voting are quoted below, for information of Shareholders:

# "57. Method of Voting

At any General Meeting, a resolution put to the vote of the Meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by:

- (i) The Chairman of the Meeting; or
- (ii) Not less than five persons present in person or by attorney or representative or by proxy and entitled to vote; or
- (iii) A member or members present in person or by attorney or representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the Meeting. A demand for a poll may be withdrawn. Unless a poll be demanded (and the demand be not withdrawn), a declaration by the Chairman of the Meeting that a resolution has been carried or carried unanimously, or by a particular majority, or lost and an entry to that effect in the minute book, shall be conclusive evidence of the fact without proof of the number of proportion of the votes recorded for or against such resolution.

# 58. How a Poll is to be Taken

If a poll is duly demanded (and the demand be not withdrawn), it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the Chairman of the Meeting may direct, and the result of the poll shall be deemed to be the resolution of the Meeting at which the poll was demanded. The Chairman may (and if so requested shall), appoint scrutineers and may adjourn the Meeting to some place and time fixed by him for the purpose of taking and declaring the result of the poll.

# 59. Chairman's Casting Vote

In the case of an equality of votes, whether on a show of hands or poll, the Chairman of the Meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a second or casting vote.

# 60. Time for Taking a Poll

A poll demanded on the election of a Chairman of the Meeting or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken either immediately or at such subsequent time (not being more than thirty days from the date of the Meeting) and place as the Chairman may direct. No notice need be given of a poll not taken immediately."

#### REQUEST TO SHAREHOLDERS

SHAREHOLDERS ARE KINDLY REQUESTED TO INDICATE THE 'FOLIO NUMBER' APPEARING IN THE ADDRESS LABEL [PASTED ON THE ENVELOPE CONTAINING THE ANNUAL REPORT] IN THE SPACE PROVIDED FOR 'FOLIO NUMBER' IN THE FORM OF PROXY. THIS IS FOR THE CONVENIENCE OF THE REGISTRARS. PLEASE NOTE THAT NON-INDICATION OF THE 'FOLIO NUMBER' WILL NOT INVALIDATE THE FORM OF PROXY, UNDER ANY CIRCUMSTANCES.

Stakeholder Feedback Form ←

Dear Reader,

We welcome your valuable ideas/comments on our Annual Report.

To request information or submit a comment/query to the Bank, please provide the following details and return this page to -

The Company Secretary
Commercial Bank of Ceylon PLC
'Commercial House'
21, Sir Razik Fareed Mawatha
P.O. Box 856
Colombo 01
Sri Lanka

JII Lalina	
Name	:
Permanent Mailing Address	:
Contact Number/s	
- Tel	:
- Fax	
- E-Mail	:
Name of Company (If Applicable)	:
Designation (If Applicable)	:
Company Address (If Applicable)	
Queries /Comments	
•	

Please tick (x) the appropriate box	Yes	No
Would you like to receive soft copies of the Commercial Bank's Interim Financial Reports via e-mail?		
Would you like to receive news and press releases of Commercial Bank via e-mail?		
Would you like to receive any news on our products/services?		

#### General

# Name of Company

Commercial Bank of Ceylon PLC

#### Legal Form

A public limited liability Company incorporated in Sri Lanka on June 25, 1969 under the Companies Ordinance No. 51 of 1938 and quoted in the Colombo Stock Exchange in March 1970. The Company was re-registered under the Companies Act No. 07 of 2007. Commercial Bank of Ceylon PLC is a Licensed Commercial Bank under the Banking Act No. 30 of 1988.

#### **Company Registration Number** PQ 116

# **Accounting Year-end**

December 31

# Stock Exchange Listing

The Ordinary Shares and the Unsecured Subordinated Redeemable Debentures of December 2006/December 2016 series, both fixed and floating interest rates of the Bank are listed on the Colombo Stock Exchange.

#### **Registered Office**

'Commercial House'. No. 21, Sir Razik Fareed Mawatha, P.O. Box 856. Colombo 01, Sri Lanka. Telephone (General): 2486000-3 (4 lines), 4486000, 7486000, 5486000, 2430420, 2336700, 2445010-15 (6 lines), Tele-Banking: 2336633-5 (3 lines) Facsimile: 2449889 SWIFT Code -Sri Lanka: CCEYLKLX SWIFT Code -Bangladesh: CCEYBDDH E-mail: email@combank.net

#### **Head Office**

'Commercial House', No. 21, Sir Razik Fareed Mawatha, P.O. Box 856. Colombo 01, Sri Lanka.

Web: http://www.combank.net

www.combank.lk

### **Information Centre**

Telephone: 2353333, 7353333

The Chief Financial Officer

'Commercial House',

Commercial Bank of Ceylon PLC,

No. 21, Sir Razik Fareed Mawatha,

P.O. Box: 856, Colombo 01, Sri Lanka.

For any clarification on this Report please write to:

# Tax Payer Identification Number (TIN)

124006007

#### Credit Ratings

#### Sri Lanka Operation

- AA(lka) was re-affirmed by Fitch Ratings Lanka Ltd. in 2015

#### Bangladesh Operation

- AAA was re-affirmed by Credit Rating Information Services Ltd. in

#### Compliance Officer

Mr. C.J. Wijethillake

#### Lawvers

Messrs Julius & Creasy, No. 41. Janadhipathi Mawatha. Colombo 01, Sri Lanka.

#### **Auditors**

**KPMG** 

Chartered Accountants, No. 32 A Sir Mohammed Macan Markar Mawatha, Colombo 03, Sri Lanka.

#### Registrars

S S P Corporate Services (Pvt) Ltd. No. 101, Inner Flower Road, Colombo 03, Sri Lanka. Telephone: 2573894, 2576871 Facsimile: 2573609 E-mail: sspsec@sltnet.lk (Kindly direct any queries about the administration of the shareholding to the above Company)

#### **Board of Directors and Sub-Committees**

# **Board of Directors**

Mr. K.G.D.D. Dheerasinghe -Chairman Mr. M.P. Jayawardena -Deputy Chairman

Mr. J. Durairatnam -Managing Director/CEO Mr. S. Swarnajothi

Mr. H.J. Wilson Mr. S. Renganathan

Prof. A.K.W. Jayawardane (Appointed w.e.f. April 21, 2015)

Mr K Dharmasiri

(Appointed w.e.f. July 21, 2015)

# Company Secretary

Mrs. J.R. Gamage

#### **Board Sub-Committees**

#### **Board Human Resources and** Remuneration Committee

Mr. K.G.D.D. Dheerasinghe -Chairman

Mr. M.P. Jayawardena

Mr. S. Swarnajothi

Mr. J. Durairatnam (By Invitation)

#### **Board Integrated Risk Management Committee**

Mr. M.P. Javawardena – Chairman

Mr. S. Swarnajothi

Mr. K. Dharmasiri

Mr. J. Durairatnam

Mr. S.K.K. Hettihamu -

Chief Risk Officer

#### **Board Nomination Committee**

Mr. K.G.D.D. Dheerasinghe -Chairman

Mr. M.P. Jayawardena

Mr. S. Swarnajothi

Mr. J. Durairatnam (By Invitation)

#### **Board Audit Committee**

Mr. S. Swarnajothi – Chairman Prof. A.K.W. Jayawardane Mr. K. Dharmasiri

Mr. J. Durairatnam (By Invitation) Mr. S. Renganathan (By Invitation)

#### **Board Credit Committee**

Mr. K.G.D.D. Dheerasinghe -Chairman

Prof. A.K.W. Jayawardane

Mr. J. Durairatnam

Mr. S. Renganathan

#### **Board Technology Committee**

Prof. A.K.W. Jayawardane -Chairman

Mr. J. Durairatnam

Mr. S. Renganathan

#### Board Investment Committee

Mr. K.G.D.D. Dheerasinghe -Chairman

Mr. H.J. Wilson

Mr. K. Dharmasiri

Mr. J. Durairatnam

Mr. S. Renganathan

#### Related Party Transactions Review Committee

Mr. K.G.D.D. Dheerasinghe -Chairman

Mr. S. Swarnajothi

Mr. J. Durairatnam

Mr. S. Renganathan

#### Subsidiary and Associate Companies

#### **Subsidiary Companies**

Commercial Development Company PLC ONEzero Company Ltd. Serandib Finance Ltd. Commex Sri Lanka S.R.L.

## **Associate Companies**

Equity Investments Lanka Ltd. Commercial Insurance Brokers (Pvt) Ltd.



# This Annual Report is **Carbon Neutral**

This Commercial Bank of Ceylon PLC annual report has been produced by Smart Media The Annual Report Company, a certified carbon neutral organisation. Additionally, the greenhouse gas emissions resulting from activities outsourced by Smart Media in the production of this annual report, including the usage of paper and printing, are offset through verified sources.





www.smart.lk

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

Report of the Bank

Telephone: 2486550 E-mail: email@combank.net