

Combanking



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Our 'way of life'; the ethics we espouse; our practices and processes; our principles and beliefs; our interaction with different communities...all of these speak of a strong culture unique to Commercial Bank. It has evolved over generations and today, the Bank enjoys steady and consistent growth and success because of it.

Stakeholder inclusiveness pervades every facet of the Combank culture and Way. We are shaped and in turn shape our enterprise by listening closely to 'the voice of the stakeholder', learning and taking on board what needs to be done to remain people oriented, successful and sustainable.

Welcome to Combanking!



A cross section of stakeholder perceptions of the Bank appears throughout this report.

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About the Bank

Commercial Bank of Ceylon PLC is a licensed commercial bank and a public limited liability company with its ordinary shares listed on the Main Board of the Colombo Stock Exchange. As of the end of 2014, the Bank had a market capitalisation of more than US \$1 Bn. – the largest of all financial institutions in Sri Lanka and third among all listed entities. Consistently recognised for excellence by a wide range of professional organisations, Commercial Bank is Sri Lanka’s most awarded bank and the only institution in the country included in The Banker magazine’s annual ranking of the Top 1000 World Banks for four consecutive years.

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.

Commercial Bank performed exceptionally well in 2014, surpassing **Rs. 10.0 Bn.** mark in post-tax profits for the third consecutive year leading the shareholders' equity to grow by over **15%** and enabling the declaration of a **50%** of profit after taxation in total dividends.

The Bank sustained this **solid performance** despite an operating environment characterised by low interest rates, muted credit growth and steadily tightening margins. With our **stable business model, exemplary balance sheet** and the entire organisation working as an **integrated team**, we found innovative and differentiating ways to delight customers, attracting new business while strengthening existing relationships.

Commercial Bank currently has a market share of about **11–12%** in Sri Lanka, measured by assets, deposits and net advances. Total asset base was nearing **Rs. 800 Bn.** at the end of 2014, a gain of **31%** over the previous year. Annual volume growth in both deposits and advances exceeded the Sri Lankan industry average.

Despite sluggish demand for credit throughout 2014, the Bank's lending portfolio grew appreciably, helping to raise overall profits. We continue to benefit from an ongoing demographic shift as we tailor products and services to the needs of an increasingly affluent consumer base. As of December 2014, the Bank had granted new loans totalling **Rs. 84 Bn.**, an increase of **22%** over the previous year.

At the same time, we were able to significantly reduce the Bank's non-performing advances (NPA) ratio by recovering several large-scale advances, auctioning unredeemed pawned articles in a timely manner, closely monitoring non-performing accounts and undertaking effective recovery actions.

Despite shrinking interest margins, we **achieved growth in net interest income** through judicious funds management strategies – notably increased investment in Government Securities. In parallel, as a capital management mechanism, we have implemented a strategy to diversify our activities, with a particular focus on fee-based income. In 2014, the Bank recorded a growth of **Rs. 582 Mn.** or **14%**, in net fees and commission income, mainly from cards and trade finance, as well as remittances from expatriates – a market that grew nationally by **8%** over the past year. We also **gained additional fee-based income** from our Bancassurance business line, which signed up several additional insurance partners and launched a campaign of more targeted promotions.

The Bank's geographical footprint continued to grow in 2014, reaching a total of **239 branches**. We also carried on expanding our ATM network, passing the **600-machine** milestone in September. And we opened our first 24-hour automated banking centre en route to our goal of establishing **15** such facilities by the end of 2017.

Commercial Bank **continues to lead the Sri Lankan market** in offering alternative banking channels enabled by digital and mobile technologies. Initiatives launched in 2014 included expansion of our mobile and online offerings, the introduction of cash/cheque deposit machines and innovations such as digital cheque imaging and cash withdrawals using mobile wallets – both unique services in Sri Lanka. In early 2014, we **introduced a mobile app for Android smartphones** offering similar functionality and features as our earlier Apple iPhone app. And in September we **launched a Corporate Online Banking solution** designed to be as easy to use as our personal banking platform.

Corporate finance was another area of renewed focus in 2014, fuelled by lower interest rates.

Excellent stock market performance, following three relatively subdued years, also helped to stimulate activity. To strengthen our broadening scope of services in this area, we relaunched our corporate finance unit as Commercial Bank Investment Banking.

In 2014, the Bank also **acquired a 100% stake in Indra Finance Ltd.**, augmenting our portfolio with vehicle leases and other products designed for a market segment that we have not traditionally served.

In Bangladesh, **Commercial Bank's leadership position** among regional banks has been bolstered by a growing clientele. We have a healthy mix of retail and corporate customers, plus a special focus on small and medium-sized enterprises (SMEs). With an expanded branch network, wider product offering and aggressive marketing, we have improved our deposit base, yielding lower-cost funds and improved profitability.

We have also **received a license to open a representative office in Myanmar**, which will serve as a stepping-stone to access the Asian markets.

In the area of corporate social responsibility, Commercial Bank through its **CSR Trust Fund** continued to **empower schoolchildren and university entrants** through our investment in technology labs, mainly in rural schools where students lack access to IT education. We also completed **15 new health care projects** during the year, along with programmes devoted to teacher training and various aspects of community improvement.

The Bank's capital adequacy ratios were well above the minimum ratios stipulated by the Central Bank, leaving a healthy leeway to expand business volumes. We have **developed a formal capital management policy** with clearly defined objectives for maintaining appropriate capital levels, ensuring sufficient leeway for future business expansion while maintaining the required cushion to absorb any potential losses.

Our solid performance reflects a deeper strength that has made Commercial Bank a Sri Lankan leader. To our millions of loyal customers, **'Combanking' represents innovative products and services, proven resilience and accountability, prudent risk management and, above all, our ability to nimbly keep pace with changing financial needs**, as evident from a representative sample of stakeholder perceptions depicted throughout this Report.

The Bank's achievements in 2014 were made possible through the **unified efforts of employees and management**, guided by our clearly defined vision, and by the effective strategic leadership and oversight of the Board. We are the **first Sri Lankan bank** – and **only the third enterprise** in any sector – **to achieve a market capitalisation of more than US Dollars one billion.**

Looking ahead, we expect Commercial Bank's balance sheet to surpass Rupees one trillion in the near future. Based on our solid 2014 results and the continued momentum they reflect, that ambitious target is well within our reach.

Financial Highlights

| | Group | | | Bank | | |
|---|-------------|-------------|----------|-------------|-------------|----------|
| | 2014 | 2013 | Change % | 2014 | 2013 | Change % |
| Results for the year (Rs. Mn.) | | | | | | |
| Income | 74,537.814 | 73,704.516 | 1.13 | 74,441.840 | 73,736.267 | 0.96 |
| Profit before Financial VAT and Taxation | 18,541.905 | 16,654.587 | 11.33 | 18,425.207 | 16,479.473 | 11.81 |
| Profit Before Taxation (PBT) | 15,859.917 | 14,690.918 | 7.96 | 15,736.216 | 14,510.519 | 8.45 |
| Provision for Taxation | 4,617.124 | 4,117.461 | 12.14 | 4,556.035 | 4,065.008 | 12.08 |
| Profit After Taxation (PAT) | 11,242.793 | 10,573.457 | 6.33 | 11,180.181 | 10,445.511 | 7.03 |
| Revenue to the Governments | 7,295,545 | 5,957,636 | 22.45 | 7,234.562 | 5,905.636 | 22.50 |
| Gross Dividends | 5,627.869 | 5,522.473 | 1.91 | 5,627.869 | 5,522.473 | 1.91 |
| At the year-end | | | | | | |
| Shareholders' Funds (Capital and Reserves) | 71,205.835 | 61,446.228 | 15.88 | 70,511.730 | 60,943.999 | 15.70 |
| Deposits | 529,266.588 | 451,098.946 | 17.33 | 529,361.484 | 451,152.923 | 17.34 |
| Gross Loans and Advances | 464,899.378 | 379,237.437 | 22.59 | 463,586.297 | 379,252.897 | 22.24 |
| Total Assets | 797,257.713 | 606,564.507 | 31.44 | 795,609.630 | 605,987.592 | 31.29 |
| Information per Ordinary Share (Rs.) | | | | | | |
| Earnings (Basic) | 13.01 | 12.24 | 6.29 | 12.94 | 12.10 | 6.94 |
| Earnings (Diluted) | 12.95 | 12.22 | 5.97 | 12.88 | 12.09 | 6.53 |
| Dividends - Cash | - | - | - | 4.50 | 4.50 | - |
| Dividends - Shares | - | - | - | 2.00 | 2.00 | - |
| Net Assets Value | 82.24 | 72.37 | 13.54 | 81.44 | 71.78 | 13.46 |
| Market Value at the year-end - Voting | N/A | N/A | - | 171.00 | 120.40 | 42.03 |
| Market Value at the year-end - Non-Voting | N/A | N/A | - | 125.10 | 93.00 | 34.52 |
| Ratios | | | | | | |
| Return on Average Shareholders' Funds (%) | 16.95 | 18.48 | (1.53) | 17.01 | 18.40 | (1.39) |
| Return on Average Assets (%) | 1.60 | 1.89 | (0.29) | 1.60 | 1.87 | (0.27) |
| Price Earnings (times) - Ordinary Voting Shares | N/A | N/A | | 13.24 | 9.79 | 35.24 |
| Price Earnings (times) - Ordinary Non-Voting Shares | N/A | N/A | | 9.69 | 7.56 | 28.17 |
| Year-on-year growth in Earnings (%) | 6.33 | 4.88 | 1.45 | 7.03 | 3.44 | 3.59 |
| Dividend Yield (%) - Ordinary Voting Shares | N/A | N/A | | 3.80 | 5.40 | (1.60) |
| Dividend Yield (%) - Ordinary Non-Voting Shares | N/A | N/A | | 5.20 | 6.99 | (1.79) |
| Dividend Cover on Ordinary Shares (times) | N/A | N/A | | 1.99 | 1.89 | 5.29 |
| Statutory Ratios: | | | | | | |
| Liquid Assets (%) | N/A | N/A | - | 33.11 | 34.05 | (0.94) |
| Capital Adequacy Ratios: | | | | | | |
| Tier I (%) - Minimum Requirement 5% | 13.07 | 13.30 | (0.23) | 12.93 | 13.27 | (0.34) |
| Tier I & II (%) - Minimum Requirement 10% | 16.22 | 16.93 | (0.71) | 15.97 | 16.91 | (0.94) |

Financial Goals and Achievements - Bank

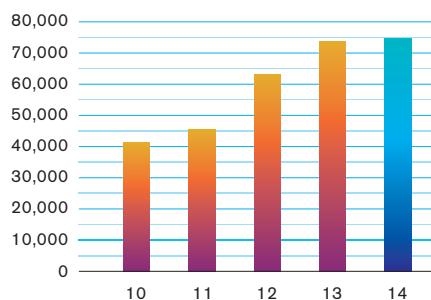
| Financial Indicator | Goal | Achievement | | | | |
|---|---------------|-------------|-------|-------|-------|--------|
| | | 2014 | 2013 | 2012 | 2011 | 2010 |
| Return on Average Assets (ROA) (%) | Over 2% | 1.60 | 1.87 | 2.12 | 1.94 | 1.60 |
| Return on Average Shareholders' Funds (%) | Over 20% | 17.01 | 18.40 | 20.96 | 20.28 | 17.87 |
| Growth in Income (%) | Over 20% | 0.96 | 15.40 | 38.25 | 10.45 | (5.07) |
| Growth in Profit After Taxation (%) | Over 20% | 7.03 | 3.44 | 28.10 | 42.72 | 28.30 |
| Growth in Total Assets (%) | Over 20% | 31.29 | 18.54 | 15.95 | 18.95 | 14.81 |
| Dividend Per Share (DPS) (Rs.) | Over Rs. 5.00 | 6.50 | 6.50 | 6.50 | 6.00 | 7.00 |
| Capital Adequacy Ratios: | | | | | | |
| Tier I (%) - Minimum Requirement 5% | Over 8% | 12.93 | 13.27 | 12.64 | 12.11 | 10.87 |
| Tier I & II (%) - Minimum Requirement 10% | Over 13% | 15.97 | 16.91 | 13.85 | 13.01 | 12.27 |

Non-Financial Indicators

| | | 2014 | 2013 | 2012 | 2011 | 2010 |
|-------------------------|---|-------|-------|-------|-------|-------|
| Customers | Growth in No. of Deposits & Advances Accounts (%) | 2.14 | 7.26 | 12.19 | 8.93 | 7.55 |
| | No. of Customer Touch Points | | | | | |
| | Branches - In Sri Lanka | 239 | 235 | 227 | 213 | 187 |
| | Branches - In Bangladesh | 18 | 18 | 17 | 17 | 17 |
| | ATMs - In Sri Lanka | 606 | 585 | 555 | 497 | 401 |
| | ATMs - In Bangladesh | 19 | 19 | 17 | 17 | 13 |
| Employees | Total No. of employees | 4,852 | 4,730 | 4,602 | 4,524 | 4,321 |
| | Average hours of training per employee per year | 27.24 | 32.54 | 22.59 | 25.48 | 22.22 |
| | Employee turnover ratio (%) | 4.26 | 4.29 | 3.28 | 3.82 | 3.36 |
| Business Partners | Assets purchased (other than investments) (Rs. Mn.) | 1,164 | 1,077 | 997 | 1,150 | 831 |
| | No. of Correspondent Banks | 48 | 48 | 47 | 47 | 47 |
| Government Institutions | Taxes to Governments (Rs. Mn.) | 7,355 | 6,110 | 6,184 | 4,542 | 6,515 |
| | Taxes collected on behalf of Governments (Rs. Mn.) | 1,382 | 978 | 621 | 499 | 473 |
| Community | Donations (Rs. Mn.) | 55 | 51 | 51 | 110 | 57 |

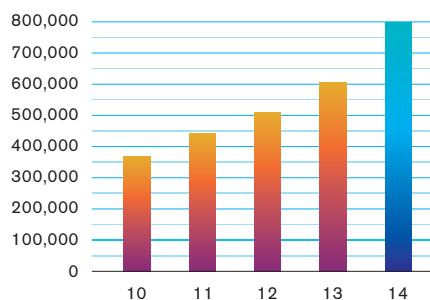
Gross Income – Group

(Rs. Mn.)



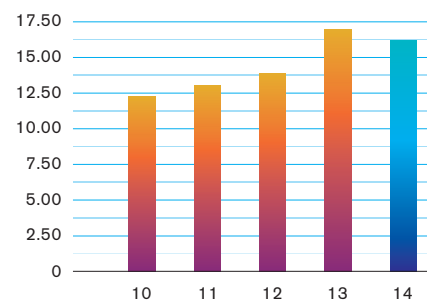
Total Assets – Group

(Rs. Mn.)



Total Capital Adequacy Ratio – Group

(%)



Operating Highlights

- Only Sri Lankan Bank to be ranked among the Top 1000 Banks in the world for the fourth consecutive year by The Banker
- The only listed financial institution and the third among all listed companies in Sri Lanka to cross the market capitalisation of US \$ 1 Bn. mark
- Number of online banking subscribers surpassed 200,000

- Global Finance adjudged the Bank as The Best Bank in Sri Lanka for the 16th consecutive year
- Installed the 600th ATM while adding 21 ATMs during the year, further strengthening its position as the single largest ATM network operated by a bank in Sri Lanka
- The Bank's Bangladesh Operations' credit rating re-affirmed at AAA by Credit Rating Information Services Ltd.

- Trade Finance Magazine UK adjudged the Bank as The Best Local Trade Bank in Sri Lanka
- Opened 24-hour Automated Banking Centre at Ward Place and installed a ForEx ATM in Crescat Boulevard
- Lanka Rating Agency Ltd. upgraded Bank's credit rating to AAA from AA+

LETTER FROM
THE CHAIRMAN



Dear Friends,

Measured by all key performance indicators, 2014 was an exceptionally good year for Commercial Bank, despite the challenging environment in which we carried out our business activities in both Sri Lanka and Bangladesh. Our achievements during the year were made possible through the unified efforts of staff and management, who demonstrated the utmost dedication and commitment in the pursuit of their duties. They were guided by the Bank's clearly defined vision and mission, and by the effective strategic leadership and oversight of the Board.

As in past years, the Bank faced challenges on both domestic and international fronts. We are engaged in financial intermediation: borrowing and lending represent our core business. Therefore the low demand for credit that prevailed during most part of the year had a negative impact on our Bank, and on the sector generally. I do not wish to dwell upon the reasons for low credit growth; that has been a topic of extensive deliberation in many forums. It should simply be noted that rapid growth in the corporate debt market and increased foreign borrowings by Sri Lankan corporates - together with the sharp decline in the value of gold, which hampered the pawning market - contributed to the sluggish demand for bank credit. The high level of excess liquidity in the banking system was driven by several other key factors, notably heavy foreign currency inflows on account of offshore debt raised by domestic corporates and banks, as well as the issuance of sovereign bonds, the purchase of Rupee-denominated Government debt by foreign entities and the increased participation of overseas investors in the Sri Lankan stock market.

Nevertheless, thanks to the efforts of our Corporate and Personal Banking teams, Commercial Bank's lending portfolio grew appreciably in the latter part of the year, registering a growth rate considerably higher than the industry average. Against a background of sharply declining interest margins, this healthy expansion of volume acted as a booster shot that raised the Bank's overall profits - a welcome consequence, no doubt appreciated by all shareholders.

Faced with a prevailing market atmosphere in which the Bank's conventional business approach would be difficult to sustain, we developed a strategy to diversify our activities, with a particular focus on fee-based income. In this regard, I would highlight the positive outlook arising from initiatives taken by our Investment Banking team; I am confident that we will realise the full potential of this forte in the medium to long term. In addition, the Bank launched several new products during the year aimed at improving product mix, as we cater to customer needs and preferences in areas such as credit cards, debit cards, loans, advances and savings products - including a new retirement-savings programme, The Future Pension Plan.

The Bank's focus on optimising fee-based income also yielded a new opportunity for our Bancassurance business line, which signed up a few more insurance partners and launched a campaign of more targeted promotions. In other areas of product development, our support for small and medium-sized enterprises (SMEs) during 2014 included a special entrepreneurial skills-development programme, as well as a campaign to promote our *Diribala* Loan Scheme - the only

dedicated credit line offered by a Sri Lankan bank for the benefit of SMEs. These valued customers were also the target of a new agri-business loan programme launched in the second quarter.

Mirroring the high levels of liquidity in the marketplace, the Bank's own liquidity was far in excess of regulatory requirement during the year – due mainly to higher deposit growth compared to a more modest increase in advances. Inevitably, this brought a new dimension to treasury management. The dual-rate system adopted by the Central Bank of Sri Lanka in its Standing Deposit Facility, along with restricted access to the Repo window, definitely posed challenges. On a more positive note, we recognised an opportunity for the Bank's Treasury Department to benefit from capital gains arising from our Government Securities portfolio in light of low and declining interest rates. However, by the end of 2014 interest rates appeared to have bottomed out; in the coming year, any upward movement is likely to generate pressure and make treasury management even more challenging.

As a long term growth strategy, we have undertaken new expansion efforts overseas, encouraged in particular by the success of the Bank's Bangladesh operations. I am pleased to inform shareholders that following successful negotiations, we have received a license to open a representative office in Myanmar. This will serve as a stepping-stone to access the markets of a resourceful country with great potential, and to expand across further frontiers in the region. We have also taken steps to strengthen and consolidate our position in the fast-growing inward remittances market, whose highly diversified origins extend from Korea and Malaysia to Italy and the Middle East.

Efficiency, both in customer service and in key operations, saw significant improvement over the past year as the Bank has adopted and continued to integrate state-of-the-art technology. The many IT-based initiatives launched in 2014 include installation of cash/cheque deposit machines, expansion of our mobile and online banking offerings, upgrading of traditional branches with 24-hour automated banking, and new facilities for withdrawing cash using Mobitel mCash mobile wallets via our cardless ATM network - a unique service in Sri Lanka. At the same time, processing capacity was further enhanced by migrating customers to alternative channels, increasing the number of cash/cheque deposit kiosks and managing faster turnaround times with our newly introduced Teller Cash Recyclers.

Commercial Bank maintained its position as the operator of Sri Lanka's largest ATM network, ending the year with a total of 606 machines. The Bank also continued its five-year industry leadership in protecting customer privacy by meeting and exceeding the globally recognised standards of ISO 27001:2013 certification.

The future of the banking industry will inevitably be shaped by the speed with which customers are embracing mobile technologies. However, branches will continue to be a vital component in the delivery of services. Therefore we must further augment the Bank's branch network to meet customer demand for prompt, personal responses to their financial needs alongside improved self-service options. As pressure increases to expand business volumes and

manage tight interest spreads, we will bring even greater focus to channel migration, process automation and centralisation - all with the aim of improving the cost to income ratio.

In 2014, we took further steps to improve and strengthen the Bank's corporate governance structure, adopting the Code of Best Practices on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka. We also established the Related Party Transactions Review Committee as a specialised sub-committee of the Board. In addition, measures were introduced to ensure compliance with new Sri Lanka Financial Reporting Standards (SLFRS/LKAS). In particular, we have moved to address the disclosure requirements for credit, market, operational and liquidity risk management. This includes taking an undiscounted approach to cash flows in disclosing maturity analysis. We have also adopted new disclosure practices for collaterals and impairment, and we are addressing new areas of market risk through sensitivity analysis. Lastly, in compliance with the new SLFRS 13 Accounting Standard relating to fair-value measurement, in 2014 we conducted a valuation of all relevant fixed assets with the goal of further improving the quality of financial reporting.

Also during the past year, we strengthened the Bank's communications policy by establishing a governing framework aimed at maintaining and improving transparency, ethical behaviour, responsibility and responsiveness to stakeholders. At the same time, Commercial Bank's geographical footprint continued to grow, with the total number of branches reaching 239 by the end of 2014. This expansion reflects our efforts to capitalise on economies of scale and more efficient utilisation as we capture new business and strive for a profitable banking model that is optimally sized for the domestic market. We have also added another dimension to that model by acquiring a 100% stake in Indra Finance Ltd., envisioning the potential synergies resulting from adding a product portfolio designed for a market segment that we have not traditionally served.

In the area of corporate social responsibility (CSR), the past year brought a new level of activity in the Bank's focus on education, as we continue to empower school children and university entrants through our investment in technology labs, mainly in rural schools where students lack access to IT education. We opened 36 new IT labs in 2014, bringing the total number donated by the Bank to 158. We also brought online learning capabilities to 46 more schools, doubling the coverage of this ongoing project. We awarded 50 scholarships and laptop computers to undergraduates, a total of 300 students supported to date. And we continued to partner with two key corporate sponsors, working with Cisco Systems to teach students IT essentials and with Microsoft to train teachers on broader technology issues.

Elsewhere within the Bank's CSR purview, we completed 11 new healthcare projects during the year, nearly doubling our impact in that area as well. We funded the training of 200 more English teachers through the British Council, increasing our total complement of teachers to 300. And we invested in a range of community improvement projects, from the renovation of a section of steps


at Sri Pada, to landscaping of the Colombo National Hospital garden, to the continuation of a coral replanting project at Hikkaduwa.

Recognition of Commercial Bank as Sri Lanka's premier financial institution was reinforced by a range of awards over the past year, including 'Best Bank in Sri Lanka' from Global Finance (US), the country's 'Best Trade Bank' from TradeFinance (UK), Sri Lanka's 'Strongest Bank' from Asian Banker, 'Banker of the Year 2014' from The Banker (UK) and most respected bank in Sri Lanka from LMD magazine - to name just a few. Our brand reputation as Sri Lanka's 'Most Awarded Bank' was further evidenced by the many CSR awards received in 2014, which are too numerous to list here.

Commercial Bank has come a long way, consistently achieving greater and greater heights to reach the position we are in today. I wish to take this opportunity to pay tribute to all those who have contributed to our success over the four-and-a-half decades since the Bank was founded. I owe an especially big thank-you to my colleagues on the Board, to the management team, and to each and every employee of the Bank for their collective commitment, cooperation and unstinted dedication.

Commercial Bank's corporate positioning, 'for a better future,' is brought to life through personalised service delivered with disciplined efficacy and customer-oriented efficiency, because our valued customers are the Bank's greatest asset. As the custodians of this enterprise, the Board is committed to safeguard and further the interests of the Bank's owners - our shareholders - at all times.

I wish all of you every success in your various endeavours.



Dharma Dheerasinghe
Chairman

Colombo
February 23, 2015

Commercial Bank's corporate positioning, 'for a better future', is brought to life through personalised service delivered with disciplined efficacy and customer-oriented efficiency, because our valued customers are the Bank's greatest asset. As the custodians of this enterprise, the Board is committed to safeguard and further the interests of the Bank's owners - our shareholders - at all times.



MANAGING
DIRECTOR'S
REVIEW



The continued strong performance of Commercial Bank in 2014 reflects a deeper strength that has made our bank - as this year's annual report theme suggests - an immediately recognisable leader in Sri Lanka's financial services sector. To our millions of loyal customers, 'Combanking' represents innovative products and services, proven resilience and accountability, thoughtful management of risk and, above all, our ability to nimbly keep pace with changing needs. The brand we have built and the trust in which it is grounded, have helped us become not only the largest private bank in Sri Lanka but a significant contributor to economic growth and the quality of life of our people.

The role that our diverse stakeholders have empowered us to play is also reflective of the Bank's own unique culture. Our way of doing business - engaging, collaborative, forward-looking and, above all, focused on creating value for all parties - has not simply evolved over time. It is an approach that we have consciously developed through focused strategic thinking, supported by sound business practices. We have fostered an open, accountable culture in which our commitment to clear communications is matched only by our devotion to listening to what our customers have to say. We have made a concerted effort to identify and respond to emerging needs - especially among younger customers - and the positive results are evident in our financial performance.

Our Principled Commitment

Customers appreciate Commercial Bank's unique culture because they feel it welcomes and includes them. Engaging in genuine conversations with staff who understand their needs and want to help them reach their goals, our customers feel they are part of the Commercial Bank family - especially at the branch level. Even as we lead the industry in offering alternative banking channels, we see that many customers still prefer to visit our branches and interact directly with our helpful, well-informed employees.

This vital relationship-building is at the heart of Combanking and reflects our long-standing commitment to three principles:

Honesty and Integrity: The transactions we conduct are invariably above board and designed to provide customers with the right solutions to their financial needs. We are not fixated on offering only the available answers to the exclusion of all other factors. Rather, we tailor the best possible solution to each customer's unique requirements - in a banking experience that makes people feel understood and valued.

Transparency: Maintaining clarity and candour is a fundamental commitment of the Bank. We uphold the highest standards of transparency with regard to our own policies and actions, Government oversight and regulation, and customer expectations.

Competitiveness: Commercial Bank remains consistently close to the marketplace, which means we are able to identify emerging trends and new consumer priorities well ahead of our competitors - and get a head start on crafting appropriate responses. Because we strive to know our customers well, we are ideally positioned to deliver what they need, reinforcing our competitive advantage and creating the positive word-of-mouth that has always been our number one marketing tool.

Key Success Factors

Commercial Bank entered 2014 with a keen sense of focus as the entire organisation geared up for what promised to be a more challenging year. Working as an integrated team, we found innovative and differentiating ways to delight customers, attracting new business while strengthening existing relationships. Branch managers were particularly effective in providing new levels of high-quality, personalised service.

Despite an operating environment characterised by low interest rates, muted credit growth and tightening margins, the Bank delivered another year of solid performance. With our stable business model and exemplary Balance Sheet, we gave many prospective customers the confidence to move their business from other institutions. This ensured a continuous growth of our Balance Sheet, helping to further bolster an already comfortable position in the market.

The past year brought a host of other economic challenges, from the decline in gold prices to the continued turmoil in export markets - particularly daunting for a trade-oriented Bank such as ours. We stayed the course by sticking to our core values and serving our customers better than ever, leveraging those strengths to yield positive results.

Our 2014 Performance

As an institution managed by experienced bankers, we take pride in operating our business to avoid any form of volatility. Our history has been one of steady growth, free from sudden swings and generating reasonable returns. Profit gains have been consistently solid, while growth in our asset base has matched or exceeded industry norms.

Total assets of the Group grew to Rs. 797 Bn. as at December 31, 2014, recording an impressive growth of 31.44% from Rs. 607 Bn. a year before. More than 84% of the growth was funded from the deposits and other borrowings that grew by 41% and 43% respectively during the year. Deposits crossed half a trillion mark in September. Despite the lackluster demand for credit during most part of the year, our loans and advances too grew by 22.59% by the year end. It is noteworthy that the Bank has been able to maintain compound annual growth rates in excess of 17% in both deposits and loans and advances over the past decade.

Although the income from fund-based operations did not keep pace with the growth in assets base primarily due to the net interest margin decreasing again from 4.53% in 2013 to 3.88% in 2014, this was mitigated to some extent by the growth in fee-based income and income from trading and investment related activities. Overall, total operating income grew by 8.11%. In contrast, operating expenses increased by 9.24%, mainly as a result of a change in the accounting policy on depreciation (as explained in Note 19 to the Financial Statements on page 309). Impairment charges for loans and advances decreased by 5.38% due to higher recoveries made and a favourable movement in the risk profile of non-performing loans and advances portfolio. Consequently, the profit after tax for the year grew by 6.33% to Rs. 11.2 Bn., the third consecutive year in excess of Rs. 10.0 Bn.

Cost to income ratio increased marginally to 47.12% from 45.58% in 2013, while NPL ratio improved further to 3.47% from 3.88% in 2013.

Commercial Bank has solid foundations, a growing customer base and a clean Balance Sheet. We are well positioned for continued growth and ready to take advantage of promising opportunities that arise in a fast-moving marketplace.

The Pillars of Stability

At Commercial Bank, we consciously instill the principles of Good Governance in every area of our operations, both within our organisation and externally as we collaborate with various third parties. At the same time, we have a well-developed Risk Management system designed to support prudent, informed decision-making across the board, from day-to-day interactions with account holders to the disposition of major credit facilities. This Annual Report includes dedicated chapters explaining our approach to Governance and Risk in detail (See pages 127 to 262).

The Bank has developed a formal capital management policy with clearly defined objectives for maintaining an appropriate level of capital adequacy. This ensures sufficient leeway for future business expansion while maintaining the required cushion to absorb any potential losses. As of December 31, 2014, the Bank's Tier I and Tier I & II Capital Adequacy Ratios stood at 12.93% and 15.97% respectively against the minimum stipulated requirements of 5% and 10%.

In short, Commercial Bank is a highly stable institution dedicated to financial sustainability – and we intend to remain so.

The Outlook for 2015 and Beyond

Commercial Bank has solid foundations, a growing customer base and a clean Balance Sheet. Our talented staff have the capabilities and the will to adapt quickly to changing scenarios. We are well positioned for continued growth and ready to take advantage of promising opportunities that arise in a fast-moving marketplace.

One dimension of our business that has been evolving quickly is our branch expansion model. With consumers' rapid adoption of innovative digital and mobile technologies and as most areas of Sri Lanka are now adequately served by conventional branches, the trend is increasingly towards automating more business processes and offering customers alternative channels for completing transactions and managing their finances. As this trend continues in a highly competitive marketplace, we expect to lead the field.


During the past year, Commercial Bank's market capitalisation exceeded US \$1 Bn. We are the first Sri Lankan Bank - and only the third enterprise in any sector - to achieve this milestone. Looking ahead, we expect the Bank's Balance Sheet to surpass Rs. 1 Tn. in the near future. Based on our 2014 results and the continued momentum they reflect, that ambitious target is well within our reach.

Our Gratitude

In closing, I would like to thank the former Chairman, Mr. Dinesh Weerakkody and my predecessor Managing Director, Mr. Ravi Dias, for their exemplary leadership during their tenure in office. Their energy, acumen and sound strategic thinking contributed significantly to a year of positive achievements. I would also like to express my gratitude to the Chairman and the Board of Directors for their conscientious stewardship and wise counsel. And all of us at the Bank acknowledge the invaluable contribution made by those colleagues who retired in 2014 after long years of dedicated service.

Let me also convey my thanks to the Central Bank of Sri Lanka and its officers for their sound guidance on regulatory matters and to the Bank's External Auditors, KPMG, for their professional expertise and prompt completion of the audit.

And lastly, to the 4,700 employees of the Bank, I can only underline my deep appreciation for the diligence, insight and unwavering loyalty you have brought to ensuring that Combanking is a mutually rewarding experience for Commercial Bank and its customers. As we face both opportunities and challenges in the year ahead - and over many more decades to come, we have the confidence of knowing that the enterprise we so proudly serve, not only embraces the future, but is defining what that future will be.



J. Durairatnam
Managing Director/CEO

Colombo
February 23, 2015

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Management Discussion and Analysis

This chapter elaborates the Bank's financial and operational performance during 2014 in the backdrop of the economic landscape that prevailed and the future outlook. Also given herein are the business model that has worked well for the Bank and the strategic imperatives.

Review of the Macroeconomic Environment

Global Economy

Despite some setbacks, the uneven global recovery continues. The growth forecast for the world economy was downgraded to 3.3% for 2014, largely due to weaker-than-expected overall activity in the first half of the year. The global growth projection for 2015 has been lowered to 3.5%.

World Economic Outlook

| | 2013 % | 2014 % | Projections | |
|-------------------------------------|-----------|-----------|-------------|-----------|
| | | | 2015 % | 2016 % |
| World Output | 3.3 | 3.3 | 3.5 | 3.7 |
| Advanced Economies | 1.3 | 1.8 | 2.4 | 2.4 |
| United States | 2.2 | 2.4 | 3.6 | 3.3 |
| Euro Area | -0.5 | 0.8 | 1.2 | 1.4 |
| Japan | 1.6 | 0.1 | 0.6 | 0.8 |
| United Kingdom | 1.7 | 2.6 | 2.7 | 2.4 |
| Emerging and Developing Asia | 6.6 | 6.5 | 6.4 | 6.2 |
| Russia | 1.3 | 0.6 | -3.0 | -1.0 |
| China | 7.8 | 7.4 | 6.8 | 6.3 |
| India | 5.0 | 5.8 | 6.3 | 6.5 |
| ASEAN-5 | 5.2 | 4.5 | 5.2 | 5.3 |

Source: IMF World Economic Outlook Update – January 2015

In advanced economies, the legacies of the pre-crisis boom and the subsequent crisis (including the lingering impact of high private and public debt) continue to cast a shadow on the recovery. Emerging markets are adjusting to rates of economic growth lower than those reached in the pre-crisis and immediate post-crisis periods. Overall, the pace of recovery varies from country to country.

Financial markets have been buoyant, with high equity prices, compressed spreads and very low volatility. However, this situation has not translated into a rise in investment, which - particularly in advanced economies - has remained subdued.

Advanced Economies

Growth is expected to strengthen in 2014-15 across most advanced economies, but once again the pace of recovery will vary across regions. The US is expected to enjoy the strongest rebound in growth, while the post-crisis brakes will ease more slowly in the Euro Area and Japan will continue to grow modestly.

Emerging Markets and Developing Economies

Growth in emerging markets and developing economies was projected to increase modestly through the second half of 2014 and into 2015, supported by stronger domestic demand, as well as a recovery in external demand fuelled by faster growth in advanced economies.

Asian Economies

In China, growth projections have been revised downward slightly for both 2014 and 2015 after first-quarter output was weaker than expected. Chinese authorities deployed policy measures to bolster economic activity. For 2015, the growth rate will likely moderate to 6.4% as the economy moves to a more sustainable path and residential investment slows further.

In India, growth was expected to increase through the end of 2014 and into 2015 as exports and investment continue to pick up, offsetting the damaging effect on agricultural growth of a monsoon earlier in the year.

The Global Banking Sector

As unlikely as it may seem for an industry that has posted a 70% growth in net income since 2009 - along with strong growth in Return on Equity (ROE) - banks faced major challenges as they headed into 2014. There is no question, the industry has rebounded from the crippling credit crisis of five years ago, when bank failures surged, balance sheets became bloated with bad loans and industry ROE was in the negative at 3.7%. Since that time, banks have slashed payrolls, shed non-core businesses and written-off trillions of Dollars in bad assets.

Still, the earnings improvements of the past several years can be largely attributed to rapidly declining provisions for loan losses and aggressive cost cutting. Today, while problem loans continue to decline, the impact of shrinking loan-loss reserves on the bottom line is diminishing. Given the trend now evident in the credit cycle, this issue could be exacerbated as lending gradually ticks upward, possibly leading to higher credit losses. More aggressive lending, fuelled by competition among financial institutions, could tempt some banks to lower credit standards; this in turn could potentially lead to higher credit costs and even more scrutiny from regulators concerned about deteriorating underwriting standards.

The mergers and acquisitions 'wave' that was widely expected to sweep through the global banking industry over the past several years has amounted to little more than a ripple. There were 162 bank mergers in the US through the first three quarters of 2013, up from 111 in the equivalent period two years earlier. Still, mergers, joint ventures and strategic acquisitions remain a powerful tool for growth.

Some institutions may find that the only way to meet these imperatives is through mergers, acquisitions or joint ventures. Whatever course individual banks may choose to pursue, the way forward will not be easy and in many cases will require a paradigm shift in business culture and yet the alternative is even less palatable: a gradual slide into irrelevance, with lingering regret over an opportunity missed.

Therefore, transformation is inevitable - and the time to begin is now.

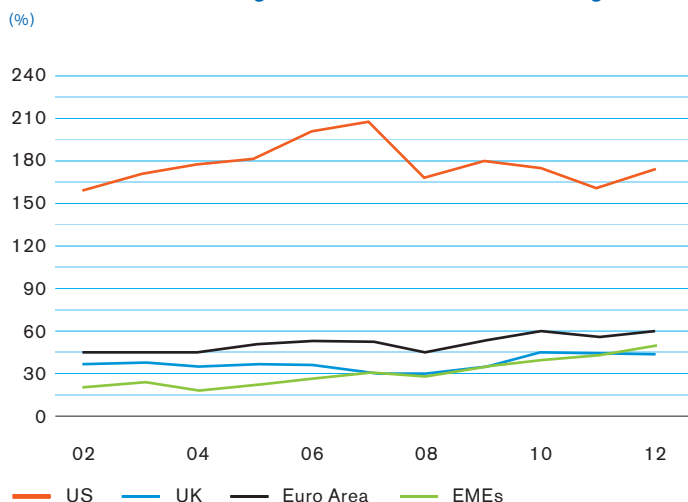
(Banking Outlook 2014: An Industry at a Pivot Point - KPMG)

Shadow Banking

The shadow banking system - consisting of financial intermediaries that facilitate the creation of credit across the global financial system without being subject to regulatory oversight - constitutes about one-fourth of all intermediation worldwide. The US, the Euro Area and the UK have the world's largest shadow banking systems, according to Financial Stability Board (FSB) data.

Broad Shadow Banking Measures

Broad Shadow Banking Measures (Percent of Banking Assets)



Sources: Financial Stability Board; IMF, World Economic Outlook database and IMF staff estimates.
EME = Emerging Market Economy

Since the crisis, global regulatory reforms co-ordinated by the FSB have called for greater disclosure of asset valuations, improved governance, ownership reforms, and stricter oversight and regulation of shadow banks. There are concerns that the ongoing tightening of bank regulations may be encouraging a shift of traditional banking activities into the shadows.

(Global Financial Stability Report, October 2014, IMF)

Penalties Imposed on US and UK Banks for Irregularities

Fines and settlements paid to US federal and state authorities cost banks more than US \$40 Bn. in 2014, according to Reuters estimates. At the same time, European authorities handed out record fines of more than US \$3 Bn. Two trends are clear: authorities are imposing larger fines on banks in an effort to clean up standards; and regulators appear to be working more effectively with one another as they all strive to share in any material penalties.

As 2015 gets underway, banks in the US still face scrutiny over a long list of issues and when the European Commission imposed a new interest rate settlement, it vowed to keep probing the rate-rigging issue. Nearly three-quarters of the penalties stemmed from investigations conducted in conjunction with overseas regulators, mainly in the US, who also imposed hefty penalties.

(Sources: Reuters)

Developments in the Implementation of Basel III

By the end of 2013, all members of the Basel Committee on Banking Supervision had implemented Basel III risk-based capital regulations. Efforts are now underway to adopt Basel III standards for liquidity and leverage ratios, as well as for global systemically important banks (G-SIBs) and domestic systemically important banks (D-SIBs). As of September 2014, final or draft rules had been issued by 26 members on the liquidity coverage ratio (LCR), by 23 members on the leverage ratio and by 23 members on G-SIB or D-SIB frameworks.

With regard to ongoing implementation efforts, the Committee will continue to emphasise consistency of practices and the rigorous analysis of outcomes to promote financial stability and a level playing field. The key elements of the Committee's implementation strategy for 2014-2016 will be to strengthen monitoring mechanisms while continuing the semi-annual assessment of Banks' progress in meeting the Basel III requirements. The Committee also plans to complete the first round of jurisdictional assessments of Basel III capital standards by 2016, and to begin assessment of LCR and G-SIB and D-SIB standards from 2015 onwards.

Once fully-implemented, the Basel III framework is expected to improve banks' resilience to asset and liquidity stresses and shocks. Having said that, it is too soon to conclude that the industry has achieved stronger creditworthiness. Globally, banks have made substantial improvements in their fundamentals, including reductions in leverage, implementing firm-wide stress testing, and forming more robust liquidity and funding profiles. Nevertheless, many banks remain challenged in meeting full Basel III requirements while at the same time sustaining profitable business models under more stringent regulatory constraints.

(Moody's global review of Basel III implementation highlights progress made and jurisdictional differences, August 3, 2014 Moody's Investors Service)

Review of the Macroeconomic Environment

Local Economy

The Sri Lankan economy has grown at an annual average rate of 7.5% over the past three years. This upward trend is expected to continue, with the services sector as the key driver of GDP growth spurred by export trade and the hotels and other tourism related activities. The ongoing boom in the tourism industry could also result in spin-off benefits to Sri Lanka's construction industry. Construction activity, which represents 10% of GDP, is also buoyant, supported by continued foreign direct investment (FDI).

Sector Contribution to GDP

| Sector | Contribution to GDP Growth (%) | | Share of GDP (%) | |
|-------------|--------------------------------|---------|------------------|---------|
| | 1H 2013 | 1H 2014 | 1H 2013 | 1H 2014 |
| Agriculture | 1.9 | 4.6 | 11.6 | 11.1 |
| Industry | 48.3 | 49.5 | 30.7 | 32.1 |
| Services | 49.8 | 45.9 | 57.7 | 56.8 |

The revival in global demand in 2014 supported growth in these sectors and looking ahead, enhanced growth prospects in the US economy could boost the Sri Lankan manufacturing sector over the next few years.

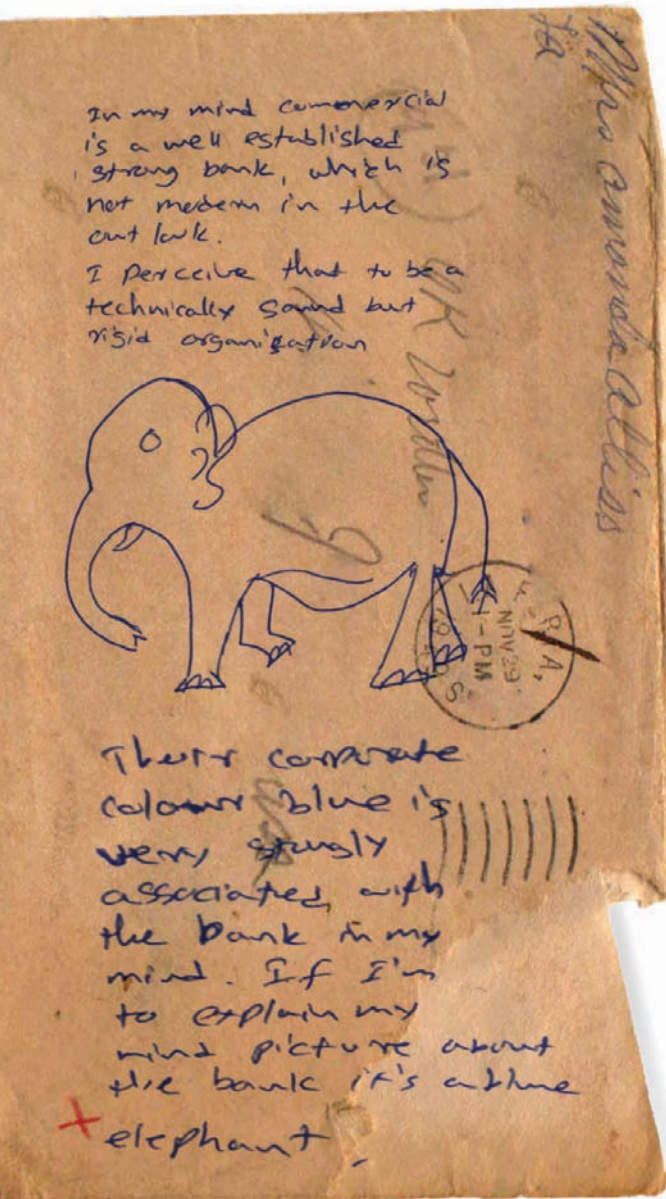
Loan growth, excluding personal loans, is showing signs of improvement, and capital markets activity is on the rise. Sri Lanka has seen two US Dollar-denominated corporate bond issues in 2014. Equity-market capitalisation has increased, with at least five new listings in 2014. Turnover value on the Colombo Stock Exchange almost doubled compared to the previous year.

While rapid economic growth has helped Sri Lanka's Government to reduce the fiscal deficit (as a percentage of GDP) since the end of the civil disturbances in 2009, the public debt burden remains high.

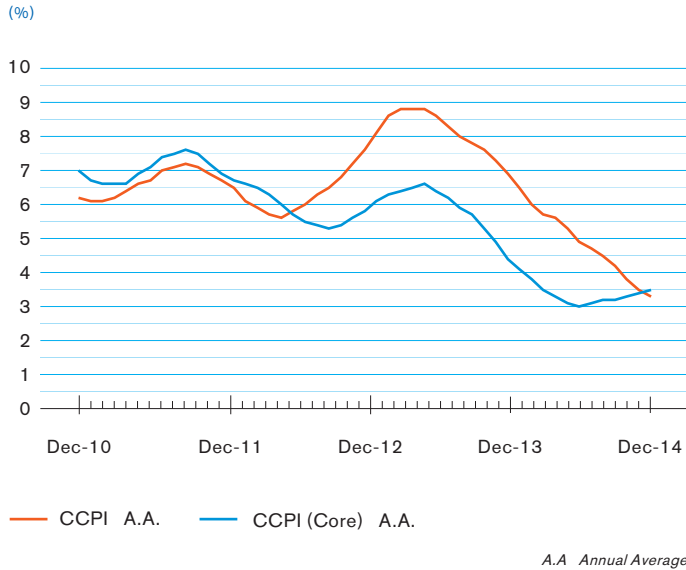
Inflation

Sri Lanka recorded a single-digit inflation rate for 71 consecutive months as of December 2014. Inflation, as measured by the change in the Colombo Consumers' Price Index (CCPI), was 2.1% on a YoY basis in December 2014. The single-digit inflation rate was largely supported by a sharp reduction in energy prices and lower prices of some key commodities in the international market.

The direct and indirect impact of the recent reduction in the prices of essential items by the Government, lower commodity prices in the international market and also the impact of lower utility costs are likely to reduce inflationary pressures over the short term.



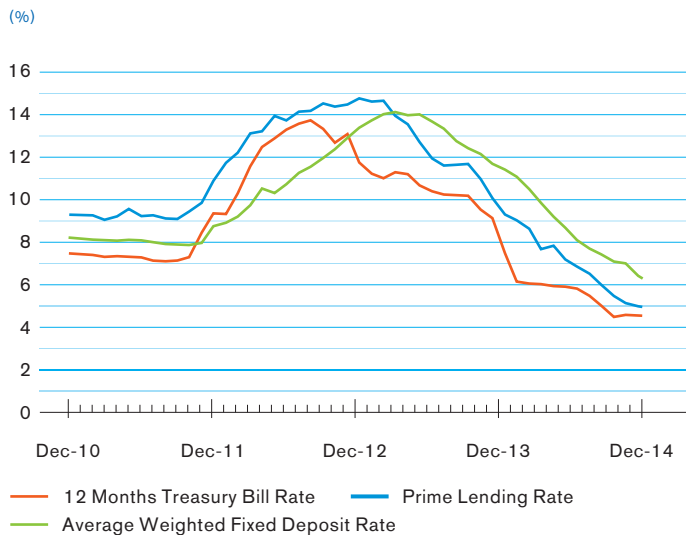
Inflation [CCPI & CCPI (core)]



Interest Rates

Interest rates in Sri Lanka declined during 2014. This trend was helped by the monetary policy measures adopted by the CBSL, which were designed to enhance credit growth and drive the GDP. Over the past year, the interest rates on Government Securities declined significantly in comparison to the interest rates on loans and deposits offered by commercial banks.

Interest Rates Movement



Credit to the Private Sector

The banking sector's YoY growth in credit provided to the private sector declined up to July 2014. The main reasons for this include a drop in pawning advances, falling credit demand from the private sector, the repayment of high interest loans with new loans obtained at lower rates and borrowing by private sector organisations from foreign sources and through corporate bond issues.

However, the private sector credit growth started to pick up from August 2014 onwards due to further relaxation of the monetary policy, introduction of a Credit Guarantee Scheme on Pawning Advances in June 2014 and the increase in the general income level of the people etc.

External Sector

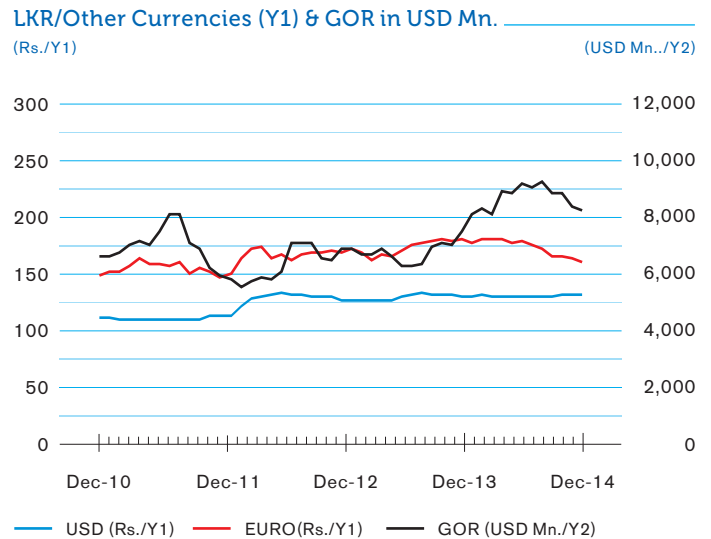
A strong recovery in exports in the second half of 2013 which continued into 2014, combined with declining imports and continued inflow of remittances and services receipts, bolstered Sri Lanka's balance of payments in the past year. This trend, together with issuance of external debt, enabled the CBSL to accumulate international reserves.

International Reserve Position

A reduction in the current account deficit, coupled with global bond issuances, helped to replenish Sri Lanka's foreign exchange reserves. Now the build-up in official international reserves is reducing the nation's near-term vulnerability to external financial shocks.

Sri Lanka's Gross Official Reserves remained high at US \$ 8.8 Bn. as of September 2014, which was equivalent to 5.6 months of imports.

Exchange Rates and Gross Official Reserves (GOR)



Review of the Macroeconomic Environment

The domestic foreign exchange market remained relatively stable in 2014. The Sri Lankan Rupee held its value against the US Dollar with a marginal depreciation. Based on cross-currency exchange rate movements, the Rupee appreciated against the Euro, the Japanese Yen and the UK Sterling Pound.

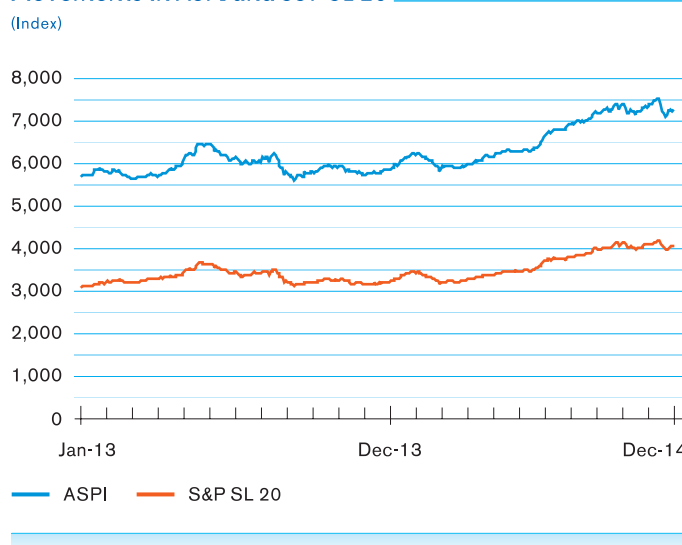
The Share Market

The Colombo Stock Exchange recorded a stellar performance in 2014, surpassing several previous records.

In 2014, the Standard & Poor's Sri Lanka 20 (S&P SL 20) Index crossed the 4,000 mark for the first time since its launch. Total market capitalisation surpassed Rs. 3.0 Tn. mark, closing the year at Rs. 3.105 Tn. The All Share Price Index (ASPI) crossed the 7,500 mark and closed the year at 7,299.

Sri Lanka's stock market also did well compared to global markets. It is one of the six best-performing markets internationally and one of the five best-performing markets in the region, with the ASPI showing a year-to-date growth of 23.4% as of December 31, 2014.

Movements in ASPI and S&P SL 20



Key Economic Indicators and their Impact to Commercial Bank

| Economic Indicator | Movement During 2014 | Cause for Movement | Impact on Commercial Bank |
|---------------------------------------|--|--|--|
| The world economy (World output) | The world economy is estimated to have recorded a growth of 3.3% in 2014 (3.3% in 2013). | Sri Lanka's major export destinations such as US, UK and Euro area are estimated to have recorded better economic growth rates in 2014. | Helped the Bank to record substantial growth in loans and advances. |
| Local economy (GDP) | The Sri Lankan economy is estimated to have recorded a growth of 7.8% in 2014. | Significant growth recorded in services and industrial sector. | Helped the Bank to increase in business volumes substantially. |
| Inflation and interest rates | Inflation was maintained mostly at lower single digit levels and a decline in market interest rates. | Lower rate of inflation contributed to a decline in market interest rates. | Helped the Bank to record substantial growth in loans and advances. |
| Exchange rate (LKR/USD) | The LKR/USD exchange rate moved within a range of Rs. 130 – 132 | The Rupee appreciated gradually up to October amidst steady foreign exchange inflows. Thereafter, it depreciated slightly with increased demand for foreign exchange particularly due to higher import demand. | Resulted in reducing the exchange profit of the Bank. |
| Credit to the private sector by banks | Increase in private sector credit by banks during the latter part of the year. | Low private sector credit by banks during the first half and that trend was reversed during the second half of the year due to an improvement in business sentiments supported by appropriate monetary policy. | Helped the Bank to record substantial growth in loans and advances during the second half of the year. |



Review of the Macroeconomic Environment

Banking Industry

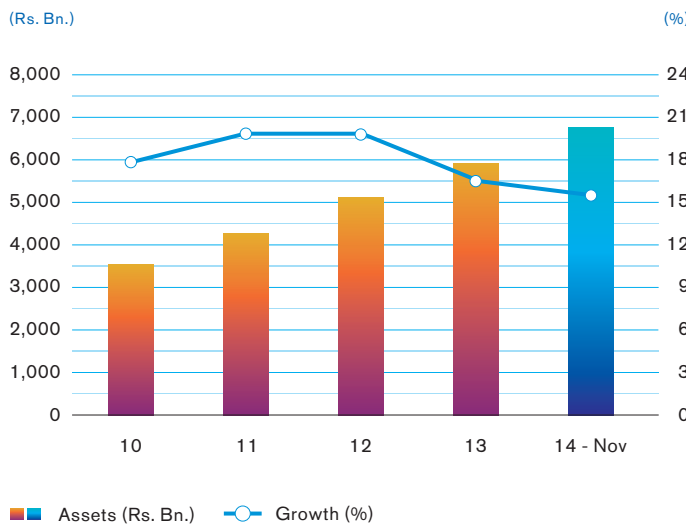
One of the key developments which took place during the year was the implementation of 1st phase of the financial sector consolidation plan proposed by the Central Bank. Under this plan, quite a number of acquisitions and mergers took place in the industry among both Banks and Non-Banking Institutions.

In addition to the above, the following major activities within the sector were witnessed during the year.

Total Assets

The growth of total assets in the banking sector moderated during the first eleven months of 2014, owing to moderation in credit growth. The liquidity position of banks remained healthy. Although profits of the banking sector increased, but profitability decreased marginally.

Growth in Assets



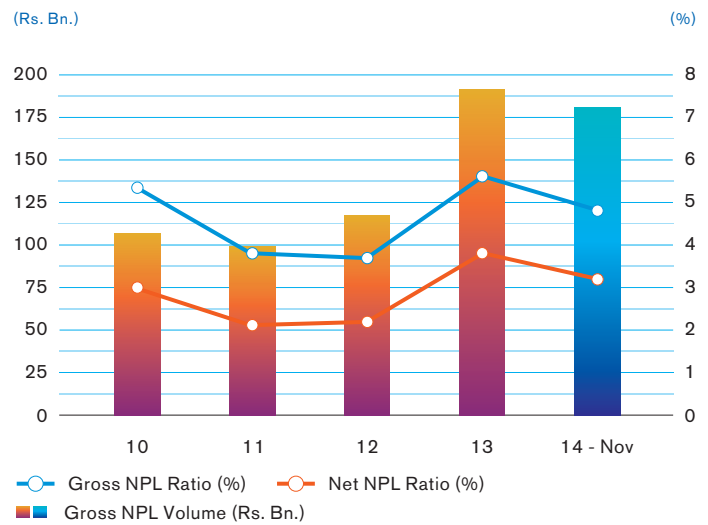
Credit to Private Sector

In December 2014, credit extended to the private sector by commercial banks grew by 8.8% on a YoY basis, maintaining its upward trend since August 2014. In absolute terms, credit obtained by the private sector recorded a historic high of Rs. 76.5 Bn. during the month of December, resulting in a cumulative increase in private sector credit of Rs. 223.9 Bn. during 2014. The sector-wise classification of credit growth indicates increased credit disbursements to the industrial and services sectors in the latter half of 2014.

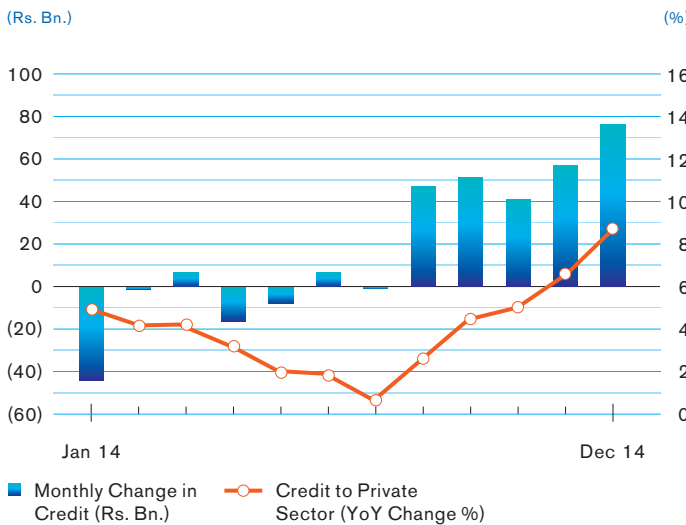
Non-Performing Advances

The overall level of non-performing loans (NPLs) at financial institutions decreased in 2014. This was largely due to a decline in NPLs connected to pawning advances during the year, as well as the efforts of financial institutions to adopt appropriate measures for improving asset quality. Except for pawning, all other major loan products had reported an increase in NPLs during first 11 months of 2014.

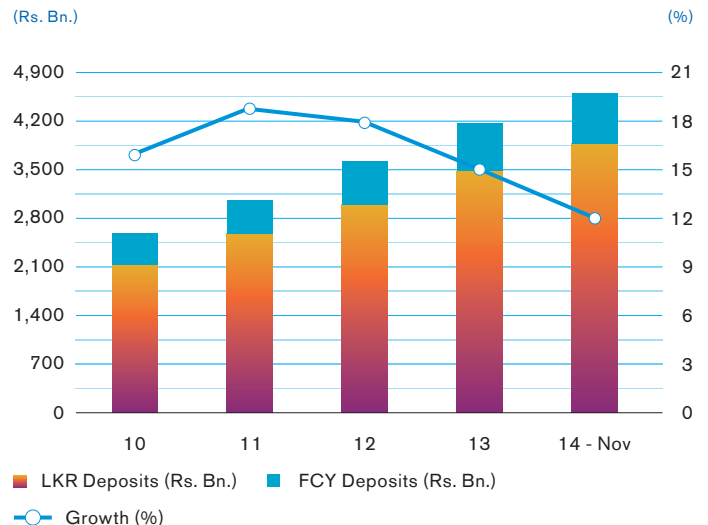
Trend in NPL



Credit to Private Sector (Year on Year Change)



Growth in Deposits



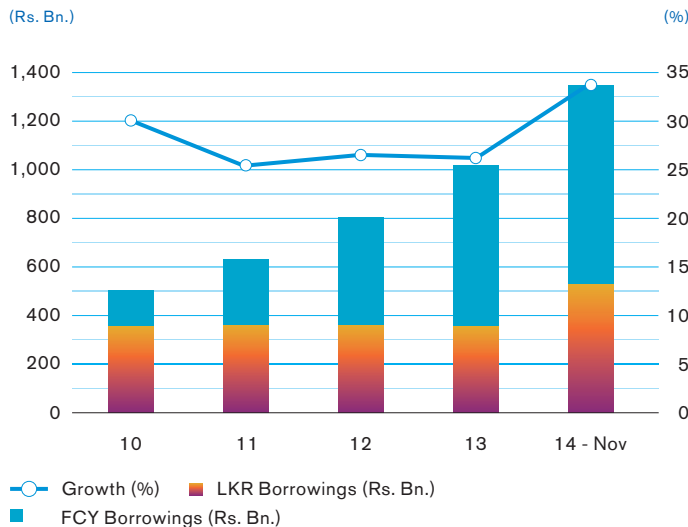
Deposits

The CASA (current and savings account) ratio increased from 34.4% in December 2013 to 38.0% by November 2014. 63.0% of the increase was due to increase in Savings deposits.

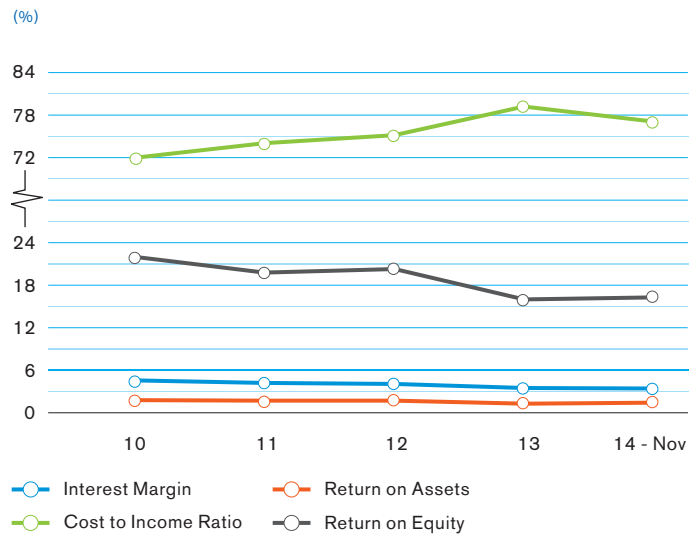
Borrowing

As at end November 2014, foreign currency borrowings in Sri Lanka represented 60% of total borrowings, of which 94.5% was borrowed from foreign sources.

Growth in Borrowings



Profitability Ratios

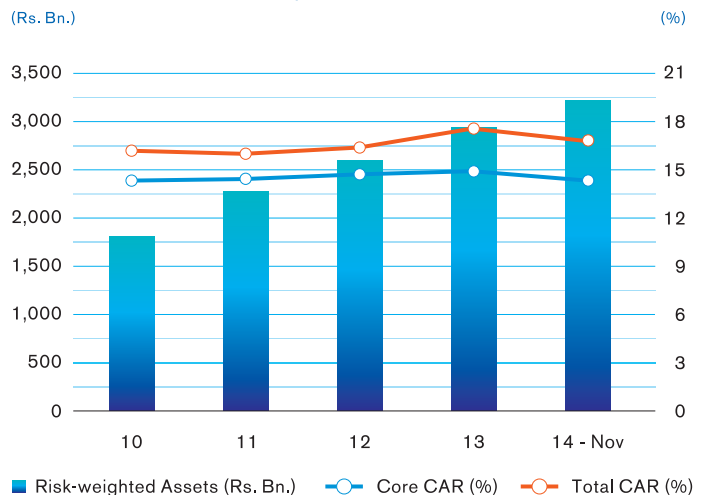


Profitability and Efficiency

Profits in Sri Lanka's banking sector improved in 2014, in comparison to the previous year for several reasons:

- An increase in net interest income due to delayed effect of rate reductions.
- Gains on investments in securities with declining yields.
- A lower level of provisions required during 2014 compared to 2013.
- An improvement in efficiency levels due to continued drop in staff expenses in proportion to total operating cost while increasing the total income.

Trend in Capital Adequacy



New Banking-Related Legislation/Policies Adopted in 2014

Further strengthened capital planning and risk management

- Implemented Standardised Approach for Operational Risk under Basel II
- Reviewed Internal Capital Adequacy Assessment Process (ICAAP) document submitted by banks under Pillar II of Basel II

Enhanced risk management standards of banks

- Issued a Consultation Paper on Basel III - Liquidity Coverage Ratio
- Issued Guidelines on stress testing of Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs)
- Issued Directions on Regulatory Framework on Valuation of Immovable Property of LCBs and LSBs

Focus on Information Security Management

- Introduced the Baseline Security Standard for Information Security Management
- Established the Bank Computer Security Incident Response Team

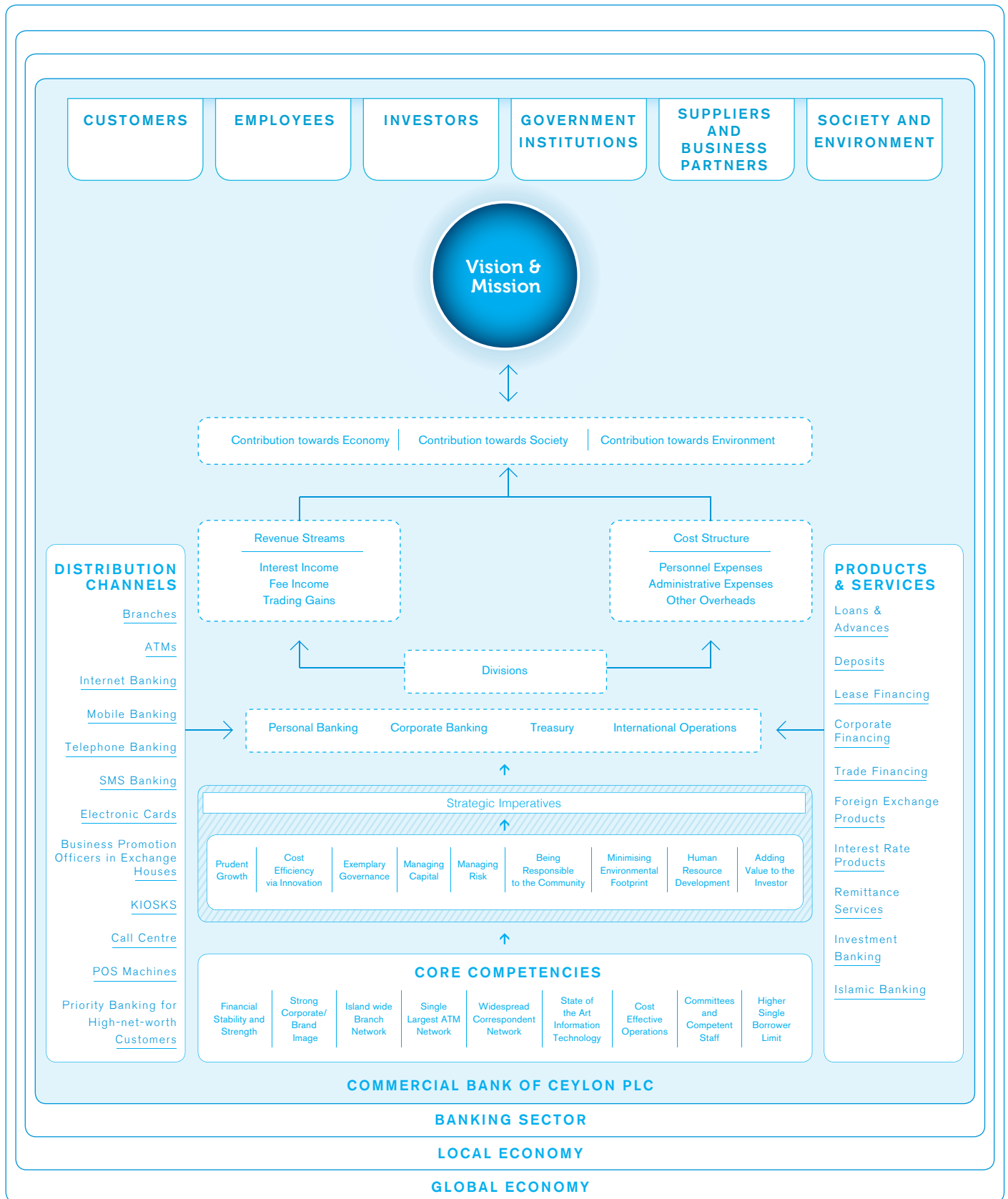
Implementation of Financial Sector Consolidation plan

- Financial Sector Consolidation Unit established and guidelines were issued about the consolidation process of financial institutions

Application of new accounting standards effective from January 01, 2014

- Implementation of SLFRS 13 on 'Fair Value Measurement' which provides guidelines of fair value measurement and disclosures

Our Business Model



Commercial Bank is primarily a retail-funded financial institution, with 77% of our funding mix comprised of deposits and 76% of those deposits provided by individual customers. Focused mainly on traditional banking activities, we leverage our strengths and core competencies through a proven business model - the mechanism by which we deliver value to our stakeholders, derive value in return and capture it for the benefit of our shareholders.

The Bank's business model has been evolving over time in response to significant changes in the operating environment - notably a steadily tightening of regulatory oversight, the rapid development of new information and communication technologies, and constantly changing customer behaviour. As a result, we have been reshaping our operations to become more customer-centric, developing a deeper understanding of individual customers' financial goals and needs. We have segmented the market accordingly and refined our value proposition to meet the expectations of retail and corporate customers that we understand better than ever before. The diverse products and services Commercial Bank offers today, and the range of channels by which we deliver them, reflect this drive to create a more integrated, relevant and valued customer experience.

At the same time, our business model remains simple and clearly aligned with the Bank's strategic objectives. Consciously avoiding complex, structured products, we have achieved consistently steady performance as we advance against our own record (refer the 'Decade at a Glance' on page 412 to 415) and in relation to our peers in Sri Lanka's competitive banking sector. Commercial Bank's success reflects the aptness of our underlying business model.

A Model of Uniqueness

Banks are in the business of financial intermediation - between depositors and borrowers, between importers and exporters, between remitters and beneficiaries, and also between investors and commercial ventures. The business model of a bank therefore differs significantly from that of any other enterprise.

The principal differentiator is that the Return on Assets (ROA) achieved by a financial institution is far lower than for other businesses; a bank's ROA tends to hover around 2%, in contrast to returns as high as 20% in most other sectors. However, in order to remain attractive to investors, financial institutions must nevertheless generate a ROE comparable to that of other publicly traded entities.

Customer Segmentation and Target Market

| Criteria | Corporates | SMEs | Micro Customers | Mass Market | High net-worth Individuals |
|--|---|---|--|---|---|
| Income/Size of Relationship/Business Turnover/Exposure | Either Annual Business Turnover > Rs. 600 Mn. or Exposure > Rs. 200 Mn. | Annual Business Turnover < Rs. 600 Mn. and Exposure < Rs. 200 Mn. | Exposure < Rs. 200,000 and availing dedicated products | Individuals not falling into other categories | Individuals with banking relationships above set thresholds |
| Price sensitivity | High | Moderate | Low | Low | High |
| Products of interest | Transactional and Trade Finance | Factoring, Leasing and Project Financing | Transactional | Transactional | Investment |
| No. of transactions | High | Moderate | Low | Low | Low |
| Level of engagement | High | Moderate | Low | Low | High |
| Objective | Funding and Growth | Funding and Growth | Funding and Advice | Personal Financial Needs | Wealth Maximisation |
| Background | Rated, Large Corporates | Medium Business | Self Employed | Salaried Employees | Businessmen/ Professionals |
| No. of banking relationships | Many | Many | A few | A few | Many |
| Level of competition from banks | High | Moderate | Low | Moderate | High |

They meet this challenge by applying a greater degree of gearing: banks' ability to accept public deposits makes it possible to gear the ROA higher in relation to shareholders' equity.

The effectiveness of the Bank's business model has enabled us to report acceptable levels of profitability at optimum levels of gearing over the years, as shown in the following table:

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|-----------------|-------|-------|-------|-------|-------|
| ROA (%) | 1.60 | 1.87 | 2.12 | 1.94 | 1.60 |
| Gearing (times) | 10.63 | 9.84 | 9.89 | 10.45 | 11.17 |
| ROE (%) | 17.01 | 18.40 | 20.96 | 20.28 | 17.87 |

Gearing in this context is essentially a matter of growing new business by attracting customer deposits and then lending those funds to prospective borrowers. As such, the ability to expand the Bank's operation, deriving sustainable value through growth, invariably depends on our success in subsequently delivering value and/or creating opportunities to do so in the future.

In addition to the organic growth that the Bank has sustained over many years, we are always alert to opportunities for inorganic growth. Recent history provides two such examples: our acquisition of the Bangladesh operation of Credit Agricole Indosuez in 2003, and our pending launch of banking operations in Myanmar - through a representative office - after recently being awarded a banking license by that Nation's Government.

We Know Our Customers

Commercial Bank serves two broad categories of customers: regular and walk-in. Regular customers include depositors and borrowers who maintain an ongoing relationship with the Bank. They enable us to generate revenue from fund-based operations in the form of net interest income - the differential between interest charged and interest paid - as well as from fees and commissions. For walk-in customers, on the other hand, we simply provide over-the-counter services that generate fee-based income.

We have segmented the Bank's regular customer base with a view to better understand their preferences and attitudes in order to offer tailor-made combinations of products and services, delivery channels, benchmarked service standards and streamlined internal processes. This individualised approach has enabled us to maximise customer fulfillment and engagement.

Our Business Model

Structured for Success

Functionally, the Bank operates four distinct business units. Corporate Banking Division meets the constantly evolving needs of corporations and SMEs. Personal Banking Division serves the full range of micro-level, mass-consumer and high-net-worth customers; it is organised along regional lines to ensure prompt and efficient service. A third unit, Treasury, plays a critical role by managing the Bank’s interest rate risk, trading in foreign exchange, facilitating liquidity and funding needs, and investing excess funds. And lastly, our Off-shore Banking Centre and Bangladesh operations come under the purview of International Operations.

We understand that each customer has one or more preferred channels to interact with the Bank. Commercial Bank has deployed multiple channels to connect with our customers. These range from conveniently located bricks-and-mortar branches to alternative distribution channels that increasingly leverage information and communication technologies - including ATM networks, call centre services and Internet Banking and mobile banking. The chart below shows the Bank’s channels mix and their primary target segments:

Channel Mix and Target Market

| Customer Segment | Branches | Internet Banking | ATMs | Call Centre | Mobile Banking | Relationship Managers | Business Promotion Officers | Premier Banking Units |
|------------------|----------|------------------|------|-------------|----------------|-----------------------|-----------------------------|-----------------------|
| Corporates | Yes | Yes | No | Yes | No | Yes | No | No |
| SMEs | Yes | Yes | No | Yes | No | No | No | No |
| Micro | Yes | Yes | Yes | Yes | Yes | No | No | No |
| Mass | Yes | Yes | Yes | Yes | Yes | No | Yes | No |
| High-net-worth | Yes | Yes | Yes | Yes | Yes | Yes | No | Yes |

Our business has become increasingly technology-intensive over the past decade, requiring us to work closely with a number of leading-edge IT vendors. These companies partner with us to develop innovative solutions in customer relationship management, multi-channel integration, business process improvement, loans origination and processing, risk management, business intelligence and much more.

As we maintain and enhance a large network of branches and alternative channels, our cost structure consists primarily of human resources expenditure (56%) and administrative and real estate expenses (37%). In addition, we must make adequate provisions for impairment on loans and advances.

With a cost to income ratio of 47.13%, Commercial Bank is one of the most efficient and productive banks in our peer group. That key measure of success is a testament to the soundness of our value proposition, the effectiveness with which we deliver it and, above all, the time-tested business model that provides the foundation for all of our efforts.

Drawing from a broad spectrum of market-sensitive products and services, we can tailor Commercial Bank’s value proposition to reflect the priorities and expectations of specific customer segments. The products and services on offer include corporate banking to retail banking and from investment banking to treasury. A detailed list of products and services is given on page 27.

To support the delivery of targeted services cost-effectively, we have been moving increasingly towards a shared-services model for the Bank’s central functions. This enables us to take advantage of synergies across the organisation, as various cross-functional working groups share ideas, refine processes and collaborate on joint initiatives.

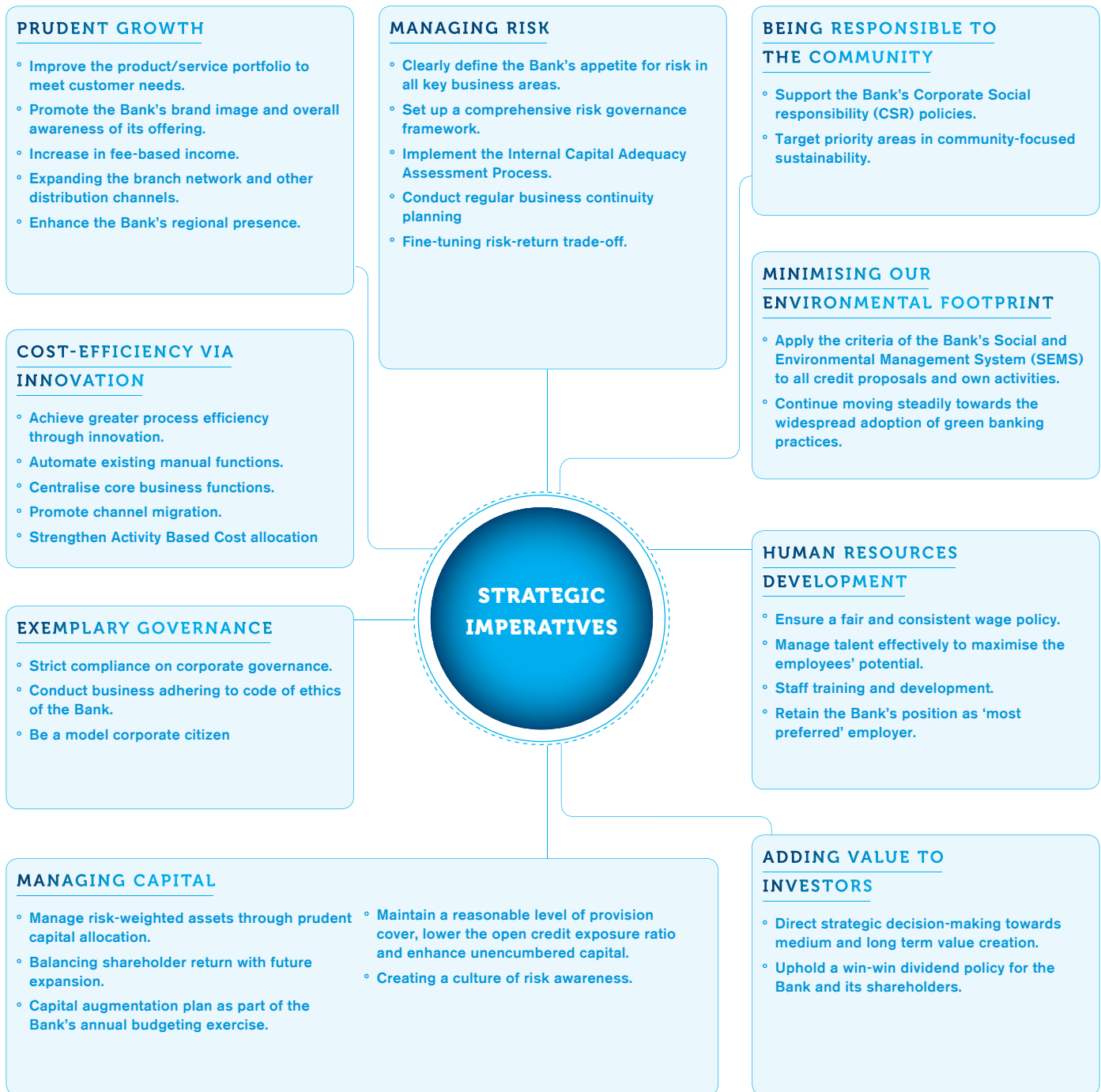
In addition to our permanent workforce of full-time and part-time employees, we contract the services of outsourced staff for non-core activities. The Bank also operates four subsidiary companies, of which two are primarily engaged in providing support services to our regular operations.

Bank's Products and Services Portfolio

| Personal Banking | Corporate Banking | Treasury Operation | International Operations |
|--|---|---|--|
| <p>Deposit Products</p> <ul style="list-style-type: none"> • Current Accounts • Achievers' Current Accounts • Regular Savings Accounts • Power Saver Accounts • Super Saver Accounts • Fixed Deposits • Foreign Currency Deposits • Money Market Accounts • Call Deposits • <i>Udara</i> Senior Citizens' Accounts • <i>Arunalu</i> Children's Savings Accounts • <i>Isuru</i> Minors' Savings Accounts • <i>DotCom</i> Youth Savings Accounts • <i>Anagi</i> Women's Savings Accounts • Future Pensions Plan <hr/> <p>Advances</p> <ul style="list-style-type: none"> • Personal Loans • Term Loans • SME Loans • Housing Loans • Lease Financing • Hire Purchase <hr/> <p>Fee-based Operations</p> <ul style="list-style-type: none"> • Paymaster • Credit/Debit Card Services • Utility Bill Payments • Mobile Phone/SMS Banking • Internet Banking • Tele-Banking • Bancassurance • e-Exchange <hr/> <p>Other Services</p> <ul style="list-style-type: none"> • 365/Holiday Banking • Weekend Banking • Priority/Elite Banking | <p>Corporate Banking</p> <ul style="list-style-type: none"> • Term Loans • Working Capital Financing • Leasing and Factoring • Payment Solutions for Corporate Clients • Investment Advice and Evaluation • Term Deposits • Savings Accounts • Current Accounts <hr/> <p>Investment Banking</p> <ul style="list-style-type: none"> • Structuring, Managing and Underwriting of Initial Public Offerings and Private Placements of Equity • Margin Trading Facilities • Structuring of Corporate Debt Instruments • Securitisation • Syndicated Loans • Escrow Accounts • Project Financing • Custodian Services <hr/> <p>Trade Finance</p> <ul style="list-style-type: none"> • Import/Export Financing • Shipping and Other Guarantees • Structured Trade Finance Services • Facilities for International Trade Payments (i.e., Letters of Credit, Documents against payment, Documents against acceptance, etc.) <hr/> <p>Others</p> <ul style="list-style-type: none"> • Islamic Banking • Bullion Trading • SWIFT Facilities • Internet Banking | <p>Derivatives</p> <ul style="list-style-type: none"> • FCY and Interest Rate Swaps • Forward Exchange Contracts • LKR and FX Options • Caps, Floors and Collars <hr/> <p>Interest Rate Products</p> <ul style="list-style-type: none"> • Money Market Products • Fixed Income Securities Trading • Repurchase Transactions on Government Securities <hr/> <p>Foreign Exchange Products</p> <ul style="list-style-type: none"> • FX Dealings • FX Hedging | <p>Bangladesh Operation</p> <p>Deposit Products</p> <ul style="list-style-type: none"> • Current Accounts • Savings Accounts • Fixed Deposit Accounts • Margin Accounts • Money Market Accounts <hr/> <p>Advances</p> <ul style="list-style-type: none"> • Personal Loans • Term Loans • SME Loans • Housing Loans • Auto Loans • Lease Financing <hr/> <p>Maldivian Operation</p> <ul style="list-style-type: none"> • Project Financing • Development Lender in Syndicated Facilities <hr/> <p>Remittance Services</p> <ul style="list-style-type: none"> • ComBank e-Exchange • MoneyGram |

Strategic Imperatives

Commercial Bank has a set of clearly defined priorities that help to focus our collective efforts in support of the Bank's long term strategy. These strategic imperatives encompass all areas of our business, from corporate governance and the management of risk to social responsibility and sustainability - and, of course, the value we deliver to investors. The following overview outlines the key imperatives that will drive our decision-making and operational activities through the coming year and beyond:



The Bank's Response to Salient Risks and Uncertainties

Risk is omnipresent in a banking environment and managing risk is an integral part of every individual. The risk universe is in a constant flux and the challenges are to adapt and evolve in such an environment whilst managing strategic and business goals.

The types of risks and uncertainties so identified by the Bank (some of which are further elaborated in the section on 'Managing Risk at Commercial Bank' on pages 218 to 245) are tabulated below along with the responses to mitigate the negative consequences arising therefrom.

| Risks and Uncertainties | Bank's Response |
|--|---|
| <p>1. Stiff Competition</p> <p>Competition to increase volume and market share will be intense in future. Amid this intense competition within the industry, the Bank is required to maintain its strong competitive position through adopting sustainable growth strategies.</p> | <ul style="list-style-type: none"> • Product Diversification by introducing new products and sophisticated products for high-end corporate customers. • Market Development by moving into new markets both locally and overseas. • Driving through state-of-the-art technology stemming from its overall business strategy. • Customer attraction and retention through strategic positioning and strong corporate brand image. |
| <p>2. Thinning Margins</p> <p>Intense competition coupled with the pressure from regulators will cast uncertainties on the margins of the banking business. This will demand the Bank to continuously align its strategies to optimise the margins through maintaining the quality of the loan portfolio and mitigating the possible implications to interest margins due to maturity mismatches.</p> | <ul style="list-style-type: none"> • The Assets and Liabilities Committee of the Bank continuously aligns its strategies to optimise the maturities of assets and liabilities to mitigate the possible impact to interest margin due to maturity mismatches. • Diversification of the interest income through innovative products, which will enable the Bank to improve interest margins while minimising the associated risks. • Intensified recovery steps and strong monitoring procedures to minimising the non-performing advances. • Concentrate more on new fee-based income sources. |
| <p>3. Maintaining the Cost Structure of the Bank</p> <p>Maintenance of cost structure and the cost to income ratio are used as measures of efficiency among banks across the globe. The Bank will face tremendous pressure in maintaining the desired cost structure in the midst the competition and the constantly increasing operating costs.</p> | <ul style="list-style-type: none"> • The Bank has adopted an investment approach in managing its costs and seeks to maintain a balance between cost structure and strategic execution. • Continuous search for internal process improvements of the Bank which will enable the cost efficiencies and increased customer satisfaction. • Cost conscious culture of the Bank which evaluates costs incurred against the value added by respective cost centre. |
| <p>4. Quality of Assets</p> <p>The quality of Bank's assets, principally loans and advances depends on the borrowers' credit worthiness and the level of non-performing advances.</p> | <ul style="list-style-type: none"> • Adopt a holistic approach to lending decisions. Executive Credit Policy and Risk Management Committees establish strategic direction, risk tolerance levels and ethics in asset management. |
| <p>5. Pressure on Capital</p> <p>Banks are required to ensure that they possess adequate financial strength at all times. Capital adequacy is thus a regulatory benchmark.</p> | <ul style="list-style-type: none"> • Retention of adequate profits to augment growth. • Mobilise adequate Tier II capital to supplement the Core Capital. • Regularly participate in local and regional business forums to attract potential investors. |

Risks and Uncertainties

| Risks and Uncertainties | Bank's Response |
|---|---|
| <p>6. Financial Disintermediation</p> <p>Financial disintermediation is one of the main threats to contemporary financial institutions. This will exist when depositors withdraw their savings from financial institutions and invest the money directly in the marketplace to earn a higher yield even though at a higher risk.</p> | <ul style="list-style-type: none"> • Adopting a proactive approach in identifying emerging opportunities created by financial disintermediation. • Bolster retail banking through geographical expansion. • Instill confidence through recognitions awarded on stability and performance of the Bank. |
| <p>7. Limits on Off-Shore Expansion</p> <p>Constraints on capital requirements and other qualitative factors may act as obstacles to the Bank's strategy to expand into international markets.</p> | <ul style="list-style-type: none"> • Moving into overseas markets through Representative Offices, Business Promotion Officers (BPOs) and exchange houses. • Continue to seek new overseas opportunities while consolidating Bangladesh operation. |
| <p>8. Adverse Macro-Economic Conditions</p> <p>Macro-economic developments impact disposable income and savings patterns of customers which in turn has a bearing on the Bank's business.</p> | <ul style="list-style-type: none"> • Corporate plan and the Budget capture some of the future uncertainties in the planning process of the Bank. • A dedicated team engaged in monitoring economic trends and their implications to the industry. • Continually review the suitability of the risk policies and controls. • Monitoring the economic impacts on vulnerable sectors. |
| <p>9. Change in Socio Demographic Aspects and Different Perceptions of Generation Y</p> | <ul style="list-style-type: none"> • Availability of New Product Development Committee to develop new products in line with Bank segmentation, targeting and positioning strategies. • Continuous evaluation on changes and developments in the external environment to address issues identified while managing the strategic risk of the Bank. |
| <p>10. Intensified Requirements of Compliance with Various Local and International Rules, Regulations and Requirements Including new/revised Sri Lanka Accounting Standards.</p> | <ul style="list-style-type: none"> • Availability of Central Regulatory Corresponding Unit including Anti Money Laundering Unit. • Availability of a Compliance Officer, a member of Corporate Management. • Obtaining external consultancy as and when required with regard to compliance requirements, especially in terms of international requirements. • Having a dedicated team of staff members who are continuously trained/updated on changes in SLFRS/LKAS. |

With our long history of proven track record (refer 'Decade at a Glance' on pages 412 to 415), and the recognition and trust that such consistently strong performance has built, Commercial Bank of Ceylon PLC is well-established as Sri Lanka's benchmark private sector bank. Among our valued stakeholders and the public generally, we have been regularly recognised and rewarded for our sound financial management, ethical business practices, good corporate governance, accountability and transparency, and much more.

In Commercial Bank's early years, we catered to a highly specialised market, focusing on trade finance facilities. Today, we are acknowledged leaders in the retail banking arena, responsive to needs of our customers and proud to share in their success. The following indicators demonstrate our progress over the period from 2009 to 2014.

| | For the Year Ended/ As at December 31, | | Growth Over 2009 Rs. Mn. | CAGR*** (5 Years) % |
|---------------------------------|---|-------------------|--------------------------------|---------------------------|
| | 2014* Rs. Mn. | 2009** Rs. Mn. | | |
| Post-tax profits | 11,180.2 | 4,305.0 | 6,875.2 | 21.03 |
| Deposits | 529,361.5 | 234,744.7 | 294,616.8 | 17.66 |
| Loans & advances (Gross) | 463,586.3 | 178,891.3 | 284,695.0 | 20.98 |
| Interest earning assets | 734,661.4 | 292,042.8 | 442,618.6 | 20.26 |
| Interest bearing liabilities | 638,787.0 | 258,195.4 | 380,591.6 | 19.86 |
| Total assets | 795,609.6 | 322,314.7 | 473,294.9 | 19.81 |
| No. of branches | 257 | 187 | 70 | — |
| No. of ATMs | 625 | 368 | 257 | — |
| No. of employees | 4,852 | 4,071 | 781 | — |

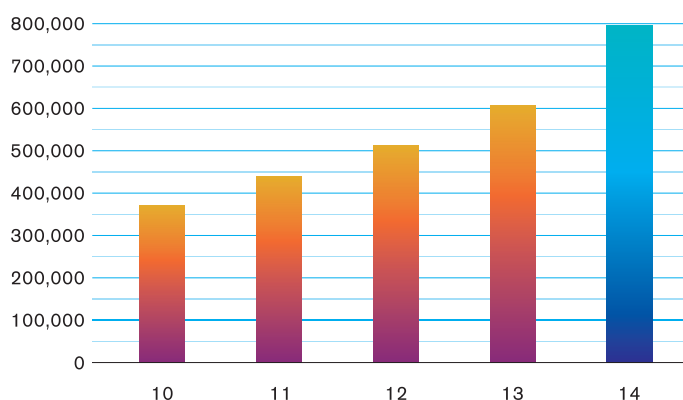
* Based on SLFRS/LKAS

*** Compound Annual Growth Rate

** Based on SLAS

Total Assets

(Rs. Mn.)



Year after year, the Bank has generated improved results in both profits and business volumes. We have expanded our operations to all areas of the country and also established a presence in Bangladesh. Currently, we have a market share of approximately 11% to 12% within Sri Lanka's banking sector, measured by assets, deposits and advances.

Propelled forward by the momentum from past achievements, we moved into 2014 well-prepared to navigate the seas of strong competition in the banking industry. After setting ambitious targets at the beginning of the year via the Corporate Plan and Budget, we leveraged our extensive resources and focused all of our efforts on achieving budgeted targets through organic growth. A detailed analysis of our 2014 financial performance follows in this section of the Annual Report.

All financial disclosures herein are based on the Sri Lanka Accounting Standards (SLFRS/LKAS), except a few areas which have been analysed based on management accounts prepared in accordance with the Central Bank of Sri Lanka (CBSL) guidelines. Data for 2011 – 2014 is based on SLFRS/LKAS; all results prior to that period were based on previous accounting standards.

Profitability

The Bank performed exceptionally well in 2014, earning more than Rs. 10.0 Bn. in post-tax profits for the third consecutive year. We sustained this high level of performance despite the less-than-conducive macroeconomic conditions affecting Sri Lanka during the year. Continuing the trend that prevailed in the latter part of 2013, the country's banking industry experienced low demand for credit, especially during the first two quarters - mainly because of muted credit growth in the private sector, as revealed in data released by the CBSL. As well, the Bank's restrictive approach to pawning advances contributed to overall slow growth in advances.

As a result of this situation, earning assets shifted to low-yield Government Securities for most of 2014, as the majority of banks compelled to maintain high liquid asset ratios relative to the statutory minimum of 20%. At the same time, Sri Lanka's banking sector experienced an increase in non-performing advances (NPAs), except pawning.

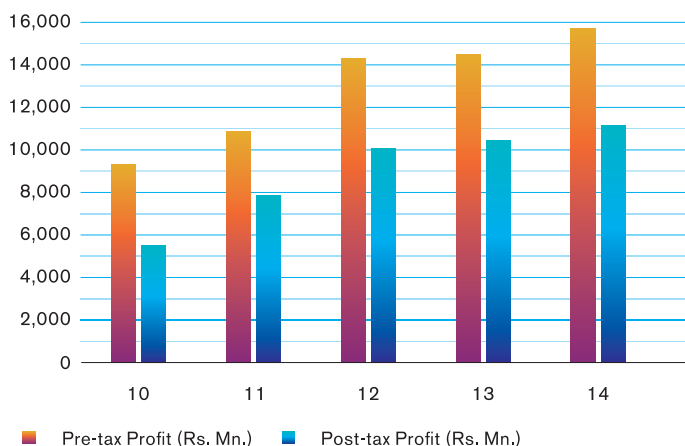
Growth over the previous year in Bank's pre-tax and post-tax profits is summarised below:

| | For the Year Ended | | Growth Over 2013 | |
|---------------------------------------|--------------------|-----------------|------------------|-------|
| | 2014 Rs. Mn. | 2013 Rs. Mn. | Rs. Mn. | % |
| Pre-VAT, NBT and Income Tax profit | 18,425.2 | 16,479.5 | 1,945.7 | 11.81 |
| Pre-tax profit | 15,736.2 | 14,510.5 | 1,225.7 | 8.45 |
| Post-tax profit | 11,180.2 | 10,445.5 | 734.7 | 7.03 |

Financial Review

Pre-tax and Post-tax Profit

(Rs. Mn.)



Quarterly Profits

Commercial Bank's quarterly profits recorded satisfactory results throughout 2014, when compared with the corresponding quarters of the previous year. The Bank's primary sources of income, both fund-based and fee-based, saw good growth. Despite shrinking interest margins in each quarter relative to the previous quarter, the Bank also grew well at the level of net interest income, mainly owing to our judicious fund management strategies. As well, we were able to maintain our cost structure at its optimum level, which supplemented in recording growth in quarterly profits during the year, as shown below:

| Quarter ended | 2014 | | | |
|--|----------|---------|--------------|-------------|
| | March 31 | June 30 | September 30 | December 31 |
| Pre-VAT, NBT and Income Tax profit (Rs. Mn.) | 3,896.9 | 3,690.1 | 5,531.7 | 5,306.5 |
| Growth over 2013 (%) | 4.73 | (0.89) | 24.54 | 15.51 |
| Pre-tax profit (Rs. Mn.) | 3,290.6 | 3,183.6 | 4,738.6 | 4,523.4 |
| Growth over 2013 (%) | 1.88 | (2.88) | 21.62 | 10.15 |
| Post-tax profit (Rs. Mn.) | 2,278.7 | 2,200.6 | 3,325.6 | 3,375.3 |
| Growth over 2013 (%) | 1.68 | (1.35) | 20.40 | 5.10 |



Net interest income - the principal source of income from the Bank's fund-based operations - reached Rs. 27,221.8 Mn. in 2014, an increase of Rs. 1,337.0 Mn. or 5.16%, compared to Rs. 25,884.9 Mn. recorded in 2013. This was a noteworthy achievement, given the substantial reduction in interest spread experienced by the Bank over the course of the year - a decrease of 70 basis points, from 4.23% in 2013 to 3.54% in 2014.

Despite substantial growth in interest-earning assets, the Bank's interest income declined by Rs. 931.6 Mn. or 1.48% to Rs. 61,832.0 Mn. in 2014, compared to Rs. 62,763.6 Mn. recorded in the previous year. Reflecting the market-wide drop in interest rates, interest expenses also decreased by Rs. 2,268.6 Mn. or 6.15% to Rs. 34,610.2 Mn., compared to Rs. 36,878.8 Mn. in 2013. The main factor driving the downward trend in both interest income and expenses was the timely re-pricing of Bank's assets and liabilities portfolio several times during the year, as we worked to stay aligned with the general decline in market interest rates.

Analysis of net interest income taking into account changes in average volumes and rates compared to the previous year is summarised below:

| | Favourable/(Adverse) Impact to Net Interest Income due to change in | | Total Rs. Mn. |
|---------------------|--|--------------------------|------------------|
| | Average Volumes Rs. Mn. | Average Rates Rs. Mn. | |
| Interest income | 17,180.6 | (18,112.2) | (931.6) |
| Interest expenses | (9,819.2) | 12,087.8 | 2,268.6 |
| Net interest income | 7,361.4 | (6,024.4) | 1,337.0 |

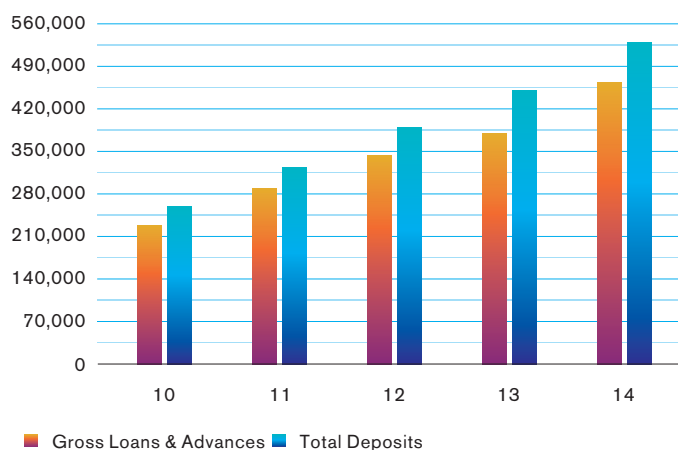
Fund-Based Operations

The Bank recorded satisfactory volume growth in both deposits and advances throughout 2014, exceeding the Sri Lankan industry average. Monthly average growth was more than Rs. 6.5 Bn. for deposits and Rs. 7.0 Bn. for loans and advances.

| | As at December 31 | | Growth Over 2013 | | CAGR (5 Years) % |
|----------------------------------|-------------------|-----------------|------------------|-------|------------------------|
| | 2014 Rs. Mn. | 2013 Rs. Mn. | Rs. Mn. | % | |
| Deposits | 529,361.5 | 451,152.9 | 78,208.6 | 17.34 | 17.66 |
| Loans and advances (gross) | 463,586.3 | 379,252.9 | 84,333.4 | 22.24 | 20.98 |

Total Deposits and Loans and Advances

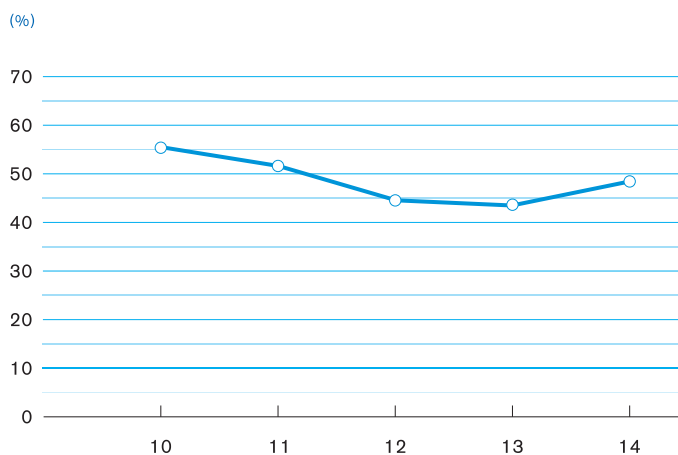
(Rs. Mn.)



Bank was able to substantially improve the ratio of current and savings accounts (CASA) to total deposits when compared with the ratio reported at the end of 2013. Main contributory factors for this improvement were that there is no incentive for depositors to lock into term deposits due to sharp decline recorded in interest rates as well as initiatives taken by the Bank to mobilise low cost deposits which are discussed in detail under Deposit Mobilisation on page 44 in this section.

| | As at December 31 | |
|----------------|-------------------|-------|
| | 2014 | 2013 |
| CASA ratio (%) | 48.38 | 43.51 |

CASA Ratio

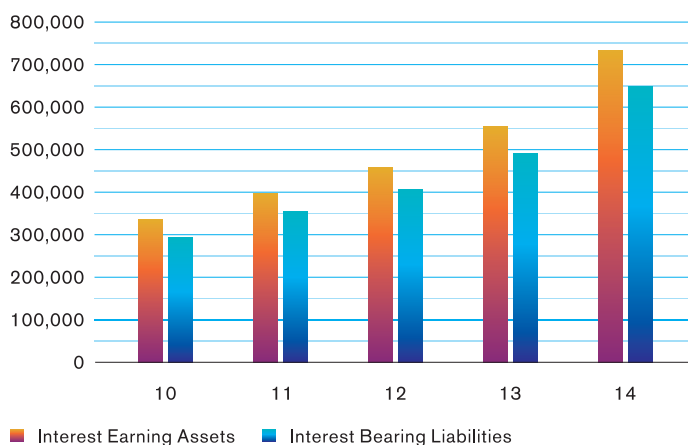


Financial Review

| | As at December 31, | | Growth Over 2013 | | CAGR (5 Years) % |
|------------------------------|--------------------|-----------------|------------------|-------|------------------------|
| | 2014 Rs. Mn. | 2013 Rs. Mn. | Rs. Mn. | % | |
| Interest-earning assets | 734,661.4 | 552,971.4 | 181,690.0 | 32.86 | 20.26 |
| Interest-bearing liabilities | 638,787.0 | 492,694.6 | 146,092.4 | 29.65 | 19.86 |

Interest Earning Assets and Interest Bearing Liabilities

(Rs. Mn.)



Over the 5-year period, from 2010 to 2014, Commercial Bank has sustained substantial growth in deposits, other interest-bearing liabilities as well as advances and other interest-earning assets.

The Bank's total assets increased to Rs. 795.6 Bn. at the end of 2014, compared to Rs.606.0 Bn. in 2013. This substantial increase of Rs. 189.6 Bn., or 31.29%, was attributed mainly to growth in loans and advances, as well as in financial assets categorised as available-for-sale. It was funded primarily by increased deposits, as well as by other borrowings during the year.

Fee-Based Operations

In 2014, Commercial Bank recorded a growth of Rs. 581.9 Mn., or 13.69% in net fees and commission income. This was mainly attributable to the substantial increase in fees and commission income from credit/debit cards, trade finance and remittances from overseas customers.

Net Gains/(Losses) from Trading

The Bank recorded a loss of Rs. 305.5 Mn. in trading activities during the year which represents an improvement of Rs. 1,320.4 Mn. compared to the loss of Rs. 1,625.9 Mn. reported in 2013. This was mainly due to the decline in the foreign exchange loss by Rs. 1,157.1 Mn. consequent to a favourable movement in currency premiums during the year.

Net Gains/(Losses) from Financial Investments

Financial investments of the Bank recorded a net gain of Rs. 2,272.6 Mn. which was an improvement of Rs. 923.0 Mn. compared to the gain of Rs. 1,349.5 Mn., recorded in 2013. This growth is mainly attributable to gain on disposal of Government Securities categorised under available-for-sale as a result of favourable movement in interest rates. However, the above favourable impact was partly set off due to the drop of Rs. 787.3 Mn. in capital gains, which was an one-off disposal of equity shares in 2013.

Other Income (Net)

Other income decreased by Rs. 1,322.5 Mn. or 20.75% year-on-year. This was due to the reduction in net revaluation gain on foreign currency denominated assets and liabilities as a result of the relatively stable exchange rate prevailed throughout the year. Translation gain on account of retained profits from our Off-Shore Banking Centre too dropped compared with 2013. This was due to the lower depreciation of the Sri Lanka Rupee against the US Dollar during the year. The above negative variances were partly set off by the increase in loan recoveries and reversal of provisions as a result of aggressive recovery efforts of the Bank in 2014.

Therefore, non-interest income of the Bank increased to Rs. 11,848.3 Mn. an improvement of 14.53% compared to Rs. 10,345.4 Mn. recorded in 2013. Consequently, the increase of Rs. 2,839.8 Mn. or 7.84%, in the Bank's total operating income during 2014 could be attributed to growths in both fund-based and fee-based operations.

Impairment Charges on Loans and Advances

With the implementation of SLFRS, the Bank moved from time-based provisioning to the incurred-loss methodology, which consists of two main components: individual impairment and collective impairment. The Bank decides threshold limits for individually significant loans and advances, and loans above these limits are subject to individual impairment. Threshold limits are set to cover a reasonable percentage of the total loan portfolio. Loans and advances above these threshold limits are evaluated against predetermined impairment triggers.

Loans that are not subjected to individual impairment as well as loans which are not individually impaired are categorised into groups 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 (a) Probability of Default (PD), and (b) Loss Given Default (LGD).

| | For the Year Ended December 31, | | Change Over 2013 | |
|-----------------------|------------------------------------|-----------------|------------------|---------|
| | 2014 Rs. Mn. | 2013 Rs. Mn. | Rs. Mn. | % |
| Individual impairment | 390.0 | 1,070.2 | (680.2) | (63.56) |
| Collective impairment | 4,462.3 | 4,007.7 | 454.6 | 11.34 |
| Total impairment | 4,852.3 | 5,077.9 | (225.6) | (4.44) |

Individual impairment recorded a substantial decline compared to the last year as a result of provision made on account of a few large non-performing customers in 2013.

Collective impairment recorded a substantial increase mainly due to the increase recorded in the volumes of loans subjected to collective impairment. The Bank's total impairment charge recorded a drop of 4.44%, mainly because of (a) the decrease in individual impairment, (b) the decline in collective impairment on account of pawning and (c) the general improvement in credit quality.

The impairment charge for 2014 (which includes both capital and interest), compared to the previous time-based loan-loss provisions of the CBSL was as follows:

| | For the Year Ended December 31, | |
|---|---------------------------------|-----------------|
| | 2014 Rs. Mn. | 2013 Rs. Mn. |
| Total impairment charge | 4,852.3 | 5,077.9 |
| Total loan-loss provision (CBSL) | 3,440.4 | 3,765.7 |
| Excess of impairment over loan-loss provision | 1,411.9 | 1,312.2 |

Net operating income after charging the impairment provision amounted to Rs. 34,151.4 Mn., an increase of Rs. 3,125.1 Mn. or 10.07%, compared with Rs. 31,026.3 Mn. in 2013.

Total operating expenses, consisting of personnel, depreciation and amortisation and other operating expenses recorded an increase of Rs. 1,179.4 Mn. or 8.11% compared with 2013. Personnel expenses comprising compensation and benefits paid to employees recorded an increase of 8.76% compared with the last year. Through a continuous rationalisation of the Bank's cost structure, we were able to contain overhead cost at an optimum level. Even so, depreciation and amortisation saw a substantial increase, mainly because of a change in the rate of depreciation on a class of assets to better reflect the future economic benefits associated with such assets.

As a result of the lower increase recorded in operational expenses, the Bank recorded a notable growth of 11.81% or Rs. 1,945.7 Mn. in operating profit before VAT, NBT and Income Tax up from Rs. 16,479.5 Mn. in 2013.

| | For the Year Ended December 31, | | Growth Over 2013 | |
|---------------------------------------|------------------------------------|-----------------|------------------|-------|
| | 2014 Rs. Mn. | 2013 Rs. Mn. | Rs. Mn. | % |
| Pre-VAT, NBT and Income Tax profit | 18,425.2 | 16,479.5 | 1,945.7 | 11.81 |
| Profit before tax | 15,736.2 | 14,510.5 | 1,225.7 | 8.45 |

Financial VAT and NBT on profit showed a substantial increase of 36.57% in 2014, mainly owing to imposition of NBT effective January 1, 2014 and increase in profit. Income tax expenses increased by 12.08% during the year, in line with the increase in profit before VAT and NBT - the baseline for determining the income tax liability.

Other Comprehensive Income (OCI)

In 2014, consequent to a revaluation of all immovable properties of the Bank by qualified valuers in accordance with guidelines issued by the CBSL, the Bank recorded a net revaluation gain of Rs. 1,500.8 Mn. As mentioned under net gains/(losses) from financial investments, we realised part of the mark to market gain on assets held in the available-for-sale category, which resulted in a decline of the unrealised gain recorded under Sri Lankan Government Securities in OCI.

| | For the Year Ended December 31, | | Growth Over 2013 | |
|----------------------------|------------------------------------|-----------------|------------------|------|
| | 2014 Rs. Mn. | 2013 Rs. Mn. | Rs. Mn. | % |
| Total comprehensive income | 13,244.2 | 12,233.7 | 1,010.5 | 8.26 |

Total comprehensive income of the Bank, including OCI, amounted to Rs. 13,244.2 Mn., reflecting a growth of Rs. 1,010.5 Mn. or 8.26% over the previous year.

Ratios

Credit Quality Ratios

As discussed under impairment charges in this section, the Bank makes provision for impairment on account of both individual and collective on loans and advances portfolio. Ratios based on impairment are as follows:

| | As at December 31, | | |
|---|--------------------|-----------|---------------|
| | 2014 % | 2013 % | Variance % |
| Individual impairment as a % of total loans and advances | 1.03 | 1.11 | (0.08) |
| Collective impairment as a % of total loans and advances | 2.99 | 3.05 | (0.06) |
| Total impairment as a % of total loans and advances | 4.02 | 4.16 | (0.15) |
| Individual impairment as a % of individually-impaired loans and advances | 66.19 | 61.81 | 4.38 |
| Collective impairment as a % of loans and advances subjected to collective impairment | 3.04 | 3.11 | (0.07) |

Impairment in the above table represents cumulative impairment.

Financial Review

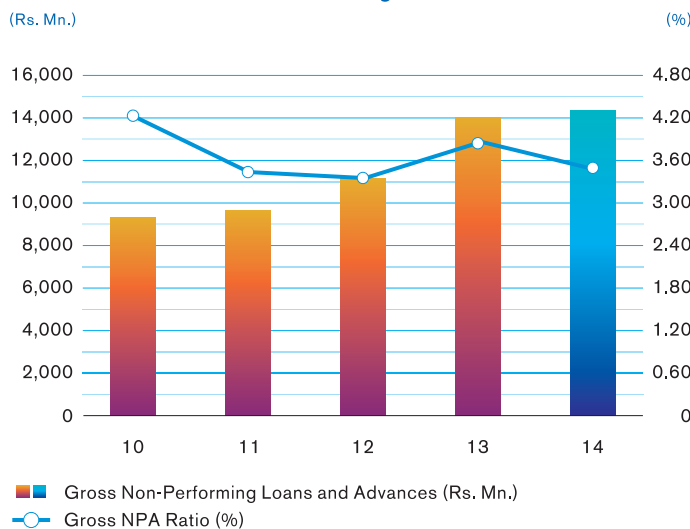
Non-Performing Advances Ratio

The Bank's core banking system continues to operate under the previous, time-based CBSL provisioning policy, which classifies non-performing advances (NPAs) without any manual intervention. Our provisioning policy is more stringent than the basic requirements stipulated by the CBSL.

In 2014, the Sri Lankan banking industry experienced an increase in NPAs, specially during the first half of the year. This trend gradually reduced towards the end of the year. The Bank was able to curtail the increase in NPAs through proactive approaches adopted by the branches, with support and guidance from the Central Recoveries Department; the latter's role is discussed in detail towards the end of this Section.

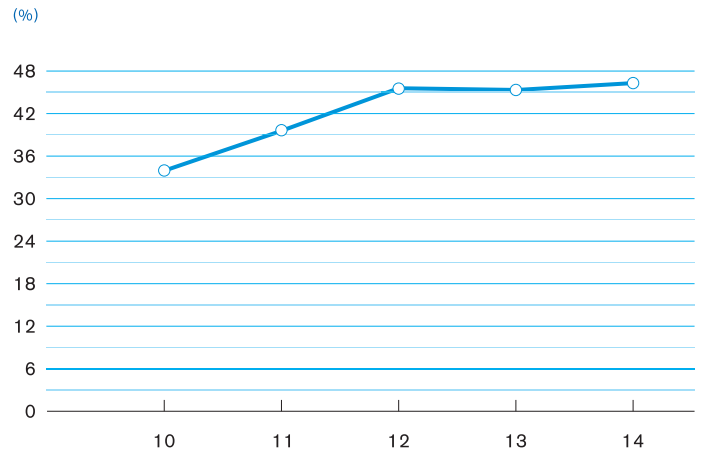
| | As at December 31, | |
|---|--------------------|----------|
| | 2014 | 2013 |
| Gross non-performing loans and advances (Rs. Mn.) | 14,385.7 | 14,040.6 |
| Gross NPA ratio (%) | 3.47 | 3.88 |
| Net NPA ratio (%) | 1.86 | 2.12 |
| Provision cover (%) | 46.34 | 45.41 |
| Open credit exposure ratio (%) | 10.69 | 11.69 |

Movement of the Non-Performing Loans and Advances



The Bank is constantly keeping an eye on the provision cover to align with that of well-reputed international banks. Provision cover ratio of 46.34% represents an improvement of 12.29% from 34.05% recorded as at December 31, 2010.

Provision Cover

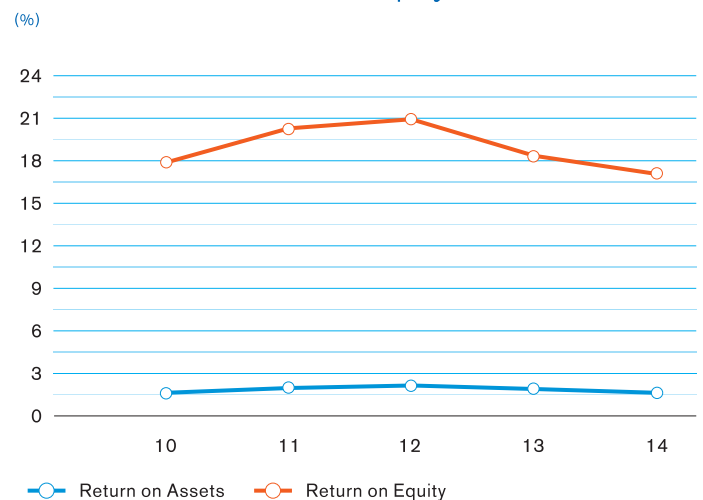


Profitability Ratios: Return on Assets (ROA) and Return on Equity (ROE)

The increase in the Bank's assets and equity in 2014, at 31.29% and 15.70%, was well above growth in profits, resulting in decreases in ROA and ROE as shown below. However, our ratios remain well above industry averages.

| | 2014 % | 2013 % |
|-----------------|--------|--------|
| ROA (after tax) | 1.60 | 1.87 |
| ROE | 17.01 | 18.40 |

Return on Assets and Return on Equity

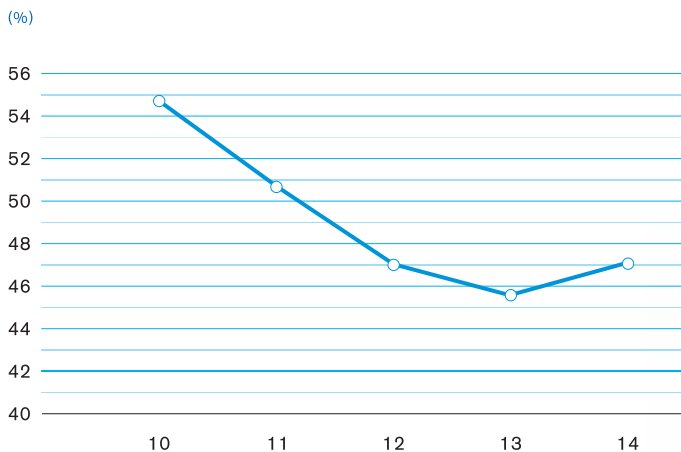


Efficiency Ratios: Cost to Income Ratio

Commercial Bank is recognised as the best private sector bank in Sri Lanka today. One of the main reasons for the Bank's success has been our sustained and exemplary operational excellence over many years. This has been achieved throughout consistent adoption of optimal and rigorously lean cost structures. Last year, with the increase recorded in operational expenses, the cost to income ratio also increased.

| | 2014 | 2013 |
|--------------------------|-------|-------|
| Cost to income ratio (%) | 47.13 | 45.59 |

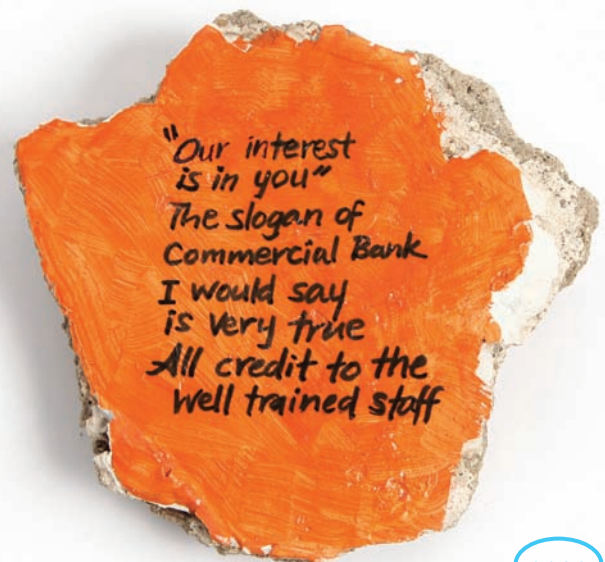
Cost to Income Ratio



Equity

Shareholders' equity of the Bank grew by Rs. 9,567.7 Mn., or 15.70%, during the year. Key contributing factors to this increase were (a) the ploughing-back of profits after payment of the Bank's dividend, and (b) accumulation of Rs. 2/- per share through the issue and allotment of new shares as part of the final dividend of the previous year. In addition, funds transferred to the Investment Fund Account from savings on Income Tax and VAT helped to increase the Bank's capital base. During the year under review, available funds residing in the Investment Fund Account were transferred to the General Reserves account as advised by the CBSL as the above fund ceased to operate. Total shareholders' funds stood at Rs. 70,511.7 Mn. as of December 31, 2014.

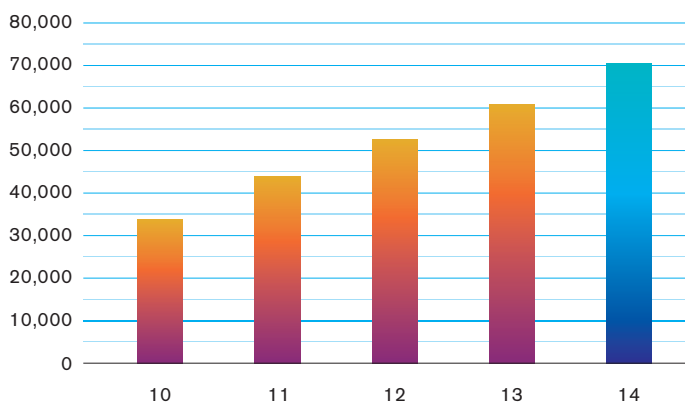
These developments in the capital base increased the free capital of the Bank to Rs. 58,864.2 Mn. (Rs. 51,755.8 Mn. in 2013). Single-borrower limit too rose to Rs. 19,289.6 Mn. for individual customers and Rs. 21,218.6 Mn. for group of customers - among the highest thresholds in the Sri Lankan banking industry.



Financial Review

Shareholders' Funds

(Rs. Mn.)



Capital Adequacy Ratio

The capital adequacy ratio (CAR) dropped marginally in 2014, mainly because of the increase recorded in the loans and advances portfolio of the Bank. Nevertheless the drop was limited, due to a substantial amount of funds been transferred to Government Securities as a result of lower demand for credit during the year.

| | As at December 31 | | Statutory Minimum Ratio |
|-------------|-------------------|-------|-------------------------|
| | 2014 | 2013 | |
| | % | % | % |
| Tier I | 12.93 | 13.27 | 5.00 |
| Tier I & II | 15.97 | 16.91 | 10.00 |

The Bank prepared the Internal Capital Adequacy Assessment Process (ICAAP), a requirement under Pillar 2, the Supervisory Review Process within the Basel II framework, based on figures as of December 31, 2013. The results indicated that the Bank is well within the minimum ratios for the next five years as stipulated under the guidelines of the ICAAP document.

We also assessed liquidity coverage based on the draft guidelines issued by the CBSL - a requirement under Basel III - as of December 31, 2014. Our ratio was well above the minimum requirement applicable as of that date.

Statutory Liquid Assets Ratio

The Bank's liquid assets ratio was steady around 30% throughout 2014. While our deposit mobilisation efforts generated significant rewards, the banking industry generally did not experience desired levels of credit growth, and as a result, liquidity ratios remained at the same level throughout the year. We are well aware of the trade-off between profitability and liquidity in managing the Bank's operations.

Dividend

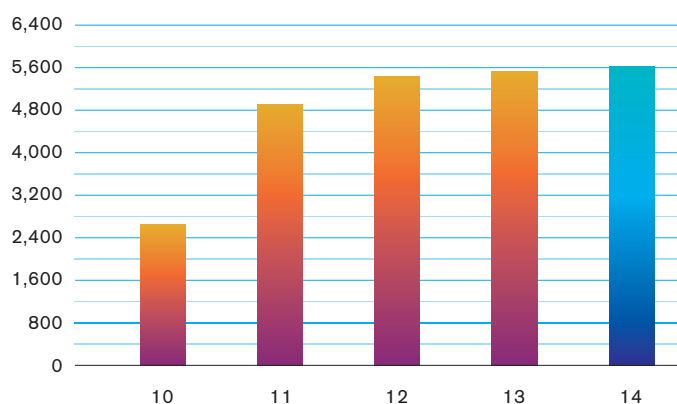
The Bank's dividend policy is designed to address multiple objectives. The main considerations were to maximise the shareholder wealth, increase market capitalisation, ploughing back of additional profits for business expansion and maintaining consistent stream of dividend to shareholders.

The Bank paid two interim dividends totalling to Rs. 2.50 per share to ordinary shareholders for the year ended December 31, 2014. The Board of Directors of the Bank also recommended Rs. 4.00 per share as final dividend for 2014, Rs. 2.00 to be paid in the form of cash and the balance Rs. 2.00 to be satisfied in the form of issue and allotment of shares, similar to the practice adopted in the last few years. Total dividend payment (paid and proposed) for the year amounts to Rs. 5,627.9 Mn. (Rs. 5,522.5 Mn. in 2013) of which Rs. 3,896.0 Mn. paid/to be paid in cash (Rs. 3,822.5 Mn. in 2013) and the balance Rs. 1,731.9 Mn. to be satisfied in the form of issue and allotment of shares (Rs. 1,699.9 Mn. in 2013). Dividend payments in the form of issuing of new shares, would strengthen the capital base of the Bank.

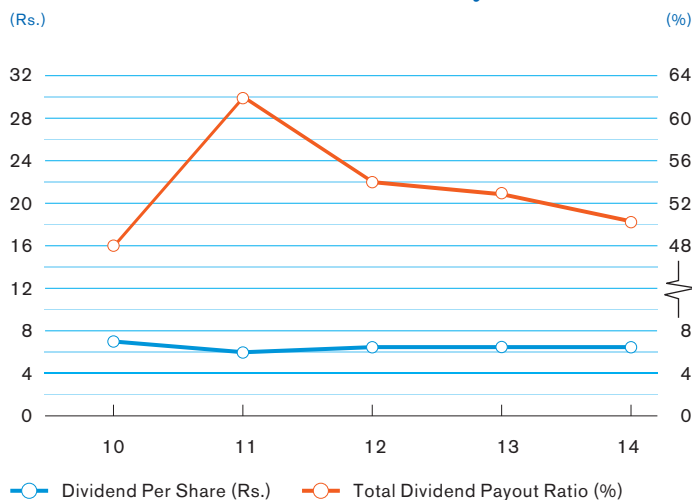
| | Per Share | | Dividend | |
|--|-----------|------|----------|---------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. | Rs. | Rs. Mn. | Rs. Mn. |
| Interim Dividend – Cash | 2.50 | 2.50 | 2,164.1 | 2,122.6 |
| Final Dividend | | | | |
| Cash | 2.00 | 2.00 | 1,731.9 | 1,699.9 |
| In the form of issue and allotment of shares | 2.00 | 2.00 | 1,731.9 | 1,699.9 |
| Total | 6.50 | 6.50 | 5,627.9 | 5,522.4 |

Gross Dividend Paid /Proposed

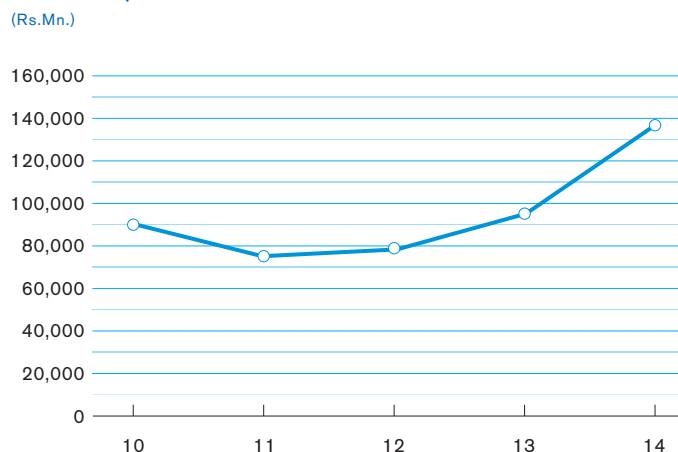
(Rs. Mn.)



Dividend Per Share and Total Dividend Payout Ratio



Market Capitalisation



The total dividend payout ratio of the Bank was 50.34% compared to 52.87% in 2013. Cash dividend payout ratio was 34.85% compared with 36.60% in 2013.

Market Capitalisation

Commercial Bank possesses the best market capitalisation among all listed banking and financial institutions operating in the country today. It ranks number 3 among all listed companies in the Colombo Stock Exchange (CSE). The market capitalisation of the Bank's shares increased to Rs. 138.6 Bn. as at December 31, 2014 compared to Rs. 95.6 Bn. as at end 2013.

| | As at December 31, | |
|---|--------------------|--------|
| | 2014 | 2013 |
| Market price per share | | |
| – Voting (Rs.) | 171.00 | 120.40 |
| – Non-Voting (Rs.) | 125.10 | 93.00 |
| Price Earnings ratio (Times) (Voting Shares) | 13.24 | 9.79 |

Group Performance

The Commercial Bank Group, consisting of the Bank and its four subsidiaries – Commercial Development Company PLC (CDC), ONEzero Company Ltd., Commex Sri Lanka S.R.L. – Italy and Indra Finance Ltd. – as well as associated companies Commercial Insurance Brokers (Pvt) Ltd. and Equity Investments Lanka Ltd., recorded satisfactory results in 2014. The operations of these companies are briefly described in the section on 'Subsidiaries and Associates' on pages 60 and 61 though they are not material in terms of their contribution to the Group's overall results and financial position. The Group recorded pre and post-tax profits of Rs. 15,859.9 Mn. and Rs. 11,242.8 Mn. respectively, compared to Rs. 14,690.9 Mn. and Rs. 10,573.4 Mn. reported in 2013. Annual growth rates for pre and post-tax profits were 7.96% and 6.33% respectively.

The Bank's acquisition of Indra Finance Ltd. was completed during the year, guided by the financial sector consolidation road map set out by the CBSL. We are now in the process of strengthening the governance and business practices of the acquired company.

Financial Review

Summary of Income Statement – Bank

| | 2014 Rs. Mn. | 2013 Rs. Mn. | Variance Rs. Mn. | Main Reason/s | Movement | Amount Rs. Mn. |
|---|-----------------|-----------------|---------------------|--|----------|-------------------|
| Net interest income | 27,221.9 | 25,884.9 | 1,337.0 | Change in average volume | ↑ | 7,361.4 |
| | | | | Change in average rate | ↓ | 6,024.4 |
| Non interest income | 11,848.3 | 10,345.4 | 1,502.9 | Sale of Government Securities due to favourable movement in interest rates | ↑ | 1,652.4 |
| | | | | Drop in revaluation gain on foreign exchange denominated assets and liabilities due to relatively stable exchange rate prevailed in 2014 | ↓ | 1,672.0 |
| | | | | Capital gains from equities in 2013 | ↓ | 787.4 |
| | | | | Net Fees and Commission Income | ↑ | 581.9 |
| | | | | Recoveries of loans written-off/provision reversals | ↑ | 491.0 |
| | | | | Drop in foreign exchange losses from trading activities due to favourable movements in currency premiums | ↑ | 1,157.1 |
| Total expenses | 15,726.2 | 14,546.8 | 1,179.4 | Personnel expenses | ↑ | 716.8 |
| | | | | Change in depreciation rate on a class of assets | ↑ | 210.2 |
| | | | | Other operating expenses | ↑ | 198.2 |
| Impairment charges for loans and other losses | 4,918.8 | 5,204.0 | (285.2) | Provision for individual impairment on behalf of a few large customers in 2013 | ↓ | 680.0 |
| | | | | Collective impairment due to increase in volumes | ↑ | 454.5 |
| Tax expenses | 7,245.0 | 6,034.0 | 1,211.0 | Income Tax and VAT on Financial Services due to increase in profit | ↑ | 829.7 |
| | | | | Introduction of Nation Building Tax | ↑ | 384.1 |
| Profit after tax | 11,180.2 | 10,445.5 | 734.7 | | | |

Thank you it is the



Summary of Statement of Financial Position – Bank

| | 2014 Rs. Mn. | 2013 Rs. Mn. | Variance Rs. Mn. | Main Reason/s | Movement | Amount Rs. Mn. |
|--|------------------|------------------|---------------------|--|----------|-------------------|
| Assets | | | | | | |
| Loans and receivables to other customers | 497,065.8 | 410,951.4 | 86,114.4 | Long term Loans | ↑ | 48,581.2 |
| | | | | Securities purchased under resale agreements | ↑ | 32,251.8 |
| Financial investments - Available-for-sale | 214,208.4 | 131,756.5 | 82,451.9 | Investments in Government Securities | ↑ | 81,798.8 |
| Total Assets | 795,609.6 | 605,987.6 | 189,622.0 | | | |
| Liabilities | | | | | | |
| Deposits from customers | 529,361.5 | 451,152.9 | 78,208.6 | Savings deposits | ↑ | 51,567.4 |
| | | | | Time deposits | ↑ | 21,031.8 |
| Other borrowings | 136,201.0 | 54,173.2 | 82,027.8 | Securities sold under repurchase (Repo) agreements | ↑ | 85,333.9 |
| Total Liabilities | 725,097.9 | 545,043.6 | 180,054.3 | | | |
| Total Equity | 70,511.7 | 60,944.0 | 9,567.7 | General Reserves | ↑ | 5,255.0 |
| | | | | Stated Capital | ↑ | 1,870.7 |
| | | | | Revaluation Reserve | ↑ | 1,500.8 |



Operational Review By Division

Personal Banking

| Key Performance Indicators(*) | Actual 2014 Rs. Mn. | Budget 2014 Rs. Mn. | Actual 2013 Rs. Mn. | Achievement (Actual Over Budget) % |
|----------------------------------|------------------------|------------------------|------------------------|--|
| Deposits as at December 31, | 407,509.3 | 382,063.0 | 342,540.4 | 106.7 |
| Advances as at December 31, | 221,187.8 | 224,636.5 | 192,835.4 | 98.5 |
| Profit before Tax, | 7,382.6 | 7,187.0 | 7,147.0 | 102.7 |
| Cost to Income Ratio (%) | 48.2 | 53.1 | 48.6 | |
| NPA Ratio as at December 31, (%) | 6.8 | 7.0 | 7.6 | |

(*) Based on Management Accounts

Bank's Personal Banking Division is responsible for delivering a complete range of services to both individual customers and small and medium sized enterprises (SMEs), ensuring the timely and accessible support they require to meet their financial goals.

The cornerstone of the Bank's national delivery network remains the physical branch; we continue to make substantial investments in expanding and updating our retail presence. At the same time, we continue to invest in the future, assisting customers discover, for example, the convenience of eBanking by eRemittance.

Refer the 'Network of Delivery Points in Sri Lanka' on page 43 for an overview of the branch network of the Bank.

Delivery Points

We added four new branches to the Bank's national network in 2014, while nine branches were relocated to deliver more services to a larger number of current and potential customers. The branch expansion is gradually slowing down as a result of our presence in every nook and corner of the country. The total delivery points across Sri Lanka was 239 branches at the end of 2014.

In the present context, expansion of service delivery also extends beyond bricks-and-mortar branches, taking advantage of expanding digital connectivity and consumers' embrace of mobile technologies. More and more Commercial Bank customers are taking advantage of the fast, convenient access of mobile banking, online banking and other services supported by the rapid growth of telecommunication and Internet infrastructure in Sri Lanka.

The Bank's national network is organised into 14 administrative regions and supports decentralised decision-making on credit transactions, as well as day-to-day branch operations. To make access to services even more convenient for customers, the Personal Banking Division provides

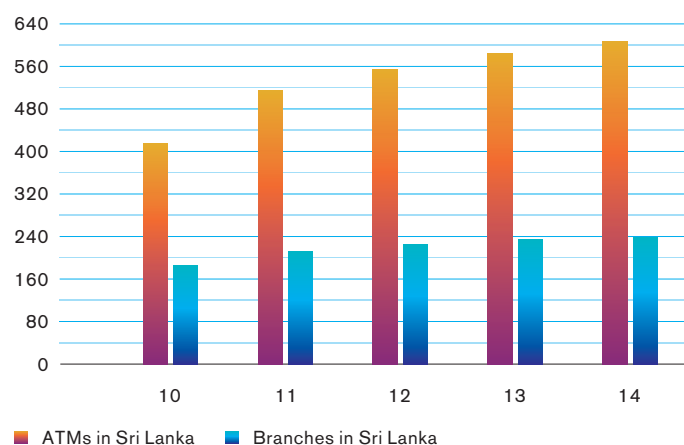
365-day banking, weekend banking and priority banking services. High-net-worth and priority banking customers are specially served through an 'Elite' branch of the Bank in Colombo 07.

Personal Banking Division – Delivery Points

| Delivery Points | No. |
|---|-----|
| Total Branches | 239 |
| 365-day/Holiday Banking Centres - Branches | 19 |
| 365-day/Holiday Banking Centres - Super Market Branches | 28 |
| Weekend Banking Centres | 22 |
| Priority Banking Centres | 2 |

ATMs and Branches in Sri Lanka

(Nos.)



Network of Delivery Points in Sri Lanka

Western Province

- Aluthgama
- Athurugiriya
- Attidiya
- Avissawella
- Bambalapitiya
- Bambalapitiya (Majestic City) S
- Bandaragama
- Baseline Road
- Battaramulla
- Battaramulla (Arpico Super) S
- Beruwala (Minicom) N
- Biyagama
- Bokundara (Minicom) S
- Boralesgamuwa
- Boralesgamuwa (Laugfs Super) S
- Borella D
- City Office
- Colombo 07 E
- Colombo Gold Centre* J
- Dehiwela
- Dehiwela (Arpico Super) S
- Delkanda
- Divulapitiya
- Duplication Road
- E Banking
- Ekala
- Elite D
- Foreign G
- Gampaha D
- Gampaha (Keells Super) S
- Ganemulla
- Grandpass
- Hanwellla
- Hendala (Keells Super) S
- Homagama
- Horana
- Horana (Wijemanna Super) N
- Hultsdorp*
- Hyde Park Corner (Arpico Super) S
- Ja-Ela
- Ja-Ela (K-Zone) S
- Kadawatha
- Kadawatha (Arpico Super) S
- Kaduwela
- Kalutara
- Kalutara (Arpico Super) S
- Kandana D
- Katubedda
- Katubedda (K-Zone) S
- Katukurunda (Minicom) S
- Katunayake M
- Katunayake Ftz
- Keyzer Street
- Kiribathgoda I
- Kiribathgoda (Laugfs Super) S
- Kirindiwela
- Kirulapone Second S
- Kirullapone
- Kochchikade
- Kohuwala
- Kohuwala (Keells Super) S
- Kollupitiya
- Kollupitiya (Liberty Plaza) R
- Kotahena D
- Kotikawatte D

Kottawa

- Maharagama D
- Maharagama (Laugfs Super) S
- Makola
- Malabe
- Maradana
- Mattegoda (Laugfs Super) S
- Matugama F
- Minuwangoda
- Mirigama
- Moratuwa D
- Moratuwa (Laugfs Super) S
- Mount Lavinia
- Mutuwal
- Narahenpita
- Narahenpita (Ronan International) S
- Nawala
- Nawam Mawatha
- Nawinna (Arpico Super)* S
- Negombo E
- Negombo (Arpico Super) S
- Negombo Second
- Nittambuwa
- Nittambuwa (Nihal Super) K
- Nugegoda D
- Old Moor Street
- Padukka
- Panadura
- Panadura (Minicom) N
- Panadura Second
- Panchikawatte
- Pelawatte (Laugfs Super) S
- Peliyagoda A
- Pettah
- Pettah Main Street B
- Piliyandala
- Pita Kotte
- Raddolugama D
- Ragama O
- Rajagiriya
- Rajagiriya (Keells Super) S
- Ramanayake Mawatha
- Ratmalana
- Reid Avenue L
- Seeduwa
- Thalawathugoda
- Union Place
- Union Place (Keells Super) S
- Vauxhall Street (Slic)
- Wadduwa
- Ward Place P
- Wattala
- Wattala (Arpico Super) S
- Weliveriya
- Wellawatte D
- Wellawatte Second
- World Trade Centre
- Yakkala

● No. of Branches in the District
● No. of ATMs in the District

* Branches Opened in 2014

Central Province

- Akurana (Minicom) N
- Anniawatte (Nihals Super) S
- Balagolla (Nihals Super) N
- Dambulla
- Digana
- Galewela
- Gampola
- Geliyoa (Arpico Super) N
- Hatton
- Kandy D
- Kandy (City Center) Q
- Katugastota
- Kundasale (Dumbara Super) N
- Maskeliya
- Matale
- Nawalapitiya
- Nuwaraeliya
- Peradeniya
- Pilimatalawa
- Thalawakelle

Eastern Province

- Akkaraipattu
- Ampara
- Batticaloa H
- Chenkalady
- Kalmunai
- Kattankudy
- Pottuvil
- Trincomalee
- Valaichchenai

North Central Province

- Hingurakgoda
- Anuradhapura
- Kaduruwela
- Keerawa
- Thambuttegama
- Anuradhapura New Town
- Medawachchiya

North Western Province

- Alawwa
- Chilaw
- Dankotuwra
- Giriulla
- Kuliyapitiya
- Kurunegala E
- Kurunegala (Minicom) S
- Kurunegala City Office
- Marawila
- Mawathagama
- Narammala
- Nattandiya
- Nikaweratiya
- Palavi
- Pannala
- Polgahawela
- Puttlam
- Wariyapola
- Wennappuwa

Southern Province

- Akuressa
- Ambalangoda
- Ambalantota
- Baddegama
- Beliatta
- Deniyaya
- Elpitiya
- Galle City E
- Galle Fort
- Hambantota
- Hikkaduwa
- Kamburupitiya
- Karapitiya
- Koggala
- Mataru
- Mataru (Keells Super) S
- Mataru City Office
- Middeniya
- Neluwa
- Tangalle
- Tissamaharama
- Udugama
- Urubokka*
- Weligama

Nothern Province

- Achchuvely
- Chavakachcheri C
- Chunnakam
- Jaffna E
- Jaffna Stanley Road D
- Kilinochchi
- Kodikamam
- Karapitiya
- Manipay
- Mannar
- Mulliyawalai
- Nelliady D
- Thirunelvely C
- Vavuniya D
- Vavuniya Second G
- Velanai

| Province | No. of Branches | No. of ATMs |
|---------------|-----------------|-------------|
| Central | 20 | 44 |
| Eastern | 9 | 19 |
| North Central | 7 | 18 |
| North Western | 19 | 53 |
| Nothern | 15 | 35 |
| Sabaragamuwa | 14 | 29 |
| Southern | 24 | 59 |
| Uva | 8 | 14 |
| Western | 123 | 335 |
| Total | 239 | 606 |

Banking Hours in Sri Lanka

| | A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | |
|-------------------------|-----|-----|--------|--------|--------|--------|-----|-----|--------|--------|--------|--------|--------|--------|--------|---------|------|-------|---------|---------|
| Weekdays | 9-3 | 8-2 | 8-6 | 8.30-3 | 9-3 | 9-3 | 9-3 | 9-4 | 9-4 | 9-4 | 9-6 | 9-6.30 | 9-9 | 9-9 | 9.30-7 | 10-5 | 10-5 | 10-7 | 10-7.30 | 10-7.30 |
| Saturday | - | - | 9-1.30 | - | 9-1.30 | 9-1.30 | - | - | 9-1.30 | 9-1.30 | - | 9-6.30 | 9-1.30 | 9-9 | 9.30-7 | 10-1.30 | 10-5 | 10-7 | 10-7.30 | 10-7.30 |
| Sunday | - | - | - | - | 9-1.30 | 9-1.30 | - | - | 9-1.30 | - | 9-6.30 | - | 9-9 | 9.30-7 | - | - | 10-7 | 10-5 | 10-7.30 | 10-7.30 |
| Bank Holidays/ Poya* | - | - | - | - | 9-1.30 | - | - | - | 9-1.30 | - | 9-6.30 | - | 9-9 | 9.30-7 | - | - | 10-7 | 10-5* | 10-7.30 | 10-7.30 |

Operational Review By Division

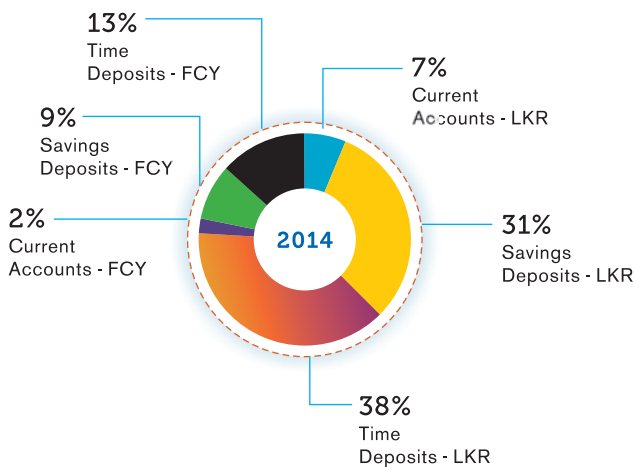
Deposit Mobilisation

Commercial Bank's diversified branch network, stable capitalisation, good governance and strong corporate image have contributed in building a solid deposit base despite the unfavourable environment for mobilisation of deposits due to the low interest rate scenario. The Bank was able to improve its savings deposits substantially during the year, thereby improving its CASA ratio.

While deposit rates across the Sri Lankan banking sector have shown a general decline in recent years, the Bank has identified new avenues of opportunity. For example, we have introduced new business lines to support a national initiative focusing on the benefits of retirement funds, now that the average Sri Lankan consumer has more investment options. In the third quarter of 2014, we launched the Future Pensions Plan – a pioneering programme with five deposit schemes that can be opened by anyone between the ages of 18 and 65. Customers can also take advantage of valuable added features such as an annual bonus scheme and insurance coverage.

In order to retain Commercial Bank's existing deposits clientele, over the past year we launched continuous awareness and promotional campaigns for our specialised deposits schemes, showcasing our ability to offer better value than our direct competitors.

Deposit Mix



ATM Network

In the highly competitive retail banking environment, Commercial Bank's diversified ATM network – the single largest in Sri Lanka – provides a distinct edge, acting as a catalyst for mobilising deposits. We promote ATMs as a convenient way to conduct financial transactions, making customers' lives easier while significantly reducing counter traffic at branches and boosting staff productivity.

Providing reliable and readily accessible service to millions of people across the country, the Bank's ATM network has regularly set records for the volume of cash dispensed and number of transactions processed during peak shopping periods. On April 11, 2014, we established an all-time high for distribution of cash via ATMs in a single day, recording withdrawals of Rs. 2.05 Bn.

In the same note, we continue to grow and improve our ATM network. In September 2014, we reached the 600-machine milestone at the Gold Centre Branch (our 238th retail location in Sri Lanka). Throughout the year, a total of 21 new ATMs were installed – 50% in branches and the rest in convenient off-site locations – including three drive-through ATMs in high-traffic areas.

In 2014, we also installed our first Forex ATM at Crescat Boulevard, one of Colombo's leading shopping malls. This specially designed machine accepts US Dollar and Euro notes and issues their equivalent in Sri Lanka Rupees – a useful and time saving service for customers, particularly tourists, requiring quick foreign exchange transactions.

Automated Deposit Machines have provided another solution for reducing congestion in our branches, allowing customers to quickly and conveniently deposit both cash and cheques. Sixteen such machines were installed in 2014.

Commercial Bank joined the LankaPay network – the largest common ATM network in the country, connecting more than 2,500 machines operated by nine member banks in 2014. In the past, Commercial Bank customers were often reluctant to use their ATM or debit cards at other banks' machines, wary of both the surcharges effected on cash withdrawals and potential security concerns. Now our customers enjoy secure, island-wide access to all LankaPay ATMs at affordable rates.

Personal Loans

The steady expansion of Sri Lanka's middle class population in recent years has provided many opportunities for banks to expand their service offerings. Commercial Bank has benefitted from this demographic shift, tailoring products and services to the needs of an increasingly affluent consumer base. In particular, we have focused on promoting personal loans to professionals and executives of leading companies, maintaining the high quality of our portfolio while achieving unprecedented growth.

During the year 2014, the Bank had granted 15,505 new loans totalling Rs. 14.5 Bn., an increase of 169% over the previous year. The overall personal loans portfolio surpassed the Rs. 20 Bn. mark at the end of the year.

Despite this substantial growth in the portfolio, the non-performing loans (NPL) increased only marginally, by Rs. 0.81 Mn., reducing the NPL ratio from 4.37% to 3.27% as at end of December 2014. Building on our success in extending personal loans to a larger potential market, we plan to focus more on moderate income earners in the coming year.

Leasing

The slow rise in credit demand from the private sector that characterised 2013, continued into the subsequent year. This trend was clearly visible from the decline in the number of registrations of new vehicles, which resulted in a very low demand for leasing facilities in 2014. Even so, the Bank had granted 3,075 new leases (including hire purchase facilities and loans granted to import vehicles under permits) with a total value of Rs. 10.6 Bn.

From the end of the third quarter, we saw a positive growth in leasing business driven by three key factors:

- Strategic partnerships with reputed vendors.
- Island-wide marketing campaigns conducted through local branches.
- A branch competition conducted with special interest rates.

In the past, the Value Added Tax (VAT) on vehicle leases hindered business growth. However, the decision, made in Government Budget proposals to exempt such transactions from VAT gave an immediate boost to the number of leases granted for registered motor vehicles during the latter part of the year.

Domestic Factoring

The Bank has adopted a restrained approach to promoting our factoring business. The Bank took measures to reduce the exposure levels of several existing facilities. Given the prevailing low interest rates regime, there has also been a tendency to move factoring customers to other, more cost-effective working capital facilities.

Even with the reduced activity in this segment during the year, the Bank recorded a factoring turnover of Rs. 12.83 Bn., with substantial volumes been brought in by new businesses. Despite low interest rates, we achieved a high rate of return, mainly from the high fee-based income earned on such products.

In the future, we expect that factoring will continue to gain traction as a means of providing effective financing for small and medium sized enterprises. We therefore intend to focus more in this area, which promises both high returns and good future prospects.

Presence

Commercial Bank's footprint is extensive. We operate the single largest ATM network of all banks, reaching far and in depth across the length and breadth of Sri Lanka. Ours is an incomparable presence, placing us 'next door' to more people than any other bank.

The Bank has installed over 200 ATMs over the past five years. A record distribution of cash via ATMs in a single day of Rs. 2.05 Bn. was made on April 11, 2014.



Operational Review By Division

Home Loans

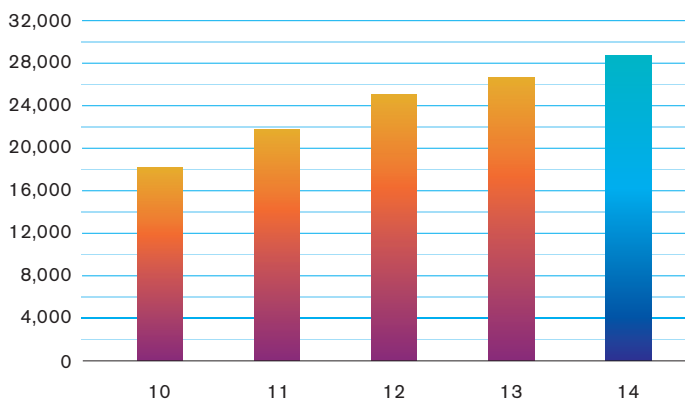
Since the end of the civil war in 2009, Sri Lanka’s construction industry recorded a healthy growth, which in turn spurred economic growth throughout the country. Interest rates applicable on home loans came down substantially during the year. The fixed rate loans were reduced by 4.5%, the floating rate by 5% and the Privilege Home Loans rate by 4.5%. These rate reductions contributed in growing Bank’s housing loan portfolio.

Since 2013, demand from high-net-worth customers has driven a boom in condominium construction projects. Taking advantage of our strategic connections with developers, the Bank extended sizeable home loan facilities, especially to Sri Lankans employed abroad.

The Bank also introduced home loans for professionals during the latter part of the year. Bank passes on the tax benefit accruing through this product to professionals by granting loans at discounted rates.

Home Loan Portfolio

(Rs. Mn.)



Agriculture and Microfinance Loans

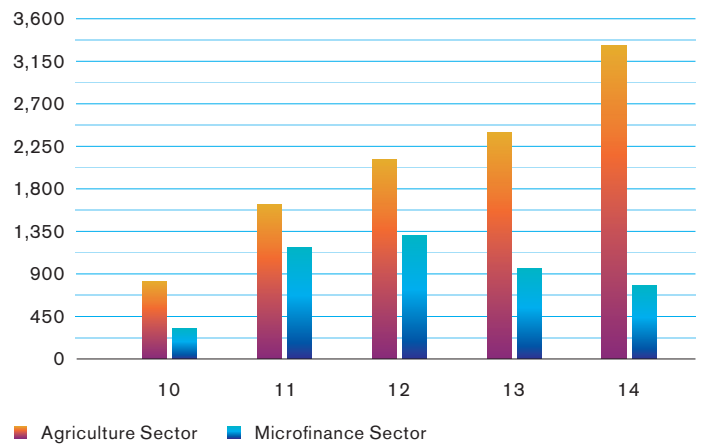
Lending to the agriculture sector continued to grow in 2014, recording a net increase - in contrast to the Bank’s microfinance business, which recorded a negative growth over the year. The net infection ratio of our microfinance portfolio was also marginally higher due to a rise in non-performing loans in the Northern and the Eastern province branches. Notwithstanding these mixed results, the Bank provides a strong support for the agriculture and microfinance sectors, extending services to customers across our national branch network.

The Agriculture and Microfinance Unit, which provides supply chain financing to agriculture and livestock producers, has proven to be one of our most effective credit-delivery mechanisms; it is especially popular in the tea and dairy industries. As well, a wide array of credit schemes – both refinanced and also funded by the Bank have helped in increasing lending to small and medium-sized agricultural businesses, as well as micro enterprises.

Bank continued to participate in five refinance credit schemes and two interest-subsidised credit schemes. All of them were designed to support the agriculture and livestock sectors. Across the country, our microfinance programme is designed to be inclusive of customers in vulnerable groups, providing them with a means of financing their livelihoods.

Agriculture and Microfinance Loans

(Rs. Mn.)



After analysing performance in the agriculture and microfinance areas, we have identified a growing demand for advances from entrepreneurs who are engaged in commercial-scale agricultural and livestock projects. Considering this market development, we observe a tremendous opportunity to promote larger agricultural and livestock project facilities, which in turn will drive national agricultural production in the country. To that end, our new Leasing-Agri product should help to meet rising demand from existing and prospective customers.

Industrial Loans

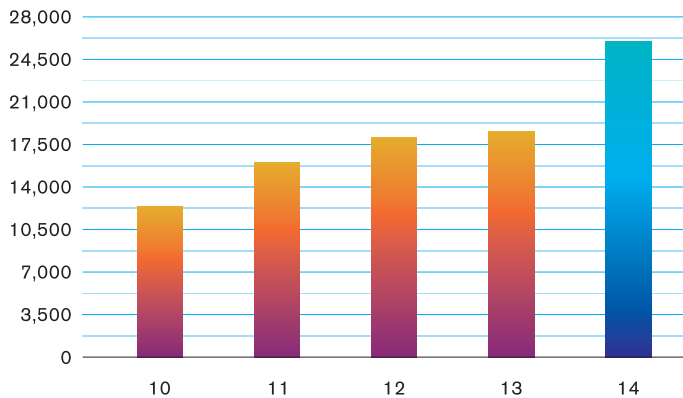
In the past year, the Bank operated five credit lines, as well as our own development lending product, the *Diribala* Loan Scheme. *Diribala* is aimed at Small and Medium sized Enterprises (SMEs) and offers flexible terms to facilitate loan repayment. It is the only dedicated credit line offered by a private bank in Sri Lanka designed specifically to benefit SMEs.

Our focus on the SME sector reflects its huge contribution to Sri Lanka’s GDP, employment creation and export earnings. During 2014, in line with global trends, we gave priority to developing SMEs, placing special emphasis on extending financing to manufacturing and service oriented businesses through flexible terms.

As of the end of December 2014, the value of the Bank's development lending products portfolio was Rs. 25.95 Bn., with 1,192 new loans granted amounting to Rs. 15.74 Bn.

Industrial Sector Loans

(Rs. Mn.)



Moving forward, planned industrial lending activities include:

- Setting up branches to serve as knowledge centres for the SME sector.
- Conducting capacity building programmes for existing and prospective borrowers with the goal of retaining and building businesses.
- Promoting the Bank's development loan products to SMEs via external organisations.

We have also launched a series of awareness programmes to improve financial literacy and entrepreneurship among operators of SMEs and micro enterprises. The programmes are designed to raise general awareness of development lending opportunities provided by the Bank. To date, they have been conducted by a number of branches, providing guidance to approximately 800 aspiring entrepreneurs. Commercial Bank is the first private bank to initiate this type of programme, collaborating with the Central Bank of Sri Lanka.

Pawning

Pawning is a popular loan product among the rural community. This is due to the ease of obtaining funds, by surrendering the gold articles. However, the pawning industry was affected by the sharp drop in global gold prices during 2013 – a trend that continued at a slower pace in 2014. As gold prices continued to fluctuate widely in the market, Loan To Value (LTV) ratio was reduced as a precaution, which led to decline in pawning advances. Responding to the difficult market conditions, several of the Bank's pawning units ceased operations in 2014.

The Central Bank of Sri Lanka (CBSL) recognising the importance of pawning – which mainly serves the rural economy – introduced the Credit Guarantee Scheme of Pawning Advances in a bid to increase disbursements. Under this programme, the LTV ratio has been increased to 80%; the CBSL compensates losses due to falling gold prices up to 65% of LTV. Commercial Bank has entered into an agreement with the CBSL to participate in the new Credit Guarantee Scheme.

Payment Cards

In 2014, the Bank further consolidated its position as the Sri Lankan market leader in debit card spending, achieving 35% growth in transactions compared to 2013, and also driving up interchange income. The EMV Debit Card, launched in 2010, has now been extended to all of our cardholders, protecting them better against counterfeit and fraudulent transactions.

Credit card purchase volumes also saw a double-digit growth in 2014, even as the market overall experienced a lull in spending growth. The Bank's promotional activities throughout the year, as well as our partnerships with various merchants, contributed significantly to increase in credit card use.

Over the past year, we upgraded our cards systems, processing switch, international network gateway applications and ATM systems to conform with the security requirements set out in the Payment Card Industry Data Security Standards Guidelines. We further upgraded our ATM system to allow 'cardless transactions', paving the way to opening up the country's largest ATM network to third parties offering cardless banking services.

eBanking

As more and more millennials and other customers focused on convenience, banking embrace all digital and mobile technologies, the Bank continues to invest in these channels. More than 5% of the Bank customers now conduct their banking via our online or mobile platforms. Our online banking customer base increased by 28% from 2013, attracted by an array of capabilities and benefits, including augmented safety features, now offered via our secure web portal.

In September 2014, we launched a new Corporate Online Banking solution, developed on the Microsoft .NET platform, that is similar in its functionality to our existing Personal Online Banking solution. This new solution incorporates a range of helpful features demanded by corporate users, including multi-level authorisation, administrator users and single-user IDs for multiple company accounts. The new system allows single, dual or multi-level authorisation for fund transfers, bill payments and letters of credit, helping large companies to automate all single-entry payments. The system can also apply payment limits according to the signature rules of each corporate customer.

Operational Review By Division

Our Bank is the only Sri Lankan bank to offer online cheque-imaging, which allows customers to view digital images of deposited cheques. The system also allows corporate customers to schedule bill payments effective on a future date (typically the due date). In addition, it is now possible to register regular payment beneficiaries and execute instant payments to them (via Commercial Bank accounts), 365 days a year. The system also enables customers to submit letter of credit applications with uploaded supporting documents. And it provides a 'Corporate Administrator' facility, allowing companies to manage internal user authorisations as required.

Android App for Online Banking Customers

The Bank introduced a mobile banking app for Android smartphone users in early 2014, offering similar functionality and features as the iOS application launched for Apple iPhone users in the fourth quarter of 2013, the new app is compatible with Android version 4.2.2 upwards. Users who are already registered with our online banking facility can adopt the new app with their existing login information.

As this Annual Report goes to press, there have been 20,000 downloads of this Android app, drawing highly favourable customer comments and ratings.

Enhancements to Personal Online Banking

The Bank's Online Banking Platform now allows personal banking customers to make loan requests and invest in fixed deposits via the Bank's website (where the relevant secure applications are hosted). The loan request is submitted electronically to the appropriate branch for evaluation and processing. A fixed deposit request submitted online is similarly communicated to the appropriate branch. Customers can also monitor the details and progress of their applications online.

| | Growth over 2013 | |
|------------------|------------------|----------|
| | Transactions % | Volume % |
| Internet banking | 37.06 | 7.67 |
| Mobile banking | 93.99 | 56.11 |

PayMaster

Commercial Bank has been the market leader in facilitating and promoting online payments. ComBank PayMaster is the industry's first comprehensive online payment solution, enabling large corporate clients to make bulk payments using a single mechanism. Our web-based system is now used by more than 2,000 corporate clients, assisting them to quickly and efficiently handle payroll processing, bonuses, agent commissions, interest payments and many other transactions.

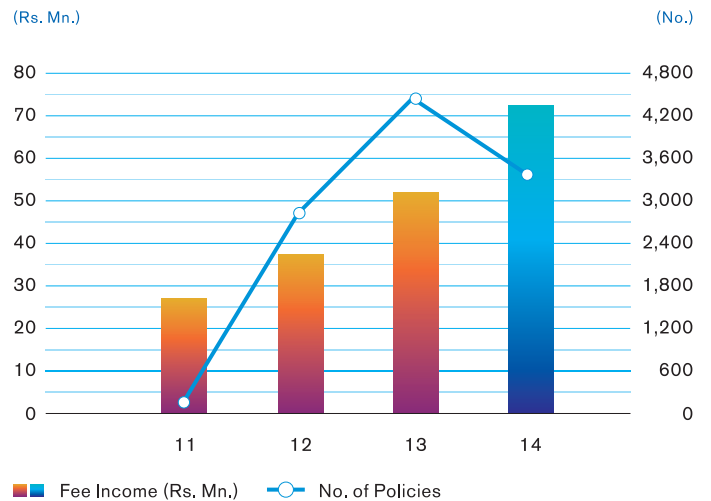
The Bank has successfully introduced many other innovative online payment solutions. After a pioneering collaborative effort with Employees Provident Fund (EPF), we now process EPF payments via our web-based banking platform – an innovation that has been welcomed by the corporate sector.

| Paymaster Growth | Growth over 2013 % |
|------------------|--------------------|
| Customer | 11.7 |
| Income | 14.7 |
| Transactions | 10.2 |
| Volume | 8.6 |

Bancassurance

Commercial Bank partners with ten leading insurance companies to offer life and general insurance. Launched mid-2010, Bancassurance has achieved significant growth over the past four years.

Bancassurance



Fee income showed a steady growth rate of more than 40% year over year. In 2014, however, the number of policies issued fell, largely because of an increase in monthly insurance premium. Also, under Bancassurance's revised mandate, life policies can only be issued to account holders of the Bank.

In 2014 the Bank centralised the insurance renewal process and now premiums are recovered from customers as soon as their policy renewals are confirmed at the branch level. And as a further improvement in both customer service and branch efficiency, Bancassurance now offers web-based quotations for new insurance coverage.

Supermarket Banking

Commercial Bank has led the way in supermarket banking in Sri Lanka, implementing unique, customer-centric operating models that vary by branch type and location. Among the innovations that differentiate our approach is the decision to move some supermarket branches to standalone locations outside the retail environment, which increases customer traffic and banking transactions, and improves business volumes overall. We now operate 28 supermarket outlets across the country, including four new locations opened in 2014. In addition the Bank operates 11 standalone minicom branches.

Commercial Bank Elite

The Bank's exclusive priority banking service, Commercial Bank Elite, caters to high-net-worth individuals who appreciate an added level of convenience and personalised service. Located in a private residence at No. 7, R.G. Senanayake Mawatha (Gregory's Road), Colombo 07, the business unit has specially trained relationship officers who help customers with the full range of financial products and premium services provided by other partners of the Bank. Commercial Bank Elite also operates an Elite Banking Centre at our Peradeniya branch.



Operational Review By Division

Corporate Banking

| Key Performance Indicators (*) | Actual 2014 Rs. Mn. | Budget 2014 Rs. Mn. | Actual 2013 Rs. Mn. | Achievement (Actual Over Budget) % |
|----------------------------------|---------------------------|---------------------------|---------------------------|---|
| Advances as at December 31, | 155,314.7 | 151,415.0 | 135,282.5 | 102.6 |
| Profit before Tax | 5,027.4 | 5,638.8 | 5,102.1 | 89.2 |
| Import turnover | 208,103.6 | 158,270.0 | 180,729.8 | 131.5 |
| Export turnover | 272,229.0 | 255,561.4 | 240,053.8 | 106.5 |
| Cost to Income Ratio (%) | 19.9 | 22.3 | 18.8 | |
| NPA Ratio as at December 31, (%) | 0.7 | 1.9 | 0.9 | |

(*) Based on Management Accounts

Through our Foreign Branch, Investment Banking Unit, Off-shore Banking Centre and Islamic Banking Unit, the Corporate Banking Division of Commercial Bank offers customers a wide range of business-oriented financial services. These include working capital financing, leasing and factoring facilities, project financing and Islamic banking products. To help corporate customers conduct business internationally with their global counterparts, we have a worldwide network of well-established and trusted correspondents.

Over the years, the Foreign Branch has established a reputation for expertise in trade finance, catering to a clientele across wide and varied business spectrum, including large and medium sized Sri Lankan enterprises, blue-chip companies and multinationals operating in the country.

The Corporate Banking Division also oversees our credit operations in Bangladesh and conducts selective lending in the Maldives.

Private sector demand for bank credit was low during the first half of the year. Further, large companies were able to raise funds through debt instruments locally and overseas, taking advantage of low interest rates. These factors caused high excess liquidity among banks, sparking an intense lending competition – which in turn contributed to the decline in the AWPLR.

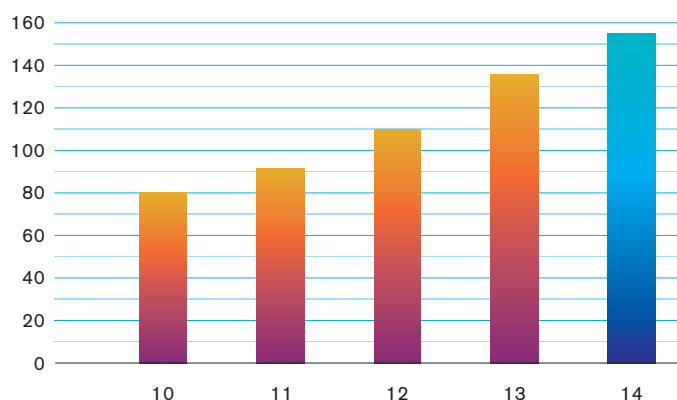
Since the end of the civil disturbances in 2009, Sri Lanka’s economy has been buoyed by two major drivers of growth: mega-infrastructure projects undertaken by the Government and a boom in the tourism sector. Over the past year, the Corporate Banking Division continued lending aimed at the development of the country’s road network and water projects, as well as financing a range of factory modernisation and hotel projects.

Most large scale government sector projects have been funded through overseas loans which have to be repaid with the country’s foreign exchange reserves. To reduce the outflow of foreign exchange in 2014, Commercial Bank collaborated for the first time with a state bank to facilitate the construction of a new building complex for a state university. The Bank is to fund the entire project, on a guarantee issued by a state bank which will be repaid by the National Treasury.

During the past year, the Corporate Banking Division implemented a fully-automated solution – Kalypto Loan Origination System, to evaluate credit proposals, making the process faster and more efficient.

Corporate Banking Loans and Advances

(Rs. Bn.)



Import Business

In its 2014 budget, the Sri Lankan Government introduced customs tariff reductions for certain categories of vehicles, stimulating growth in automobile imports in the latter part of the year. In the last quarter, favourable exchange rates, especially for the Japanese Yen, spurred large scale motor vehicle imports from Japan.

Ongoing tourist development, along with various Government infrastructure and private sector construction projects, led to an increase in imports of heavy-duty machinery. And demand for materials driven by rapid growth among small and medium size businesses also had an indirect effect on imports.

| Import Turnover | 2014 US \$ Mn. | 2013 US \$ Mn. | Growth % |
|-------------------------|-------------------|-------------------|-------------|
| Bank | 1,575 | 1,379 | 14.1 |
| Country | 19,400 | 17,996 | 7.0 |
| Bank's market share (%) | 8.1 | | |

Export Business

Sri Lanka had a strong year in exports, with year-over-year earnings increasing by 7% during the year 2014. Industrial products led the way, accounting for 74% of exports during this period. The balance was mainly contributed through agricultural exports.

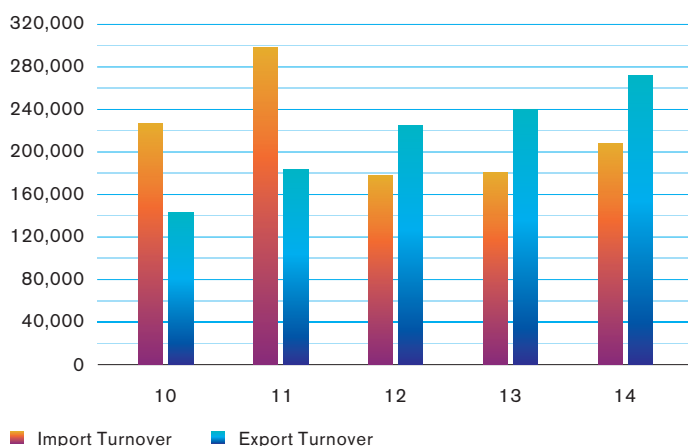
The top five leading markets for Sri Lankan exports were the US (the largest single overseas market), UK, Italy, India and Germany. Garment exports to the European Union and US markets, a longtime staple of the national economy, increased by 21% and 16% respectively (January to October 2014). Rubber products, the second leading contributor to exports, grew by 10% in the same period.

Tea exports were hampered by the stringent UN-backed sanctions imposed on certain Middle Eastern countries. As well, volatility in EU markets in the third quarter of 2014 dampened fisheries exports.

| Export Turnover | 2014 US \$ Mn. | 2013 US \$ Mn. | Growth % |
|-------------------------|-------------------|-------------------|-------------|
| Bank | 2,060 | 1,832 | 12.4 |
| Country | 11,118 | 10,394 | 7.0 |
| Bank's market share (%) | 18.5 | | |

Import and Export Turnover

(Rs. Mn.)



Investment Banking

To strengthen our growing investment banking business, and to reflect our expanded scope of related activities and services, in 2014 we re-launched our corporate finance unit as Commercial Bank Investment Banking.

In 2014, investment banking generally benefited from credit growth fuelled by low interest rates. Excellent stock market performance, following three relatively subdued years, also helped to stimulate activity. Substantial market demand for debenture issues was fuelled by a large number of companies that locked in longer-term debt issued at relatively modest rates.

Margin trading operations improved substantially in 2014, with an increase in average portfolio size stemming from substantially improved market performance throughout the year, as well as low interest rates. Customer trading activity levels were also more buoyant, and several new accounts were added during the year.

The equity funds of the Bank recorded noteworthy growth in 2014, capitalising on favourable market movements and timely investments and divestments made during the year. The Bank also initiated several structuring assignments for equity and debt issuances during the year.

Overall, the unit showed a substantial improvement in performance over the previous year, buoyed by our new focus on investment banking and favourable market conditions.

Islamic Banking

Islamic Sharia law prohibits the charging of interest. Commercial Bank's Islamic Banking service therefore operates on the concept of 'profit and loss sharing' as an alternative to conventional interest-based financial transactions.

Our Islamic banking window, Al Adalah, has been in operation since June 2011. This step has since been followed by other Sri Lankan financial institutions: two private banks introduced Islamic banking offerings in 2014, and other institutions and finance companies will soon be venturing into the field.

The Bank's Islamic Banking operations are supervised by the Central Bank of Sri Lanka 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 products we offer throughout Sri Lanka include Mudaraba savings accounts and investment accounts, as well as asset products such as Murabaha, Musharaka, Diminishing Musharaka, Wakala, and Ijara leasing and import financing. Several other Islamic-targeted products are available at select branches.

During 2014, our Islamic banking unit for the first time began providing financing through our offshore banking facility. Moreover, Islamic Banking Unit is in the process of developing a product that supports Islamic export bill discounting.

After less than five years in this sector, Commercial Bank has about a 6% share of the Islamic banking market – a number that we expect will continue to grow as we pursue new initiatives.

Operational Review By Division

Treasury

| Key Performance Indicators(*) | Actual 2014 Rs. Mn. | Budget 2014 Rs. Mn. | Actual 2013 Rs. Mn. | Achievement (Actual Over Budget) % |
|---|---------------------------|---------------------------|---------------------------|---|
| Foreign exchange profit | 672.9 | 1,618.6 | 1,070.1 | 41.8 |
| Profit before tax | 842.9 | 714.0 | 460.9 | 118.1 |
| Interest earning assets as at December 31, | 270,384.2 | 174,779.5 | 173,716.7 | 154.7 |
| Interest bearing liabilities as at December 31, | 120,998.5 | 37,232.2 | 44,454.9 | 325.0 |
| Cost to Income Ratio (%) | 25.7 | 39.0 | 38.9 | - |

(*) Based on Management Accounts

The Bank's Treasury Department manages interest risk, liquidity risk and foreign exchange risk. Its operations are divided into three specialised areas – Forex and Corporate Sales, Fixed Income Securities and ALM Operations – each headed by a chief dealer.

The Central Bank of Sri Lanka (CBSL) policy rates were steady throughout the year; only the reverse repurchase rates were revised downward – by 50 basis points, from 8.5% to 8%, in January 2014. However, even though there were no major changes to the policy rates, the CBSL's Monetary Board made significant changes to its policy-related tools. The traditional open market operations repurchase window, where commercial banks could park their excess liquidity was replaced by the Standing Deposit Facility (SDF) and the Reverse Repurchase Window through which the Central Bank injected overnight liquidity was renamed as Standing Lending Facility (SLF) in January 2014. The Standing Deposit Facility of the CBSL is uncollateralised.

Further, the CBSL restricted banks from depositing excess liquidity with CBSL to a maximum of three times per calendar month at the currently applicable SDF rate of 6.5%, and any deposits at the SDF window exceeding three times by a participant bank was accepted at a reduced interest rate of 5% per annum.

These measures were taken to enhance private sector credit growth at reasonable rates, which in turn would help to sustain the momentum of economic growth, given the low inflationary environment. Private sector credit growth was subdued during the first half of the year, then picked up considerably as a result of low interest rates and substantial excess liquidity in the banking system.

Although the economic conditions were good in 2014, the lack of demand and a low appetite for borrowing in the private sector hampered expansion of the loan book. As a result, Treasury had to manage the Bank's substantial excess liquidity position, primarily by investing in Government Securities. Returns on Government Securities eroded with declining interest rates, resulting in a re-pricing risk at maturity.

AWPLR of commercial banks fell from 10.13% at the beginning of the year to 6.33% in December 2014. During the same period, the Average Weighted Deposit Rate declined from 9.37% to 6.20%.

The Bank's Assets and Liabilities Committee (ALCO) was compelled to revise downward the deposit rates on liabilities several times during the year. This, along with faster downward revision of interest rates of our asset base, resulted in diminishing interest margins. Still, even with continuing low interest rates, our deposit base grew at a healthy pace. A significant increase in the current account and savings account base, compared to the growth in time deposits, helped the Bank to manage the cost of funds more efficiently.

The Sri Lankan Rupee was under pressure to appreciate during the early part of 2014 with healthy foreign currency inflows coming into the stock market and Government Securities. Further overseas borrowings by corporate and financial institutions added to this pressure. However, the CBSL absorbed the major part of these inflows in order to prevent any sharp appreciation and volatility in the currency. The value of the Rupee therefore remained flat for most of the year, then depreciated slightly in the last quarter due to a renewed demand for imports driven by private sector credit growth, reduced vehicle import tariffs and the sharp depreciation of the Japanese Yen.

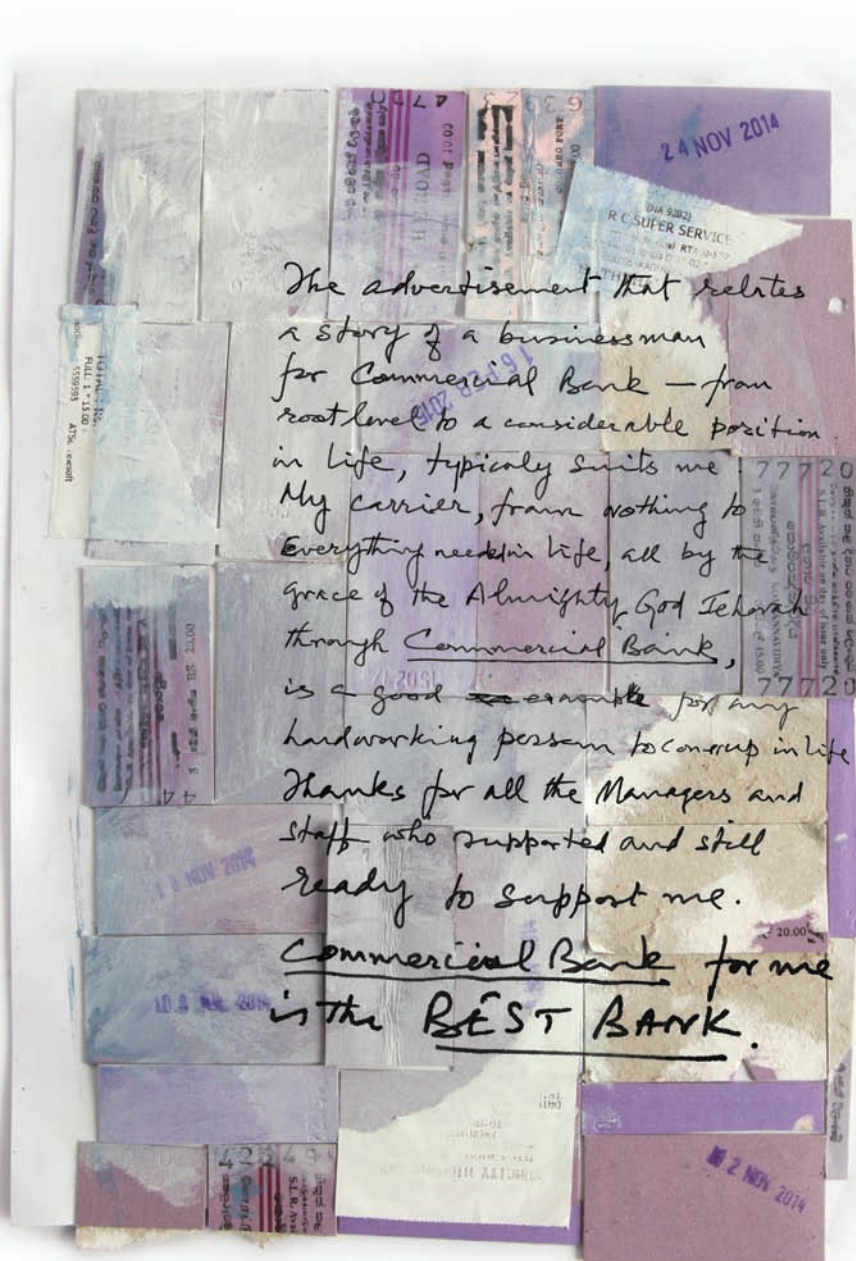
In this context, the growth in foreign exchange income was not impressive; most of the Bank's exchange profit was earned from trade-related transactions and remittances. Corporate sales income also remained flat, mainly because of decreased trade volumes and low margins.

Treasury was again the market leader in Interbank FX operations, providing liquidity in spot, forward and swap transactions. The unit led as well in cross-currency operations and played an integral role, working closely with the Fixed Income Securities Desk, in efficiently managing excess liquidity as low interest rates prevailed. In 2014, Treasury maintained its supporting role to our Personal and Corporate Banking units, meeting their Sri Lanka Rupee funding requirements while managing the foreign currency flows that are vital to their day-to-day business.

Treasury also acts as the funding centre of the Bank, supporting transfer-pricing for all assets and liabilities from other business units. In 2014, Treasury's transfer-pricing income was Rs. 27.6 Bn. and the relevant expense was posted as Rs. 42.2 Bn. The transfer-pricing mechanism is set up to centralise interest rate risk, protecting other business units against market risk on interest rates.

By correctly anticipating interest rate direction and the decline in long-term interest rates for Government Securities, Treasury increased trading gains during the year. The Bank held Rs. 188.3 Bn. in Sri Lankan Rupee-denominated Government Securities and Rs. 46.2 Bn. in US Dollar-denominated government securities as of December 31, 2014.

Treasury provides ALCO with interest and exchange rate updates, as well as data on other macroeconomic developments that support the Bank's asset and liability management process. Based on this information, ALCO sets parameters for the management of maturity mismatch risks in the balance sheet. Treasury also provides direction to the ALCO Sub-Committee on fixing funds transfer-pricing rates based on prevailing market conditions.



International Operations

Bangladesh Operation

| Key Performance Indicators(*) | Actual 2014 Rs. Mn. | Budget 2014 Rs. Mn. | Actual 2013 Rs. Mn. | Achievement (Actual Over Budget) % |
|----------------------------------|---------------------------|---------------------------|---------------------------|---|
| Deposits as at December 31, | 44,092.0 | 43,371.8 | 41,819.5 | 101.7 |
| Advances as at December 31, | 40,175.3 | 39,727.6 | 36,138.0 | 101.1 |
| Profit before Tax | 2,580.4 | 2,828.6 | 2,012.3 | 91.2 |
| Cost to Income Ratio (%) | 28.1 | 35.2 | 30.9 | |
| NPA Ratio as at December 31, (%) | 2.1 | 1.4 | 1.5 | |

(*) Based on Management Accounts

Activities discussed under this section encompass Bangladesh operation, e-remittance business of e-banking unit and off-shore operations of the Off-Shore Banking Centre.

Bangladesh Economy

One of the world's most densely populated countries, Bangladesh has a rapidly developing market-based economy. Per capita income, on a population base of 160 Mn. rose to US \$1,190 in the 2013 -14 fiscal year. Bangladeshi economy has grown at a rate of 5.75% to 6.75% per annum over the past several years.

Bangladesh is a nation with enormous unrealised potential. Macroeconomic growth has been driven by exports and remittance; both have increased at a compounded annual growth rate of more than 15% over the past decade, accounting for more than a third of GDP.

More than half of national GDP comes from the services sector. Nearly 50% of Bangladeshis are employed in the agriculture sector; other important products include garments, textiles, pharmaceuticals, jute, leather and leather goods and ceramics. There is also a significant fishing industry.

Remittances from Bangladeshis working overseas, mainly in the Middle East, provide the major source of foreign exchange earnings. Garment and textile exports, jute cultivation, pharmaceuticals and shipbuilding have also been major drivers of economic growth.

Country has not fully recovered from the disruption of economic activities in 2013, during which the ready-made garment industry suffered heavy losses. New investment was at very low levels throughout 2014, and all financial institutions, faced with excess market liquidity and a lack of demand for substantial borrowing, struggled to maintain growth and profitability.

In 2014, Bangladesh achieved a Ba3 stable rating from Moody's Bond Credit Rating Agency for the fifth consecutive year. Standard & Poor's gave the country a BB- sovereign rating with stable outlook for the same period. However, the US \$133 Bn. economy was hurt by election-related issues during the year. As a result, the Bangladeshi economy achieved 5.8% annual GDP growth, falling shy of the 7.5% target set at the beginning of the previous fiscal year. If the country is to reach its goal of achieving middle-income status by 2021, the economy will need to grow at a steady pace of 7.5% to 8% over the next several years.

The 2014 inflation rate is expected to hover around 6.5% to 7% as the result of wage increases and disruptions to food supplies caused by political protests – both factors in driving consumer prices higher. In the aftermath of the worldwide recession and unprecedented capital market volatility, the country suffered political violence throughout 2013, which hurt the Bangladeshi banking industry across the board. These problems continue, exacerbated by a political situation in which the main opposition representatives remain out of Parliament, despite calls from the caretaker Government for a collaborative effort.

During the past year, Bangladesh managed to achieve significant growth in its international reserves, which topped US \$20 Bn. for the first time in history. This was well supported by continued expansion of exports and a decline in imports, coupled with a healthy flow of remittances.

In the course of 2014, the Bangladeshi currency, the Taka, depreciated 0.26% against the US Dollar, towards the latter part of the year due to some large import settlements. However, currency was stable throughout the year 2014. The interbank call money rate was stable during 2014, with sufficient liquidity in the market. Rates ranged from 5.25% to 8.50%, with the peak recorded in October 2014.

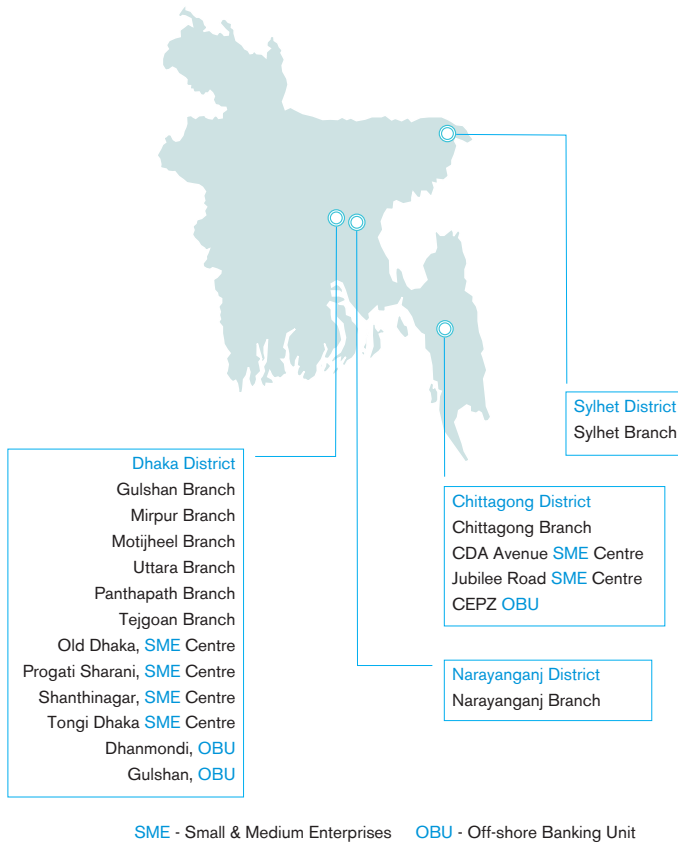


Performance of Bangladesh Operation

The financial system of Bangladesh consists of the Bangladesh Bank; 4 nationalised commercial banks; 4 Government-owned specialised banks; 39 domestic private banks; 9 foreign banks; and 31 non-bank financial institutions. Out of nine foreign banks, three are global – SCB, HSBC and CITI – and the rest operate regionally within South Asia.

Commercial Bank first entered the Bangladesh market in 2003 by acquiring the operations of Credit Agricole Indosuez, a French bank with two branches and two retail booths. In the past 11 years, we have expanded to 10 branches, 6 SME centres and 2 off-shore banking units. We have also built a network of 19 ATMs, including 3 in off-site locations. Commercial Bank has established a leadership position among other regional banks operating in Bangladesh. Our Bangladesh operation caters to a wide-ranging clientele, including a healthy mix of corporate and retail customers.

Commercial Bank has a presence in three main geographical areas - Dhaka, Chittagong, Sylhet and Narayanganj in Bangladesh. Map of the Branch network in Bangladesh is given below:



As a foreign bank, we have a large corporate clientele. But with the expansion of our branch network, we have been able to attract more retail customers, as well as small and medium sized enterprises (SMEs). This has improved our low cost deposit base, resulting in lower cost of funds and improved profitability.

Past Performance of Bangladesh Operation

Through 11 years of sustained effort in Bangladesh, Commercial Bank has established a position well above other regional banks. While others have reported moderate or lower performance levels, ours have been consistently good. The Bank did well even in the difficult period of recessionary impacts, unprecedented market volatility and countrywide political violence that affected the entire sector in 2013.

Business Volumes

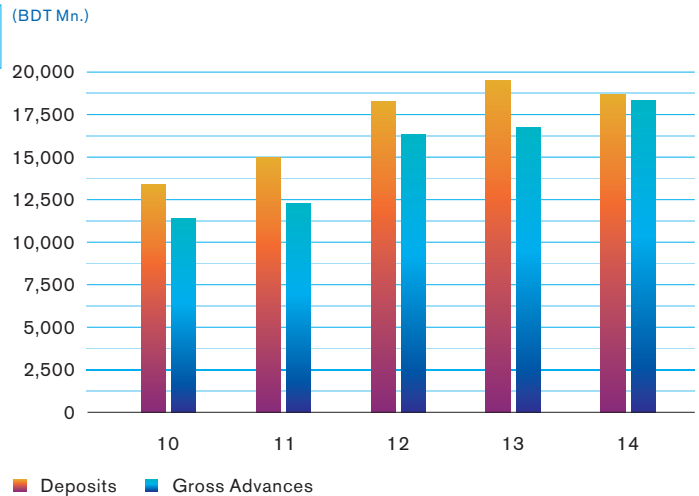
| As at December 31, | 2014 BDT Mn. | 2013 BDT Mn. | Growth Over 2013 | |
|--------------------|-----------------|-----------------|------------------|--------|
| | | | BDT Mn. | % |
| Deposits | 18,633.8 | 19,526.6 | (892.8) | (4.57) |
| Advances | 18,328.4 | 16,705.1 | 1,623.3 | 9.72 |

BDT - Bangladeshi Taka

Up to December 2014, Bangladeshi deposits decreased by 4.57% compared to December 2013. The market experienced very high surplus liquidity throughout the year, as lending opportunities were very low. This was the result of uncertainty in the market following the general election in January, 2014. Call money rates, as well as Treasury Bill/Bond rates, also dropped substantially, and very low credit growth forced all of the country's banks to reduce deposit rates substantially.

Similarly demand for borrowing reduced throughout the year, though our Bangladesh Operation was managed to show a positive growth of around 10% in advances. The situation was further aggravated by large local corporations borrowing from foreign sources, with the permission of regulators, to take advantage of lower costs.

Bangladesh Deposits and Advances



Operational Review By Division

Bangladesh Treasury

During 2014, the Treasury of our Bangladesh operation was able to maintain a stable balance sheet and revenue targets. However, reduced trade volumes resulting from sluggish market conditions, combined with severe competition, compelled us to operate on thin margins that yielded lower income. We maintained the market dominance in fixed-income securities throughout the year with sound forecasts and an aggressive trading strategy.

Operating Costs

Bangladesh operation continued with optimum resources during the year and thereby was able to sustain the high profitability standards we have set. Despite increase in network of branches and SME centres from four locations in 2003 to 18 in 2014 with a corresponding increase in human resources, we were able to effectively maintain a consistent cost to income ratio around 30% during this period. Nevertheless, operating costs continue to be strained by the shortage of skilled talent in the Bangladeshi banking industry, especially in foreign and local private-sector banks.

The performance of our Bangladesh operation during the last 5 years is tabulated below:

Awards and Recognition

In 2014, the Credit Rating Information and Services Ltd. awarded Commercial Bank's Bangladesh Operation an AAA rating for the fourth successive year, based on the previous year's financial performance. In addition, the Institute of Cost and Management Accountants of Bangladesh recognised our bank for the fourth time with a Best Corporate Performance Award in the Foreign Bank Category.

| Key performance indicators(*) | For the Year Ended/as at December 31, | | | | |
|-----------------------------------|---------------------------------------|-----------|-----------|-----------|-----------|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| Deposits (BDT Mn.) | 18,633.81 | 19,526.65 | 18,245.95 | 14,969.97 | 13,369.43 |
| Gross advances (BDT Mn.) | 18,328.43 | 16,705.12 | 16,344.90 | 12,338.19 | 11,403.94 |
| Total assets (BDT Mn.) | 32,063.52 | 27,451.21 | 25,682.73 | 21,655.37 | 18,819.10 |
| Net interest income (BDT Mn.) | 1,738.99 | 1,456.74 | 1,325.47 | 893.82 | 892.35 |
| Profit before tax (BDT Mn.) | 1,630.56 | 1,371.00 | 1,151.02 | 1,041.51 | 808.40 |
| Profit after tax (BDT Mn.) | 947.49 | 833.41 | 648.02 | 611.51 | 464.41 |
| Non performing advances ratio (%) | 2.11 | 1.52 | 0.79 | 0.68 | 0.07 |
| Cost to income ratio (%) | 28.15 | 30.91 | 33.04 | 32.83 | 34.89 |
| Return on Assets (%) | 5.09 | 4.99 | 4.31 | 4.81 | 4.3 |
| Return on Capital (%) | 14.86 | 15.21 | 13.02 | 15.69 | 15.22 |

* Based on Management Accounts

eRemittances

Sri Lanka’s overseas workforce continues to be a leading source of foreign exchange earnings for the country, as well as a major source of employment. Commercial Bank is aligned with the national Government’s strategy in targeting expatriate workers around the globe and making them aware of our secure and time-tested electronic channels for inward remittances.

As the nation’s economy saw its highest-ever revenue stream from overseas workers in 2014, recording more than an 8% growth, Commercial Bank’s eExchange inward remittance services also grew significantly.

Remittances were promoted through a range of communication campaigns in new markets such as Malaysia, Israel and Korea. Promotional efforts in established markets included special welcoming ceremonies for Sri Lankan workers in Kuwait and Qatar, sponsorship of cultural events across all overseas markets, and joint campaigns promoting a broad range of events throughout the 15 exchange corridors that the Bank represents. The Bank conducted local seasonal promotions – tied into the Sinhala and Tamil New Year celebrations, as well as Ramadan – aimed at key customer segments of eExchange services.

The Bank also partnered with the four main banks in Korea early in the year, placing our own representatives in their branches to promote remittances to Sri Lanka. As well, we introduced a new Cash to Account product created by MoneyGram, which enables expatriates based in Europe and Canada to route their remittances to any bank account in Sri Lanka.

The Bank’s network of overseas business partners expanded from 85 to 99 during the year, increasing coverage of key growth markets such as Israel, Korea, Australia and the UK. We now have 12 Business Promotion Officers, who aggressively promote the Commercial Bank eExchange brand and also cross-sell our other products and services.

| | Growth over 2013 % |
|-------------------|--------------------------|
| ComBank eExchange | |
| Income | 10.11 |
| Transactions | 11.94 |
| Volume | 12.34 |

Initiatives Taken to Enhance Regional Presence

Maldivian Operation

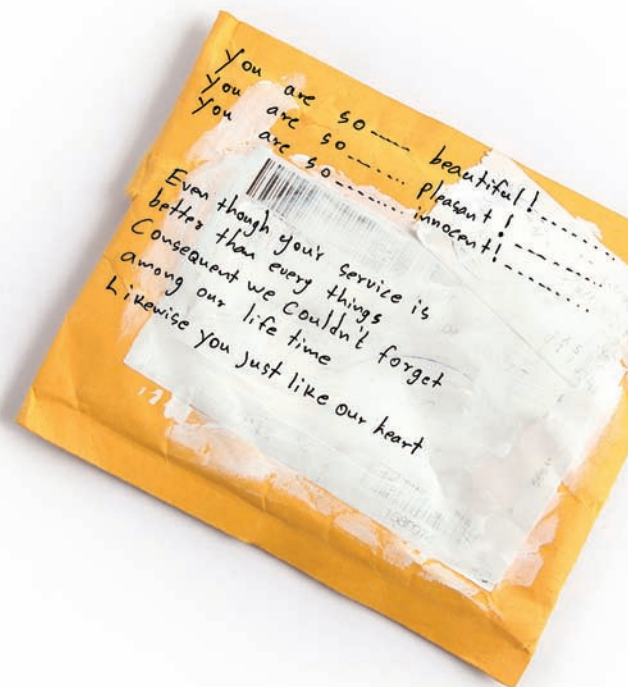
At present Commercial Bank conducts selective lending in Maldives under the supervision of Bank’s Corporate Banking Unit. Our exposure is mostly concentrated on the tourism sector which is the leading industry in Maldives. Major clients in the portfolio consist of well-established leading entities in the industry.

Myanmar Operation

The Commercial Bank became the first Sri Lankan bank to be granted a license by the Central Bank of Myanmar to operate a Representative Office in the South East Asian republic of more than 50 Mn. people.

This representative office is expected to assist in increasing bi-lateral trade between Myanmar and Sri Lanka and also to facilitate some of Sri Lanka’s leading apparel exporters and other industries who are expecting to set up operations in Myanmar. The Bank is in the process of planning the timelines for setting up its representative office as well as the services it will offer initially in Myanmar. The Bank envisages that this representative office will offer advisory services to Sri Lankan and Bangladeshi businessmen wishing to enter the Myanmar market and to arrange banking and advisory facilities and funds transfer and encashment services, subject to approval of the Central Bank of Myanmar.

The Bank is also exploring the feasibility of setting up its operations in a few other selected regional locations.



Operational Review By Division

Support Services

Effective delivery of our banking products and services in a competitive marketplace depends heavily on the support of various specialised departments across Commercial Bank. Many have become business units in their own right, offering a growing array of invaluable services.

Our Information Technology Department, for example, has helped the Bank fully embrace emerging technologies that will advance both quality of service and operational efficiency. At the same time, our bricks-and-mortar locations remain vital to establishing a strong presence in communities across Sri Lanka. We have made substantial investments to improve our physical infrastructure in recent years.

The following sections review the operating highlights of a few key support services departments:

Human Capital

At Commercial Bank, we understand that our people are our most valuable asset. Human Resources play a vital role in achieving the objectives of the Bank. Their professionalism and proficiency, along with their diverse backgrounds, experience and points of view, have contributed significantly to our success. The detailed analysis of the full spectrum of Human Resource function including compensation and benefits, staff welfare, HR development and labor relations is discussed under the section of 'Human Resources Management' in the Sustainability Report on pages 90 to 101.

Marketing

Marketing Department plays a key role building the brand Commercial Bank, building its corporate image, strengthening its corporate positioning platform 'For a Better Future', maintaining the presence of the Bank through visual media and promoting the products and services offered by the Bank.

Over the past year, the Bank's Marketing Division had to address the challenge of attracting new clientele and retaining the valuable existing customers in a climate of declining interest rates.

We took the opportunity to enhance our brand image further, launching a refreshing new strategic direction. The goal was to position Commercial Bank as a forward-looking, consumer-focused Bank that caters to customers from all walks of life. A new brand slogan, 'For a Better Future,' conveys the core message that we are dedicated to helping fulfill customers' needs today and tomorrow. And the accompanying integrated communication campaign emphasises our role as a provider of personalised services, with a disciplined focus on ensuring superior quality.

This longstanding commitment to helping create a better future for our customers paved the way for the Bank to becoming the No. 1 Bank in Sri Lanka and sets us squarely on the path to achieving our longer term strategic agenda towards Vision 2020.

Information Technology

The Bank's Information Technology Department worked diligently over the past year to provide customers with innovative and engaging in-branch banking experience – most notably by leveraging growing

familiarity with touchscreen technology to provide self-service information and transaction Kiosks at selected retail locations.

Our mobile banking channel experienced a high rate of growth, supported by the broad spectrum of mobile technologies introduced at the beginning of the year. In particular, customers embraced anytime anywhere banking allowing for 'Queue Busting' mobile option that allowed faster transactions and standing in line at branches.

Commercial Bank's mobile strategy is set against the broader changes that have been unfolding recently in the Sri Lankan marketplace, as a growing number of non-bank providers support person-to-person mobile payment systems. While these providers have been instrumental in creating consumer interest and building a mobile-payments ecosystem, banks are nevertheless expected to continue playing a central role in this area.

Other highlights of the Bank's efforts to improve the customer experience with technology over the past year include:

- 'Banking at your fingertips': we launched an acclaimed Android mobile banking app to complement the iOS app introduced in the previous year.
- 'Queue Busting': our cheque and cash deposit machines handled on average more than 3,000 transactions per month, with some locations exceeding 8,000 transactions.
- Anytime, anywhere banking: we increased our mobile banking customer base by more than 200% to 200,000.
- Corporate Internet banking: our new system, arguably the best in Sri Lanka, helped to grow our total number of online banking customers by 50%.
- Online applications for loans and fixed deposits: transactions totalling approximately Rs. 750 Mn. in each category were handled through the 24-Hour Automated Branch.
- Consolidated account opening: the single application form launched online in 2013 was extended last year to conventional branches as well.
- ATM network: we offer greater access than any other financial institution, with 606 machines by the end of 2014.
- Cash withdrawals from mobile wallets: customers can now withdraw cash from Mobitel mCash digital wallets using our cardless ATMs – a unique service in Sri Lanka.

In the past year, 217 Commercial Bank branches, as well as a few key departments at Head Office, installed digital signage systems that continuously broadcast interest rates, exchange rates, product updates (with relevant marketing campaign material), branch operating hours, special services and other valuable information. Installed near waiting areas or behind branch teller counters, the cost-effective electronic signs provide customers with real-time information that attracts interest, sparks dialogue and builds loyalty.

Recoveries

Across the Sri Lankan banking sector in 2014, financial institutions coped with an overall rise in non-performing loans (NPLs) resulting from problems with pawning advances in the first seven months of the year. However, NPLs began to decline after August as interest rates fell and financial institutions adopted appropriate measures to improve their asset quality.

Commercial Bank has a well-defined and rigorously documented process for recoveries that clearly defines the functions of the branches and our Central Recoveries Department. The branch recovery function is activated upon disbursement of the advance. The Branch Credit Monitoring Unit focuses on minimising new additions to the non-performing advances portfolio, constantly monitoring arrears, taking prompt action when required and liaising with the relevant branches.

During 3 to 6 months that an account is in arrears, branch staff co-ordinate with Regional Recovery Officers to follow the account closely and attend everything possible to recover the instalments owing, regularise payments and bring back the advance to the performing category.

The Central Recoveries Department assists the branches in trying to achieve prompt recovery of non-performing advances (NPAs), thereby maintaining our target NPA ratio. The department also monitors loan-loss provisions and all rescheduling/restructuring of advances carried out across the Bank.

When borrowers' business ventures fail, it strains their cash flows and affects the timely repayment of credit facilities. We are often able to resolve such situations by restructuring facilities to suit borrowers' revised payment capabilities, and in some cases by encouraging them to compromise on renegotiated settlement terms.

In 2014, we were able to reduce the NPA ratio of the Bank by recovering several large-scale advances, auctioning unredeemed pawned articles, closely monitoring non-performing accounts and undertaking effective recovery actions. Further, we have automated the entire process of classifying and declassifying NPAs to achieve increased efficiency. As a result, we were able to reallocate and saved resources into monitoring of advances, which will help to ensure an even healthier loan portfolio.

NPA and Provision Cover

| | As at December 31, | |
|--|--------------------|-----------|
| | 2014 % | 2013 % |
| Gross NPA Ratio (Net of Interest in Suspense) | 3.47 | 3.88 |
| Net NPA Ratio (Net of Interest in Suspense and Specific Provisions) | 1.86 | 2.12 |
| Provision Cover | 46.34 | 45.41 |

The Bank adopts a flexible approach in initiating recovery proceedings, evaluating each case on its merits and opting for negotiated settlement of NPAs rather than resorting to legal recourse, as this saves time, money and inconvenience for both parties.

By combining post-sanction monitoring with effective follow-up on large scale non-performing loans, we expect to maintain a low NPA ratio. And as we expand our repertoire of recovery strategies, these efforts should continue to contribute to the Bank's bottom-line growth.

Technology

Commercial Bank possesses one of the most advanced and streamlined core banking systems of all banks in the country.

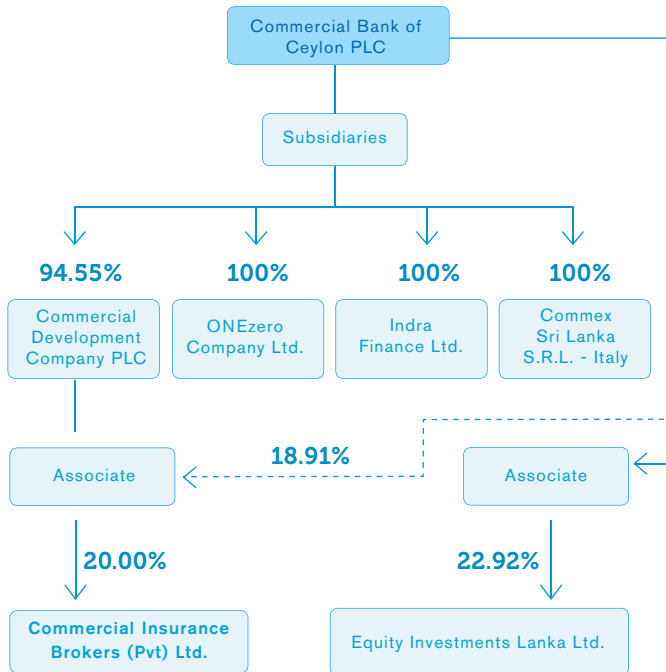
Many years ago, emancipated forward planning envisioned an operating platform that would be ahead of its time and be a 'best fit' for the Bank's plans for advancement.

Today, the Bank's computer system is a benchmark amongst the banking fraternity of Sri Lanka.



Operational Review By Division

Subsidiaries and Associates



Commercial Development Company PLC

Commercial Development Company PLC (CDC) was formed in 1980 to build the present Head Office building of Commercial Bank. At present, the Bank holds 94.55% of 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, outsourcing staff and hiring vehicles to the Bank.

In 2014, CDC expanded its staff-outsourcing business, realising a significant increase in revenue and profits. The company earned an after-tax profit of Rs. 275.4 Mn. in 2014, 81.92% increase over the last year, arising largely from the fair-value gain on its investment property and increased income from its staff-outsourcing business.

ONEzero Company Ltd.

ONEzero Company Ltd., a wholly owned subsidiary of Commercial Bank, provides information technology services and solutions to the Bank.

ONEzero has three main lines of business: outsourcing workforce services to the Bank; providing support services from skilled IT professionals and maintenance technicians; and supplying hardware and pre-developed software. This last area of focus has so far contributed minimally to ONEzero's bottom line, as the technology market is highly competitive. However, maintenance of hardware and software services to the Bank expanded further to another region during the year. Moving forward, ONEzero will continue to enhance

the breadth and depth of its offering to match the Bank's evolving requirements – while also coping with the high employee turnover that is characteristic of the IT industry generally.

In 2014, ONEzero recorded a post-tax profit of Rs. 30.29 Mn. an increase of 77.85% compared to 2013 mainly due to expanded support service business to new geographical areas of the Bank.

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.

During 2014, Commex tied up with Ria Financial Services offering Sri Lankan expatriates additional ways of remitting their earnings to Sri Lanka, supplementing the services already offered through MoneyGram. The tie up with MoneyGram and Ria permits remittances to all parts of the world through Commex.

In order to meet Italian Regulatory requirements, an Italian National having special expertise in the areas of Anti Money Laundering (AML) and Internal Audit was appointed to the Board of Commex. These steps are also expected to expedite the process of obtaining the Money Transfer License from the Bank of Italy, enabling Commex to undertake funds transfers on its own account.

Indra Finance Ltd.

In 2014, Commercial Bank acquired the 100% stake in Indra Finance Ltd. (IFL) in one of the first deals to be finalised under the Financial Sector Consolidation Road Map mandated by the Central Bank of Sri Lanka.

Located at No.182, Katugastota Road, Kandy, IFL was incorporated in 1987, licensed as a Specialised Leasing Company in 2007 and became a Licensed Finance Company in 2013. It is principally focused on granting lease facilities, hire purchase, mortgage loans and other credit facilities.

IFL benefits from close affiliation with the Indra Group, as most of its business comes from financing passenger and commercial vehicles sold and distributed by Indra Traders (Pvt) Ltd. IFL currently has offices in 11 locations.

This acquisition of IFL will significantly strengthen the Bank's leasing operations. It enables us to offer lower-priced finance options for customers of Indra Traders, which has a significant share of the motor vehicles import and leasing market.

During the four months period up to December 31, 2014 from the date of acquisition on September 1, 2014, IFL recorded a post-tax profit of Rs. 26.68 Mn.

Commercial Insurance Brokers (Pvt) Ltd.

The Bank has an indirect stake of 18.91% in Commercial Insurance Brokers (Pvt) Ltd. (CIBL), through its subsidiary company, Commercial Development Company PLC. The Company 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. By leveraging this technology leadership, CIBL ensures that its customers benefit from timely, responsive insurance solutions that reflect global standards.

In 2014, CIBL recorded a post-tax profit of Rs. 7.69 Mn. a decrease of 56.76% compared to 2013.

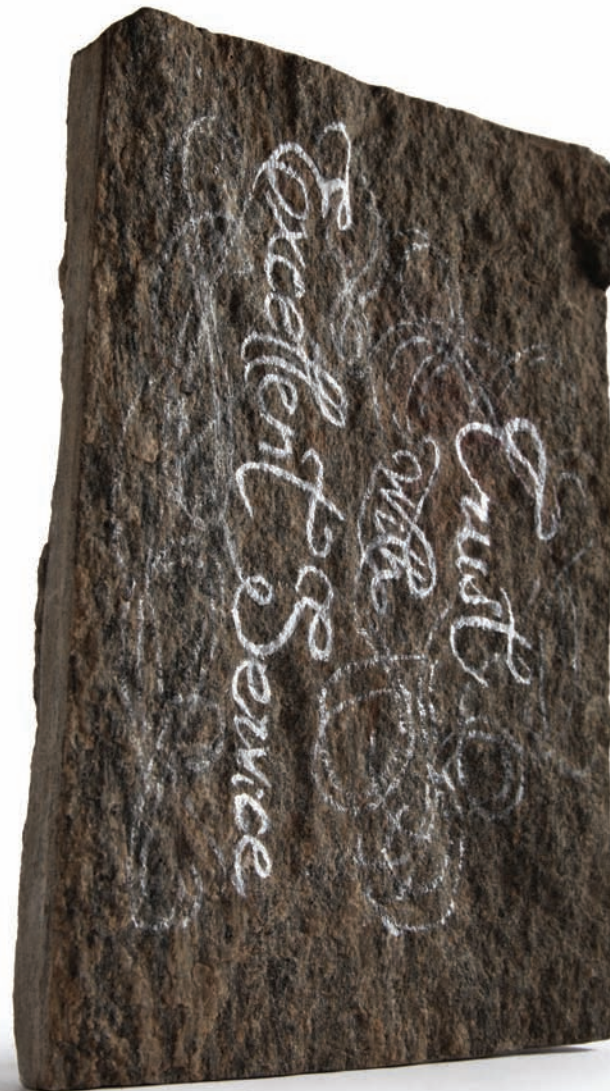
Equity Investments Lanka Ltd. (EQUILL)

Commercial Bank holds a 22.92% stake in EQUILL, a pioneering venture capital firm with more than 24 years of experience in the Sri Lankan market.

EQUILL's performance in 2014 was negatively affected by the decline in interest rates offered on Money-Market instruments such as fixed deposits, commercial paper, treasury bills and trust certificates. Even so, the company was able to earn capital gains through the sale of shares in the equity market, taking advantage of favourable conditions on the Colombo Stock Exchange – and, more generally, recent economic developments in Sri Lanka that had a positive impact on publicly traded companies.

Venture capital is a comparatively high-risk business, because of the longer-term maturity periods for investments (typically four years or more), and also no collateral or security offered for funding. Even so, in 2014, EQUILL recorded a post-tax profit of Rs. 22.29 Mn., recording a growth of 179% compared to 2013. The company was able to minimise risk by diversifying its portfolio and structuring some of its instruments so that cash flows were more predictable.

Moving forward, EQUILL aims to increase its profits and funding base by seeking new investment opportunities. Its future performance will be driven by the overall performance of the money market, the share market and the economy as a whole.



Future Outlook

According to IMF, global growth will receive a boost from lower oil prices, attributed primarily to higher supply. This boost is projected to be more than offset by negative factors, including investment weakness as adjustment to diminished expectations about medium-term growth continues in many advanced and emerging market economies.

Global growth in 2015-16 is projected at 3.5% and 3.7%, downward revisions of 0.3% relative to the October 2014 World Economic Outlook update. The revisions reflect a reassessment of prospects in China, Russia, the Euro area and Japan as well as weaker activity in some major oil exporters because of the sharp drop in oil prices.

The United States is the only major economy for which growth projections have been raised. The main upside risk is a greater boost from lower oil prices, although there is uncertainty about the persistence of the oil supply shock. Downside risks relate to shifts in sentiment and volatility in global financial markets, especially in emerging market economies, where lower oil prices have introduced external and balance sheet vulnerabilities in oil exporters. Stagnation and low inflation are still concerns in the Euro area and in Japan.

Sri Lankan Economy

While 2015 has the potential to bring renewed hope and positive change to the Sri Lankan economy, it will also be fraught with macroeconomic challenges that must be addressed by correct economic policies. The new Government will have to implement appropriate economic and monetary policies aimed at propelling growth if the country is to sustain its middle income status.

The Sri Lankan economy has been growing at an average annual rate of 7.5% over the past three years. Continuing this momentum, GDP is expected to expand by about 7.5%-8% in 2015 – a healthy increase compared to other emerging and developing economies in Asia, which will likely see a growth of 6.4%.

The short-term outlook appears positive across the board. Sri Lanka is well positioned to take advantage of the global economic recovery and the strong growth unfolding in advanced economies. With continued robust export performance, Sri Lanka is expected to narrow its current account deficit further and accumulate additional international reserves.

Performance in Sri Lanka's agriculture sector is predicted to rebound strongly in 2015. Factory-based industries are also expected to gather momentum, thanks to more favourable external and domestic economic conditions.

The rate of inflation should remain at low levels throughout 2015, thanks in large part to the downward trend in fuel prices internationally, which may spark further reductions in domestic pricing. The expected private-sector credit growth, the projected increase in US interest rates and downward pressure on the US \$/LKR exchange rate together are likely to trigger a rise in interest rates in 2015. Private-sector credit growth is expected to improve from January 2015 onwards as a result of measures taken in the previous year, aided by the likely revival of the export sector as principal markets recover.

The salary increment proposed for public sector employees in the Government's 2015 Budget should increase their disposable income. As a result, the demand for products and services is expected to rise, boosting business activity. This in turn should increase demand for credit over the coming year, especially in a scenario characterised by moderate interest rates and inflation.

Sri Lankan Banking Industry

In 2015, the Sri Lankan banking industry should see a reversal of the negative forces that have impeded progress over the past three years. Improved credit growth reflecting the expansion of GDP, along with a healthier net interest margin supported by an enhanced CASA mix, should also help spark renewed growth in the banking sector.

Expected GDP growth of more than 7% will boost commercial lending, particularly in the SME and construction segments. The appetite for credit is also expected to grow in the import/export, value-added apparel and tourism sectors. An increased demand, supported by low interest rates, should fuel broader growth in consumer credit. Growing confidence in the Nation's commitment to good governance and the rule of law will help to create a more open and free business environment, triggering greater demand for credit to be deployed in both consumption and investment.

Rounding out this hopeful outlook, many financial analysts believe that margins in the banking sector have stopped their descent and will now begin to recover. The problems associated with weakened asset quality should be overcome with the return of more favourable economic conditions. By further diversifying their loan books while sustaining a measured and appropriate tolerance for risk, banks will be able to lower their exposures. Of course, the one proviso qualifying these positive trends is that all banks must comply with unfolding Basel III rules setting out stricter, higher-equity Tier I capital requirements, and their implementation could hurt returns across the Sri Lankan banking industry in the near term.

Interim Budget 2015 - Proposals that Affect the Banks and Financial Companies

Salient features of the new Sri Lankan Government's revised Budget proposals for 2015 are as follows:

- Super Gains Tax on any company or individual who has earned profits over Rs. 2,000 Mn. in the tax year 2013/14, will be liable to pay 25% of their profit as a one off tax.
- Senior Citizens' Deposits to receive a higher interest rate of 15% per annum for their savings up to a maximum level of Rs. 1 Mn. and higher interest rate of about 5% on NRFC accounts.
- Imposing a cap of 8% over and above the normal lending rate on Credit Cards.
- 50% waiver of advances granted to farmers for a maximum loan capital of Rs. 100,000/- by commercial banks and presently overdue.
- Interest payments and penalties on pawned jewellery to a value not exceeding Rs. 200,000/- held at state banks will be waived off.

Regulatory/Policy Measures to be Introduced in Future

Adopt Basel III framework in line with the international timeline

Enhance the Quantity and Quality of Capital through

- Implementation of Capital Conservation Buffer for Systemically Important Banks.
- Implementation of Leverage Ratio.

Strengthen Liquidity Risk Management

- Implementation of Liquidity Coverage Ratio on a staggered basis

Deposit Insurance Cover and Liquidity Support

- The Deposit Insurance Cover will be increased to Rs. 300,000/- and Liquidity Support Scheme for companies with urgent liquidity needs.

Resolution Plans

- Implementation of resolution plans to resolve any stress situation.

Information Security

- Implementation of Baseline Security Standard for Information Security Management based on ISO 27000.

Setting up Business Revival Units

- Establishing separate units in banks to facilitate revival of businesses.

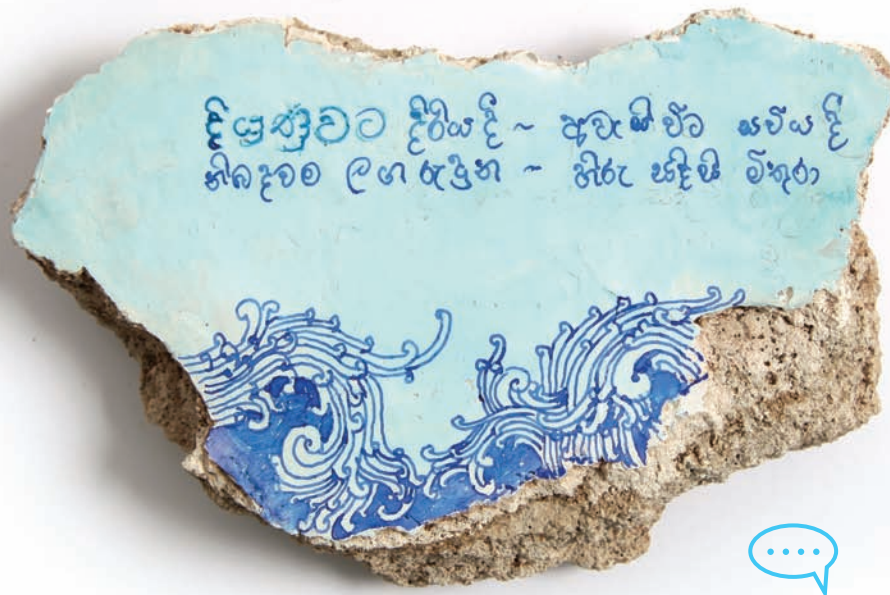
New Accounting Standards issued but not yet effective

- SLFRS 9 - 'Financial Instruments': replaces the existing guidance in LKAS 39 on 'Financial Instruments Recognition and Measurement'.

Strategic Direction of The Bank

Commercial Bank's longer-term strategy rests on three fundamental pillars: strengthening our existing customer base, further improving cost efficiency and seeking new opportunities to expand and diversify our business - all with the ultimate goal of enhancing shareholder value. More specifically, we are focused on:

- Maintaining the Bank's high ratio of current accounts and savings accounts (CASA) by earning and reinforcing customer loyalty. We will achieve this by further enhancing our nationwide distribution channels, including our extensive network of branches and ATMs, and by setting new benchmarks for superior customer service.
- Sustaining our low cost to income ratio by making our business practices and processes more efficient, and by investing in innovative solutions that improve customer experience while helping our employees work more productively. The broad range of efficiency-driving measures currently in development include: process automation and refinement; rationalising and centralising workflow; migrating customers to more cost-effective channels; redesigning operating models to eliminate unnecessary steps (and therefore costs); deploying in-house expertise wherever possible; and promoting a more cost-conscious workplace culture.
- Further diversifying the Bank's sources of operating revenue through a range of initiatives, beginning with deeper penetration of the existing customer base to find additional value. We are developing new products and services while adding more fee-based dimensions to our current offering. We are also enhancing our investment banking activities to better leverage the prospects that come with sustained economic growth.
- Commercial Bank has been granted a license by the Central Bank of Myanmar to operate a representative office in that country. We are actively pursuing opportunities to expand further into other regional markets.
- And we expect to further improve the current global agent model with the goals of increasing our competitive advantage in the profitable overseas remittance business and also we expect that the intended activities of the Bank's operations in Italy is expected to kick start in 2015.



Strategic Snapshot

Initiative undertaken by the Bank during the year against identified strategic imperatives along with the planned activities for the future, are listed below:

| Strategic Imperative | Achievements during the Year | Future Actions |
|--------------------------------|--|--|
| Prudent Growth | <ul style="list-style-type: none"> • Grew deposits by 17.34%, advances by 22.24% and profit after tax by 7.03%. • Launched new products such as Future Pension Plan and continued to offer tailor-made products to high-end customers. • Recognised with multiple awards and accolades. • Extended the branch network by 4 branches in Sri Lanka. • Expanded the ATM network by further 21 machines in Sri Lanka. • Acquired Indra Finance Ltd. • Obtained license to open a representation office in Myanmar. | <ul style="list-style-type: none"> • Maximise profits while managing substantial growth in the lending portfolio and maintaining a quality loan book. • Encourage branches to carry out local campaigns with special focus on mega and micro savings. • Introduce micro-savings and micro-insurance products. • Continue improving communication platforms to promote the wide range of deposit products. • Enhance investment banking activities while actively pursuing opportunities in listed equities and corporate debts. • Develop new products such as cash management solutions for corporate clients. • Expand to regional markets. |
| Cost Efficiency via Innovation | <ul style="list-style-type: none"> • 'Queue Busting' with our Cheque and Cash Deposit machines. • Introduced Biometric attendance system (a fully automated attendance management system) resulting greater convenience and efficiency. • Extended of Automated Banking to traditional branches. • Developed web-based quotation module for Bancassurance operations. • Centralised of re-finance operations and Bancassurance renewal process. • Strengthened Activity Base Cost allocation. | <ul style="list-style-type: none"> • Introduce a comprehensive management information system for data mining to enhance productivity. • Introduce high-tech cash/cheque deposit machines to offer round-the-clock service. • Establish 24/7 automated banking centres at identified locations. • Encourage account-opening via electronic platforms targeting specific customer segments. • Further improve the centralised approval process and implement centralised loan disbursement. • Centralise the post-sanction functions of credit/advances. |
| Exemplary Governance | <ul style="list-style-type: none"> • Refined the self-assessment process of Directors. • Complied with all external regulatory requirements governed by the Corporate Governance Directives and Codes (CBSL, CSE, ICASL and SEC). • Reviewed the status of compliance of regulatory requirements throughout the year. • Set up a new Board Sub-Committee for reviewing all related party transactions carried out by the Bank and its listed subsidiary to strengthen the governance procedures, by early adopting the Code issued by the Securities and Exchange Commission of Sri Lanka. • Reiterating the desired standards of behaviour spelled out in the Code of Ethics of the Bank via periodic training to staff. | <ul style="list-style-type: none"> • Continue to strengthen the corporate governance mechanism within the Bank. • Further strengthen the monitoring mechanism of related party transactions. • Ensuring ongoing compliance with all mandatory requirements and encourage to adopt best practices and voluntary requirements. |

Strategic Direction of The Bank

| Strategic Imperative | Achievements during the Year | Future Actions |
|------------------------------------|---|--|
| Managing Capital | <ul style="list-style-type: none"> Managed the risk-weighted assets through prudent capital allocation. Declared Rs. 2/- per share to be satisfied in the form of issue and allotment of new shares as part of the final dividend for 2013. | <ul style="list-style-type: none"> Manage and maintain the capital levels consistent with the risk profile of the Bank. Maintain a sound Capital Adequacy Ratio to support future expansion plans of the Bank. Maintain the Bank's dividend policy in line with the overall goals of the Bank (Declared Rs. 2/- per share to be satisfied in the form of issue and allotment of new shares as part of the final dividend for 2014). |
| Managing Risk | <ul style="list-style-type: none"> Implemented a complete software solution for carrying out advanced risk management measures such as Value at Risk (VaR). Further strengthened the Integrated Risk Management Department of the Bank. Conducted Business Continuity Plan drills covering all business units to ensure smooth functioning of business in case of emergency. | <ul style="list-style-type: none"> Expand the framework and capabilities of risk management across the Bank. Implement an advanced approach to risk management reflecting the Basel II and Basel III guidelines. Co-ordinate all risk-related efforts carried out to improve decision-making. |
| Being Responsible to the Community | <ul style="list-style-type: none"> Completed nine capacity building programmes for the Agriculture and Microfinance sectors, with the objective of introducing new technology, cultivation methods and financial literacy to these sectors. Carried out CSR projects aimed at enhancing education levels, skill development and IT literacy (Completed - 53, Ongoing - 23, Scholarships - 50). Carried out CSR projects on health care (Completed - 11, Ongoing - 5). Undertook other community programmes (Completed - 10, Ongoing - 7). | <ul style="list-style-type: none"> CSR Trust to shift its focus from IT labs to conduct skill development programmes towards improving employability. Engage with identified projects with sustained positive impact to the communities. Improve on agricultural and microfinancing lending and to continue capacity building programmes for targeted sectors. Continue with its contribution to the CSR Trust Fund. |
| Minimising Environmental Footprint | <ul style="list-style-type: none"> Continued to evaluate the large credit proposals against the criteria specified in the Social and Environmental Management System (SEMS) of the Bank. Carried out process developments to reduce use of paper. Improved procurement practices and policies for reduction of energy use and minimise waste. Undertook a green project at National Hospital of Sri Lanka through our CSR Trust Fund. | <ul style="list-style-type: none"> Continue to follow criteria specified in SEMS in extending finance. Develop smart buildings which use space and natural lightening efficiently. Stepping up the coral planting project by connecting various stakeholders to reap benefits to the local community and continue to undertake CSR projects to preserve environment. |

| Strategic Imperative | Achievements during the Year | Future Actions |
|-----------------------------|--|---|
| Human Resources Development | <ul style="list-style-type: none"> Committed to maintain an equitable and consistent reward structure for staff and initiatives were taken to benchmark the salaries of the staff through collective agreement. Provided the Bank's workforce with essential information, training opportunities and resources, helping them to enhance their productivity and achieve new levels of professional success. Spent around 27.24 hours of training per employee per year. Spent around Rs. 41.0 Mn. on staff training and development. Carried out various sports and recreational activities throughout the year. | <ul style="list-style-type: none"> Relaunch the executive trainee programme with enhanced retention strategies. Enhance the managerial competencies of all executive officers based on identified leadership competencies. Establish cross-functional teams as a means of development for high-potential employees at all levels. Maintain effective management of the performance appraisal system and the variable pay plan. Continue the evaluation of existing welfare services and identify initiatives to enhance staff well-being, taking into consideration branch expansion and current economic and social conditions. |

All of the above strategic imperatives and initiatives taken by the Bank will ultimately add value to investors.

| Strategic Imperative | Achievements during the Year | Future Actions |
|---------------------------|---|---|
| Adding Value to Investors | <ul style="list-style-type: none"> Consistent dividend stream. Attractive dividend payout ratio - 50.34%. Market capitalisation of the Bank improved by Rs. 43.0 Bn. and gained 3rd position among all listed companies. Economic value addition rose by Rs. 2.4 Bn. Maintained ROA and ROE above industry averages. | <ul style="list-style-type: none"> Maintain the Bank's dividend policy in line with overall strategic goals. Retain/improve the Bank's ranking in terms of market capitalisation. |

Full Service
Bank with a
Unique
Trademark



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Sustainability Report

Structured on the basis of the GRI G4 Guidelines, this Report provides a detailed account of the Bank's initiatives and efforts towards being responsible in the economic, social and environmental spheres.

Reporting Parameters

Report Scope

This Report covers the economic, social and environmental performance of Commercial Bank of Ceylon PLC for the fiscal year ended December 31, 2014. In reporting both financial and non-financial matters, we have acted in compliance with the provisions stipulated by the Central Bank of Sri Lanka (CBSL) and Bangladesh Bank, as well as with those of The Institute of Chartered Accountants of Sri Lanka, the Companies Act No. 07 of 2007 and the Listing Rules of the Colombo Stock Exchange.

This Report also adopts the Global Reporting Initiative (GRI) Guidelines, version G4 and the GRI's G4 Financial Services Sector Supplement for sustainability reporting. This year too we have prepared our Sustainability Report based on GRI G4 'in-accordance' - Core option of the guidelines.

This Sustainability Report has been approved by the Board of Directors of the Bank.

Inclusivity

In preparing this Report, we took into account key aspirations and concerns discovered through our structured stakeholder engagements, in our day-to-day interactions and from the community at large. It reviews the Bank's direct impacts on sustainability, as well as Corporate Social Responsibility (CSR) initiatives undertaken by the Bank's CSR Trust Fund, which are designed to foster greater prosperity in the communities where we operate and to promote a healthier natural environment.

The stakeholder engagement process is discussed on pages 75 to 78.

Materiality

This Report covers aspects identified as having at least a moderate impact on sustainability, either in the Bank's view or from the perspective of one or more stakeholder groups. The aspects identified as 'material' and the process for determining materiality are discussed on pages 71 to 73.

Coverage and Boundary of Aspects

This Report primarily covers sustainability impacts, risks and opportunities arising from the Bank's activities in Sri Lanka and in Bangladesh.

The activities and performance data of Commercial Bank's four Subsidiaries – Commercial Development Company PLC, ONEzero Co. Ltd., Indra Finance Ltd. and Commex Sri Lanka SRL– as well as the operations of our two Associate companies, Equity Investments Lanka Ltd. and Commercial Insurance Brokers (Pvt) Ltd., are not included in this report, as the results of operations of these entities are insignificant compared to the overall results of the group. Moreover, we believe that the low-scale operations of these businesses produce negligible social, economic and environmental impacts, and therefore do not warrant inclusion.

Reporting Cycle

The Bank's sustainability impacts have been published in our Annual Report since 2009, initially based on GRI G3 guidelines. In 2013, we early adopted GRI G4 guidelines and sector disclosures. The Annual Report is published within the time frames stipulated by the Bank's Articles of Association, the Companies Act and the Listing Rules of the Colombo Stock Exchange. This Report and the previous Report for the financial year ending December 31, 2013 can be accessed through our website at www.combank.lk/newweb/investor-relations

Report Quality

We take every effort to ensure that our corporate reporting meets widely accepted quality criteria, including:

- **Completeness:** We include key material sustainability impacts within and under the direct control of the Bank; impacts outside the organisation that are indirectly influenced through our engagement with stakeholders; and broader sustainability initiatives undertaken through the CSR Trust Fund in co-operation with Government organisations and other groups.
- **Comparability:** We provide results from both current and previous reporting periods.
- **Accuracy and consistency:** Our information-gathering process includes verification by internal authorities and external assurance providers.
- **Clarity:** We provide both quantitative and qualitative information, accompanied by tables and graphs where appropriate.
- **Balance:** We report all relevant information; nothing is withheld.
- **Credibility and Reliability:** We seek external confirmation from reputed assurance providers.

Policy in Seeking External Assurance

Commercial Bank appoints a reputable audit firm to act as the independent External Auditor. The Auditors' remuneration is determined according to the Board of Directors' recommendation and is approved by the shareholders at the Annual General Meeting. The Bank's policy is to rotate External Auditors every five years.

We began seeking external assurance with the publication of our second Sustainability Report to enhance its credibility. This year's report received external verification and assurance by DNV GL, represented by DNV Business Assurance Lanka (Pvt.) Limited. We also retained the services of Messrs KPMG to gain appropriate assurance of financial performance data, as well as some key performance indicators. These independent assurance reports appear on pages 113 to 118.

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. We plan to continue seeking independent external assurance for future sustainability reports, to ensure continued credibility.

Precautionary Approach

Bank manages the social and environmental impacts in our products and services through the Social and Environment Management System (SEMS) and also channelling new product developments through the Bank's product development committee. Refer page 88 under section 'Product Responsibility' for Bank's procedures in place for new product developments and SEMS.

Bank also manages the social and environmental impacts in our Supply chain through the supplier selection and evaluation process. The process includes a technical review, which encompasses social and environmental aspects. Refer page 110 for details on Supplier Assessment.

Bank's Subscription to External Charters and Principles

Commercial Bank is committed to uphold the principles of United Nations Global Compact and International Finance Corporation guidelines and performance standards that reflect our operating values, principles and commitments to stakeholders.

Memberships in Associations

The Bank has general memberships in a number of sectoral, industrial and professional organisations and associations. Although, the Bank does not hold positions on the governance bodies of these institutions, we extend our fullest support for their activities.

- Sri Lanka Banks' Association (Guarantee) Ltd.
- Institute of Bankers of Sri Lanka (IBSL)
- The Ceylon Chamber of Commerce, Sri Lanka
- The National Chamber of Commerce, Sri Lanka
- Association of Banking Sector Risk Professionals
- Association of Compliance officers of Banks, Sri Lanka

MATERIAL ASPECTS AND BOUNDARIES

Our Approach to Defining Report Content and the Aspect Boundaries

We believe it is vital to align the Bank's business strategy with the expectations of our stakeholders, given the strong connection between our sustainability commitment and our overall goals as an enterprise. The content of this Report therefore considers the full

range of the Bank's business activities, along with our economic, environmental and social impacts and also the views expressed by our stakeholders, as outlined in the section 'Stakeholder Engagement Process' on pages 75 to 78.

The methodology used to determine report content is based primarily on the strategic imperatives and the GRI G4 guidelines and follows a two-step process:

Step 1 – Identify Relevant Aspects and Their Boundaries

We have identified aspects with broad sustainability significance collected via the stakeholder engagement process and established 'boundaries' to isolate those impacts that are most relevant to Commercial Bank and our stakeholders.

We evaluated aspects according to their impact on, and contribution to, areas of sustainability related to the Bank's business strategy and operations. They were also assessed in the light of stakeholder expectations – again, as gathered through the engagement process.

Aspects were categorised according to three levels of significance: high, moderate and low. We applied the following criteria to measure impacts and boundaries:

- The level of influence that the Bank has over each aspect.
- The extent to which a resource is used in our operations.
- The degree of various stakeholders' interactions and their levels of expectation.
- The Bank's responsibility as a good corporate citizen.
- The impacts of the activities of our customers and suppliers.
- The value that the Bank can potentially deliver in relation to each aspect.

Step 2 – Establishing Material Aspects and Prioritisation

We evaluated and ranked 'material aspects' based on their importance to the Bank's operations, as well as the expectations of our stakeholders and the applicability of relevant local and international laws, regulations and treaties. At the same time, for each material aspect, we identified a boundary encompassing its most significant impacts.

To establish an aspect's 'materiality' or direct importance, we prioritised its relevance (again, with rankings of high, medium and low) from two perspectives:

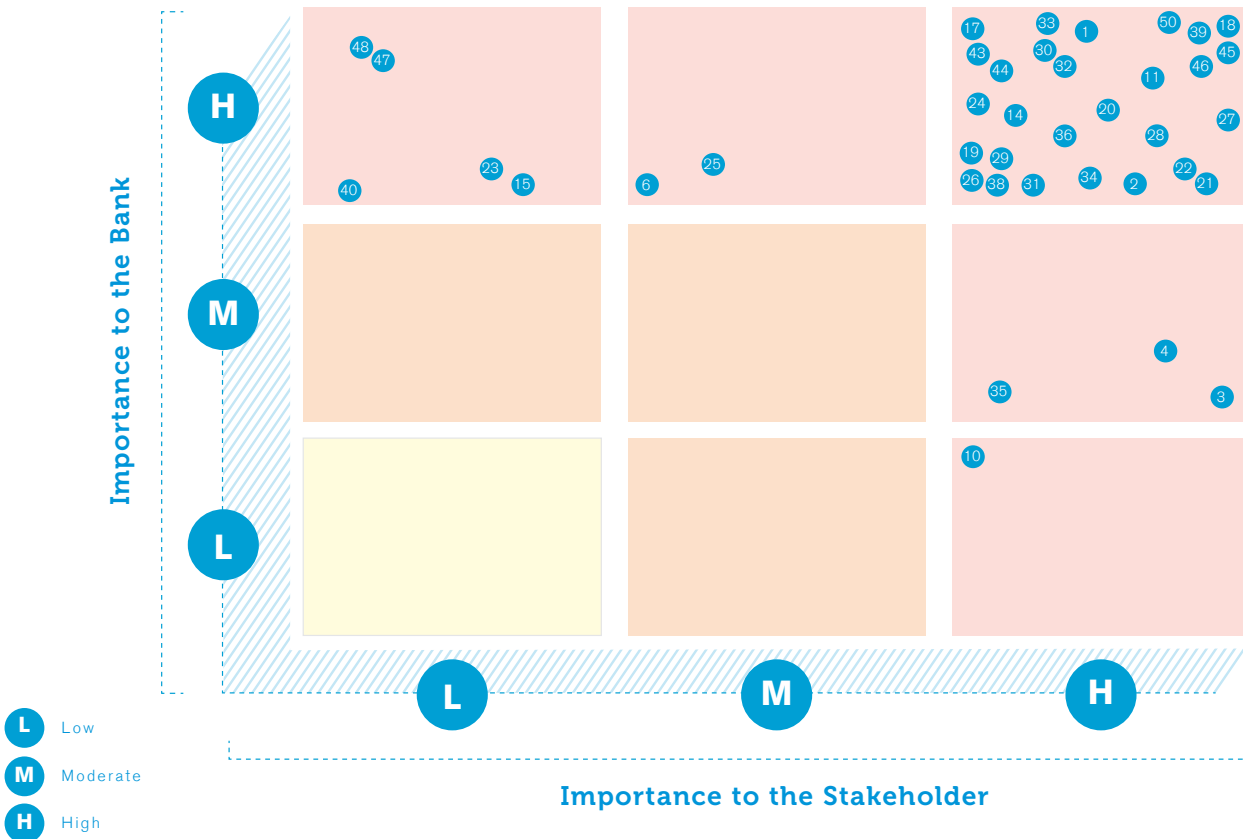
- (1) The importance of the aspect to our pursuit of the Bank's strategic objectives (set out in the Corporate Plan) as we fulfill our responsibilities to the economy, the natural environment and society as a whole.
- (2) The importance of the aspect to specific stakeholder groups, and the influence it could have on how they assess their relationship with the Bank.

Material Aspects and Boundaries

The following table shows the levels of significance accorded to various aspects relative to the triple bottom lines of sustainability.

| Aspect | Significance to Bank's Operations | Aspect Boundary | | | | | Materiality | |
|--|-----------------------------------|-----------------|------------|-----------|-------------|-----------|-------------|--------------------|
| | | Internal | | External | | | To the Bank | To the Stakeholder |
| | | Sri Lanka | Bangladesh | Customers | Communities | Suppliers | | |
| Economic | | | | | | | | |
| 1. 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 |
| 18. Labour/management relations | High | ★ | ★ | | | | High | High |
| 19. Occupational health and safety | Moderate | ★ | ★ | | | | High | High |
| 20. Training and education | High | ★ | ★ | | | | High | High |
| 21. Diversity and equal opportunity | High | ★ | ★ | | | | High | High |
| 22. Equal remuneration for women and men | High | ★ | ★ | | | | High | High |
| 23. Supplier assessment for labour practices | High | | | | | ★ | High | Low |
| 24. Labour practices grievance mechanisms | High | ★ | ★ | | | | High | High |
| Social: Human Rights | | | | | | | | |
| 25. Investment | Moderate | ★ | | | | | High | 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 | ★ | ★ | | | | High | High |
| 31. Indigenous rights | Low | | | | | | | |
| 32. Human rights assessment | High | ★ | ★ | | | | High | High |
| 33. Supplier human rights assessment | High | | | | | ★ | High | High |
| 34. Human rights grievance mechanisms | High | ★ | ★ | | | | High | High |
| 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 | | | | | | | |

| Aspect | Significance to Bank's Operations | Aspect Boundary | | | | | Materiality | |
|---------------------------------------|-----------------------------------|-----------------|------------|-----------|-------------|-----------|-------------|--------------------|
| | | Internal | | External | | | To the Bank | To the Stakeholder |
| | | Sri Lanka | Bangladesh | Customers | Communities | Suppliers | | |
| 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 | High | * | | | | | High | High |



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.

A BANK FULL
OF JOY, HUMOUR,
KINDNESS
AND A SMILE
SPREADING
THROUGHOUT
THE FACES OF
THE STAFF



We consider a 'stakeholder' to be any person, group or entity that is affected by, or that we expect to be affected by the Bank's activities or their engagement with our organisation. Accordingly, we identify the groups listed below as our key stakeholders, all of whom have an expressed interest in our economic, social and environmental performance:

- Investors (including shareholders and analysts)
- Customers
- Employees (including employee associations)
- Government institutions (including legislators and regulators)
- Suppliers and other business partners
- Society in general
- The natural environment

The governance structure of the Bank demands active engagement with stakeholders to achieve our mission.

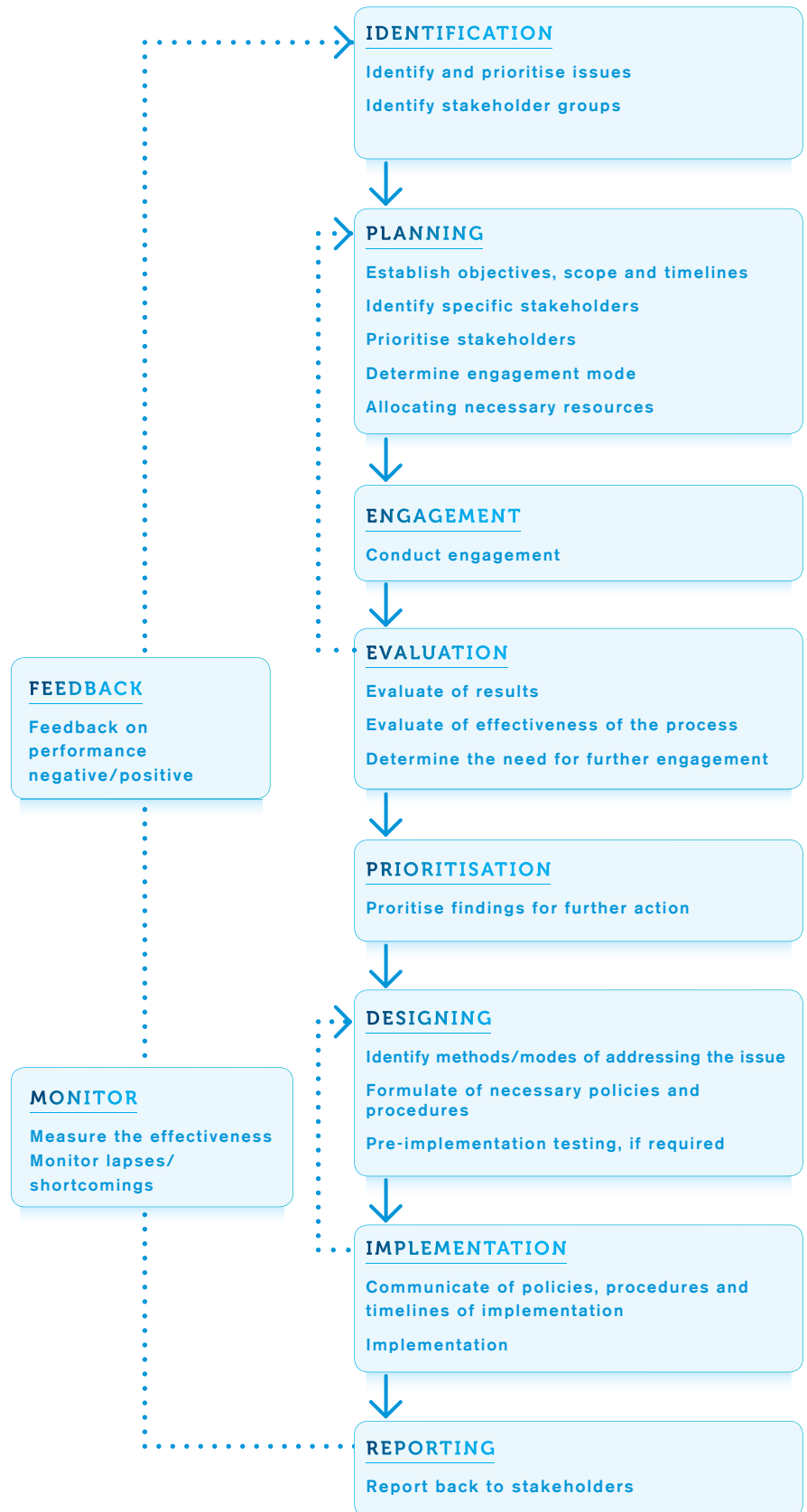
A constructive dialogue with stakeholders helps us to understand their expectations so we can better manage risk, innovation and process improvements. Maintaining an ongoing conversation also helps us to identify current and emerging issues, recognise opportunities to develop new products and services and improve performance while ensuring that our responses are in the best interest of our stakeholders.

Most of the Bank's engagement efforts are conducted in the normal course of business, in day-to-day interactions with customers, suppliers and other stakeholders. We also carry out more structured engagements, as discussed below.

The Stakeholder Engagement Process

The process is designed to promote inclusiveness and ensure that any critical concerns are brought swiftly to the attention of the Board of Directors and senior management, prompting effective action. The Bank did not encounter any critical stakeholder concerns during 2014.

The Bank's stakeholder engagement process is explained in the following diagram.



Stakeholder Engagement

How We Connect with Stakeholder Groups

Dialogue with the Bank's stakeholders is our primary method of understanding important current and emerging issues. For each of our stakeholder groups, we ensure appropriate engagement mechanisms are in place (as demonstrated in the chart below), so we can better understand their key issues.

1. Investors, Including Shareholders and Analysts

| Mode of Engagement | Frequency of Engagement | Key Topics Discussed and Concerns Raised | Methodologies Employed to Respond |
|---|-------------------------|--|--|
| Annual reports | Annually | Key topics discussed: <ul style="list-style-type: none"> • Interim and annual results • Plans to improve key performance indicators • Business expansion plans, locally and internationally • Liquidity management • Proposals for further enhancing services offered by the Bank • Sustainable growth Concerns raised: <ul style="list-style-type: none"> • Quality of assets • Sensitivity analysis on interest rates and exchange rates | Concerns of existing and prospective shareholders are addressed (provided they are not related to commercial secrets) during the engagement process. Transparency, accountability and regular communications are among our top priorities. |
| Annual general meeting | Annually | | |
| Extraordinary general meetings | As required | | |
| Interim financial statements | Quarterly | | |
| Press conferences and media releases | As required | | |
| Investor presentations | As required | | |
| Announcements made to the Colombo Stock Exchange | As required | | |
| One-to-one discussions | As required | | |
| Participation at road shows | As required | | |
| Corporate website: www.combank.lk | Continuous | | |

2. Customers

| Mode of Engagement | Frequency of Engagement | Key Topics Discussed and Concerns Raised | Methodologies Employed to Respond |
|---|-------------------------|--|--|
| Customer satisfaction survey | Annually | Key topics discussed: <ul style="list-style-type: none"> • Innovation in products and services • Interest rate trends, securities, terms and conditions, etc. • Fees and charges • Branch openings/relocations • Services available through online banking Concerns raised: <ul style="list-style-type: none"> • Reduction in interest rates on deposits • Customer service lapses • Factors promoting greater customer convenience, including branch layout, availability of a wide range of products and services, well-trained staff, etc. • Amicable resolution of disputes | <p>Opinions and multiple expectations of customers, gathered through various forms of engagement, are considered in developing new products and services.</p> <p>Prompt communications to all staff through internal circulars – covering interest rates, as well as the terms and conditions that apply to our banking products – equips our employees to better handle a wide variety of customer requests.</p> <p>The Bank conducts annual customer surveys to obtain feedback on satisfaction levels and areas of potential improvement in existing services.</p> <p>Other measures to enhance customer satisfaction include improved information security, responsible marketing communications, innovative and environmentally friendly products and assisting in customers' business development processes.</p> <p>To resolve customer complaints, a member of the Bank's corporate management team has been named the Complaint Resolution Officer as part of the voluntary Financial Ombudsman program established by the Central Bank of Sri Lanka (CBSL).</p> |
| Touch points | As required | | |
| Relationship managers' engagement with corporate customers | As required | | |
| Complaint Resolution Officer | As required | | |
| Customer workshops | As required | | |
| Media advertisements | As required | | |
| Corporate website: www.combank.lk | Continuous | | |

3. Employees, including Employee Associations

| Mode of Engagement | Frequency of Engagement | Key Topics Discussed and Concerns Raised | Methodologies Employed to Respond |
|--|-------------------------|---|---|
| Managers' conference | Annually | <p>Key topics discussed:</p> <ul style="list-style-type: none"> • Collective Agreement 2015–17 • Aligning values with corporate culture • Compliance with national regulations • Updates on rules and regulations of the CBSL • Future plans • Diversity and inclusion • Whistle-blowing mechanism <p>Concerns raised:</p> <ul style="list-style-type: none"> • Remuneration, including compensation based on performance • Staff welfare measures | <p>The Bank conducts training and awareness sessions and sends instructions via circulars to increase employee awareness of the latest developments in the industry.</p> <p>The performance-driven culture of the Bank rewards employees based on their achievement of defined targets.</p> <p>The Bank signed a collective agreement with the Ceylon Bank Employees Union before the deadline for concluding negotiations.</p> |
| Relationship-building with employee associations | Annually | | |
| Special events such as quiz contests, children's parties, staff get-togethers, art and sports events, etc. | Annually | | |
| Regional review meetings | Quarterly | | |
| Internal newsletter - Com Pulse | Quarterly | | |
| Operational updates to staff via email | Daily | | |
| Feedback from cross-functional training programmes | As required | | |
| Negotiations with employees and their associations | As required | | |
| Intranet site of the HR division | Continuous | | |

4. Government Institutions, including Legislators and Regulators *

| Mode of Engagement | Frequency of Engagement | Key Topics Discussed and Concerns Raised | Methodologies Employed to Respond |
|--|----------------------------|--|---|
| On-site surveillance by the CBSL and the Bangladesh Bank | Annually | <p>Key topics discussed:</p> <ul style="list-style-type: none"> • The CBSL's regulations pertaining to licensed commercial banks • Compliance with codes of best practices on corporate governance • Compliance with anti-money-laundering and know-your-customer requirements • Other government regulations, including tax rules • Factors that affect the well-being of Bank's employees • Mergers and acquisitions • Overseas expansion <p>Concerns raised:</p> <ul style="list-style-type: none"> • Access to finance by small and medium-sized enterprises (SMEs) • Consolidation of the financial sector | <p>The Bank has an ongoing dialogue with regulators. We have put in place systems and procedures to assure regulatory compliance in both letter and spirit, strengthening our relationship with other public and professional institutions.</p> |
| Directives and circulars | As required | | |
| Filing of returns | Within statutory deadlines | | |
| Consultations | As required | | |
| Press releases | As required | | |
| Meetings | As required | | |
| Official email address: info@combank.net | Continuous | | |

* Government institutions include the Central Bank of Sri Lanka (CBSL), Bangladesh Bank, the Department of Inland Revenue, the Ministry of Finance, the Registrar of Companies, the Colombo Stock Exchange, the Securities and Exchange Commission of Sri Lanka, the Ceylon Chamber of Commerce, External Auditors and the Sri Lanka Accounting and Auditing Standards Monitoring Board, as well as professional organisations such as The Institute of Chartered Accountants of Sri Lanka and other Government groups.

Stakeholder Engagement

5. Suppliers and Other Business Partners

| Mode of Engagement | Frequency of Engagement | Key Topics Discussed and Concerns Raised | Methodologies Employed to Respond |
|----------------------------------|-------------------------|---|--|
| Supplier relationship management | As required | <p>Key topics discussed:</p> <ul style="list-style-type: none"> Responsible procurement opportunities offered by the Bank Engagement with a preferred supplier database <p>Concerns raised:</p> <ul style="list-style-type: none"> Contractual performance | <p>The Bank maintains a list of registered suppliers. We encourage an ongoing dialogue to ensure that value is created for both our suppliers and our own business. Reliability and mutual trust are key to building strong relationships.</p> |
| On-site visits and meetings | As required | | |

6. Society & Environment

| Mode of Engagement | Frequency of Engagement | Key Topics Discussed and Concerns Raised | Methodologies Employed to Respond |
|---|-------------------------|---|--|
| Widespread network of delivery channels | Continuous | <p>Key topics discussed:</p> <ul style="list-style-type: none"> Corporate responsibility initiatives Providing access to fair and affordable banking Community investment Youth-targeted sponsorships Raising the Bank's brand profile internationally through sports and arts Recognition for excellence by various external parties <p>Concerns raised:</p> <ul style="list-style-type: none"> Staff recruitment Financial inclusion Micro-financing and SME development | <p>We contribute to local economic development through the full range of banking activities, from deposit taking and investments to personal lending and commercial finance, delivered via the Bank's nationwide branch and ATM network. Committed to being transparent in our activities, we keep the public informed of our sustainable performance and other relevant developments. We also support local communities and some of the most needy members of society through sponsorship of the CSR Trust Fund, whose initiatives include scholarships for underprivileged students.</p> |
| Press releases | As required | | |
| Press conferences and media briefing | As required | | |
| Informal briefings and communications | As required | | |
| Communications with the general public | As required | | |
| Public events | As required | | |
| Call centre | Continuous | | |
| Corporate website: www.combank.lk | Continuous | | |

At Commercial Bank, we have always strived to repay the trust shareholders have placed in us by returning maximum value. At the same time, in our quest for sustainable growth we work with a variety of stakeholders - including customers, employees and suppliers - to help them achieve their aspirations. We conduct the Bank's business in a transparent and in an ethical manner, managing risk and pursuing opportunities while adhering to the principles of good governance.

The Board of Directors guides Commercial Bank's approach to economic sustainability with a comprehensive corporate plan. This plan reflects the inputs of all key strategic business units – Personal Banking, Corporate Banking, Treasury and International Operations – as well as other support service units. The needs of each business unit are addressed in the annual budget, which is prepared according to a rolling five-year plan. Our detailed budgeting includes specific goals for each unit, with resources allocated according to the Bank's overall strategic objectives.

The sections of this Annual Report devoted to 'Corporate Governance' (Refer pages 142 to 182) and 'Managing Risk at Commercial Bank' (Refer pages 218 to 245) discuss in detail how we govern our business and manage risk, respectively.

The Bank's performance in achieving defined economic targets is discussed in detail in the report section devoted to 'Operational Review by Division' (Refer pages 42 to 61) within the section 'Management Discussion and Analysis' and also the 'Highlights of the Year' that are given on page 6.

We have put in place various mechanisms to monitor our progress towards goals set out in the Corporate Plan and Budget:

- Detailed management accounts, including key performance data, are submitted to monthly meetings of the Board of Directors, with explanations of material variances. The Bank prepares interim and annual Financial Statements according to the requirements of the Sri Lanka Accounting Standards (SLFRS/LKAS), which are fully congruent with the International Financial Reporting Standards (IFRS).

- At Board meetings, the Heads of the Bank's main strategic business units discuss recommended action plans to improve performance.
- The Board has established eight Sub-Committees – four of them mandatory – to support Directors in their efforts and to ensure good governance. These Board Sub-Committees are in turn backed by several other management committees headed by the Managing Director. The proceedings of these Board Sub-Committees are duly communicated to the Board.

The composition of all Board Sub-Committees, their mandates and how each committee functions are disclosed in the reports of each Sub-Committee on pages 183 to 193. In addition 'The Investor Relations Supplement' which appears on pages 246 to 262 discusses key information required by the stakeholders, mainly, the shareholders.

- An effective internal audit function covers Commercial Bank's entire scope of operations in Sri Lanka and in Bangladesh.
- Annual external audits of Financial Statements are conducted by reputable firms of chartered accountants. Other statutory audits are undertaken by regulators such as the Central Bank of Sri Lanka (CBSL), Bangladesh Bank, the Sri Lanka Accounting and Auditing Standards Monitoring Board and the Inland Revenue Department.



Economic Sustainability

Direct Economic Value Generated and Distributed

The table below shows the Bank's contribution to the Sri Lankan and Bangladesh economies in the past five years.

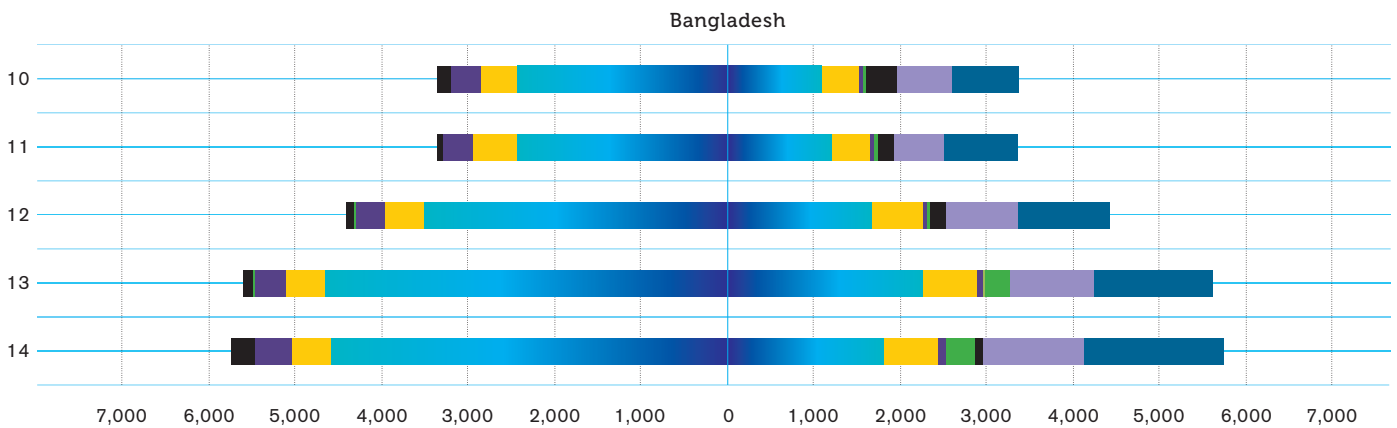
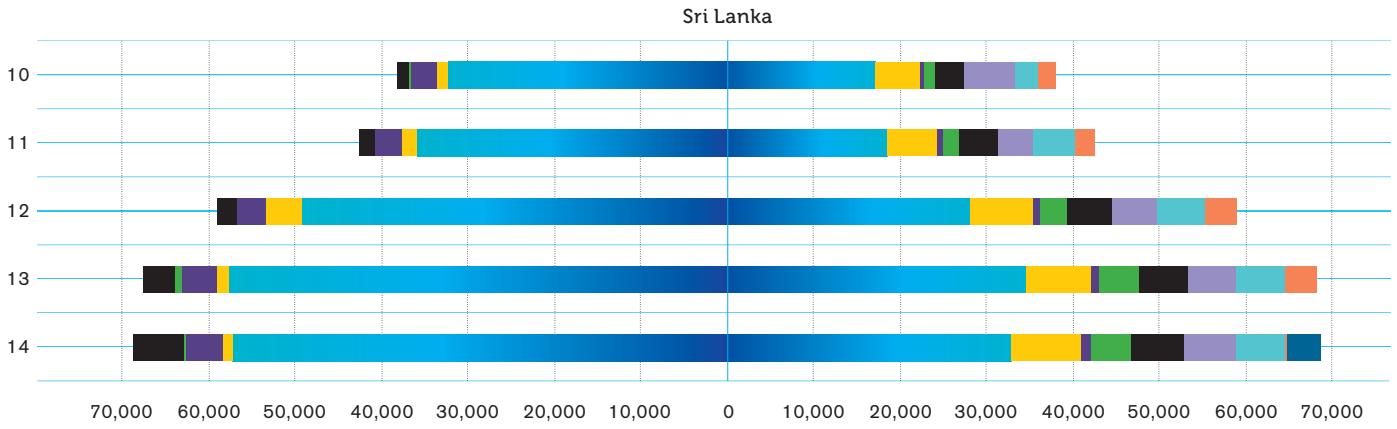
| For the year ended December 31, | Sri Lanka Operation | | | | | Bangladesh Operation | | | | |
|--|---------------------|-----------------|-----------------|-----------------|-----------------|----------------------|-----------------|-----------------|-----------------|-----------------|
| | 2014 Rs. Mn. | 2013 Rs. Mn. | 2012 Rs. Mn. | 2011 Rs. Mn. | 2010 Rs. Mn. | 2014 Rs. Mn. | 2013 Rs. Mn. | 2012 Rs. Mn. | 2011 Rs. Mn. | 2010 Rs. Mn. |
| Source of Income | | | | | | | | | | |
| Interest Income | 57,244 | 57,534 | 49,169 | 35,914 | 32,293 | 4,588 | 4,653 | 3,516 | 2,442 | 2,447 |
| Foreign Exchange Profit | 1,029 | 1,541 | 4,246 | 1,811 | 1,329 | 452 | 455 | 448 | 510 | 412 |
| Commission Income | 4,405 | 3,876 | 3,253 | 2,977 | 2,886 | 426 | 374 | 345 | 348 | 334 |
| Investment Income | 99 | 873 | 103 | 81 | 188 | 14 | 14 | 16 | – | 19 |
| Other | 5,932 | 3,722 | 2,201 | 1,715 | 1,468 | 253 | 118 | 98 | 61 | 146 |
| | 68,709 | 67,546 | 58,972 | 42,498 | 38,164 | 5,733 | 5,614 | 4,423 | 3,361 | 3,358 |
| Distribution of Income | | | | | | | | | | |
| To Depositors/Debenture Holders as Interest | 32,812 | 34,617 | 28,148 | 18,452 | 17,241 | 1,798 | 2,262 | 1,682 | 1,198 | 1,087 |
| To Employees as Emoluments | 8,255 | 7,555 | 7,190 | 5,834 | 5,162 | 648 | 631 | 580 | 456 | 426 |
| Depreciation Set Aside | 1,119 | 881 | 987 | 699 | 485 | 82 | 55 | 48 | 49 | 54 |
| Provision for Possible Loan Losses/ Impairment Charges | 4,571 | 4,606 | 3,155 | 1,763 | 1,163 | 348 | 21 | 42 | 45 | 29 |
| To Providers of Supplies and Services | 6,131 | 5,629 | 5,046 | 4,661 | 3,402 | 88 | 297 | 183 | 167 | 377 |
| To Government as Taxation | 6,185 | 5,149 | 5,357 | 3,946 | 5,885 | 1,170 | 961 | 827 | 596 | 630 |
| - Income Tax | 3,386 | 3,104 | 3,370 | 2,418 | 3,164 | 1,170 | 961 | 827 | 596 | 630 |
| - VAT and NBT on Financial Services | 2,689 | 1,969 | 1,987 | 1,523 | 2,709 | – | – | – | – | – |
| - Crop Insurance Levy | 110 | 76 | – | – | – | – | – | – | – | – |
| - Debits Tax | – | – | – | 5 | 12 | – | – | – | – | – |
| To Shareholders as Dividends | 5,628 | 5,519 | 5,418 | 4,905 | 2,642 | – | – | – | – | – |
| To Community | 53 | 51 | 51 | 110 | 57 | 2 | – | 1 | – | 1 |
| To Reserves | 3,955 | 3,539 | 3,620 | 2,128 | 2,127 | 1,597 | 1,387 | 1,060 | 850 | 754 |
| | 68,709 | 67,546 | 58,972 | 42,498 | 38,164 | 5,733 | 5,614 | 4,423 | 3,361 | 3,358 |

Note: Data for 2011–2014 has been derived from the audited Financial Statements that were prepared based on the Sri Lanka Accounting Standards (SLFRS/LKAS), while data for 2010 is from statements based on the Sri Lanka Accounting Standards (SLAS).

Sources and Distribution of Income

Sources of Income (Rs. Mn)

Distribution of Income (Rs. Mn)



- Interest Income
- Foreign Exchange Profit
- Commission Income
- Investment Income
- Other
- To Depositors/Debtors as Interest
- To Employees as Emoluments
- Depreciation Set Aside
- Provision for Possible Loan Losses/Impairment Charges
- To Providers of Suppliers and Services
- To Government as Taxation
- To Shareholders as Dividends
- To Community
- To Reserves

Economic Sustainability

Economic Value Added (EVA)

EVA is a measure of profitability based on the cost of total invested equity. It provides an indication of the true economic value created for shareholders, as opposed to accounting profits. The Bank is deeply committed to delivering optimum and consistent value to our shareholders. The EVA created during 2014 amounts to Rs. 8,962 Mn., while cumulative EVA created over the past five years totals Rs. 28,457 Mn. We remain one of the few enterprises in Sri Lanka that has embraced EVA as a measure of performance.

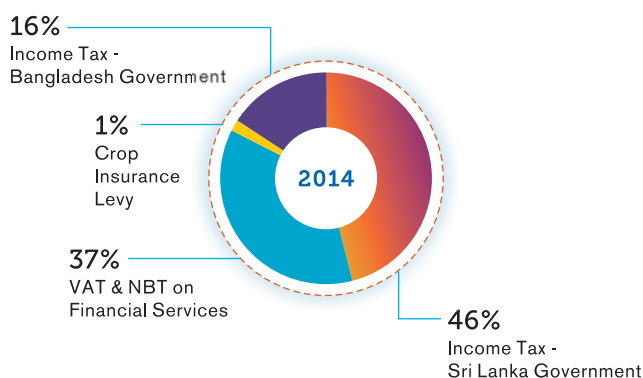
| <i>For the year ended December 31,</i> | 2014 Rs. Mn. | 2013 Rs. Mn. | 2012 Rs. Mn. | 2011 Rs. Mn. | 2010 Rs. Mn. |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|
| Invested Equity | | | | | |
| Shareholders' Funds | 70,512 | 60,944 | 52,577 | 43,766 | 33,302 |
| Add: Cumulative Loan Loss Provision/Provision for Impairment | 16,956 | 15,787 | 13,501 | 11,601 | 4,900 |
| Total | 87,468 | 76,731 | 66,078 | 55,367 | 38,202 |
| Earnings | | | | | |
| Profit after Tax and Dividends on Preference Shares | 11,180 | 10,446 | 10,098 | 7,883 | 5,523 |
| Add: Loan Losses and Provisions/Impairment Provision | 4,919 | 5,204 | 3,197 | 1,808 | 1,192 |
| Less: Loan Losses Written-Off | (27) | (99) | (5) | (24) | (6) |
| Total | 16,072 | 15,551 | 13,290 | 9,667 | 6,709 |
| Cost of Equity (Based on 12 Months Weighted Average Treasury Bill Rate Plus 2% for the Risk Premium) | 8.66% | 12.63% | 13.97% | 9.53% | 10.49% |
| Cost of Average Equity | 7,110 | 9,018 | 8,483 | 4,459 | 3,761 |
| Economic Value Added | 8,962 | 6,532 | 4,807 | 5,208 | 2,948 |

Our Indirect Economic Impact

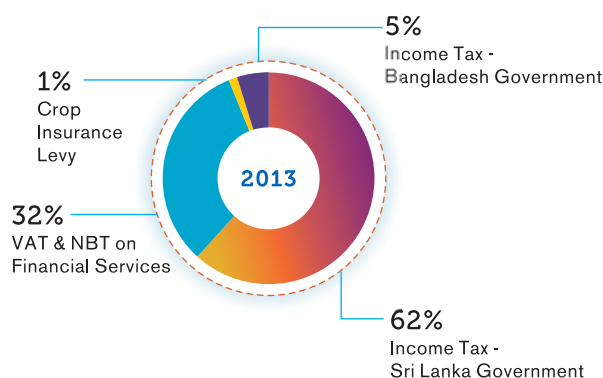
At Commercial Bank we are mindful of our responsibilities as one of Sri Lanka's leading banks, accounting for approximately 10% of the total assets of the banking and finance industry in Sri Lanka. We have a strong obligation to prudently manage risks we face to ensure the continuity of our own business, so as not to send shock waves to the stability of the country's economy.

Commercial Bank through its Corporate Banking Division finances many large infrastructure projects that help to fuel the country's economic growth, creating many trickle-down benefits to the society, as well as the environment. Indirect economic impacts are equally important to us as we pursue the goals of sustainable performance. The Bank did not take part in any such new projects during 2014 but only continued with the previous commitments.

Contribution to Government



Contribution to Government



Business Continuity Management

Continuity of critical business operations is vital to the Bank's success and continued growth. Our Business Continuity Management Steering Committee, which includes several representatives of corporate and senior management, provides overall guidance to the Business Continuity Planning (BCP) Committee, which is comprised of senior officers representing key business and service units of the Bank.

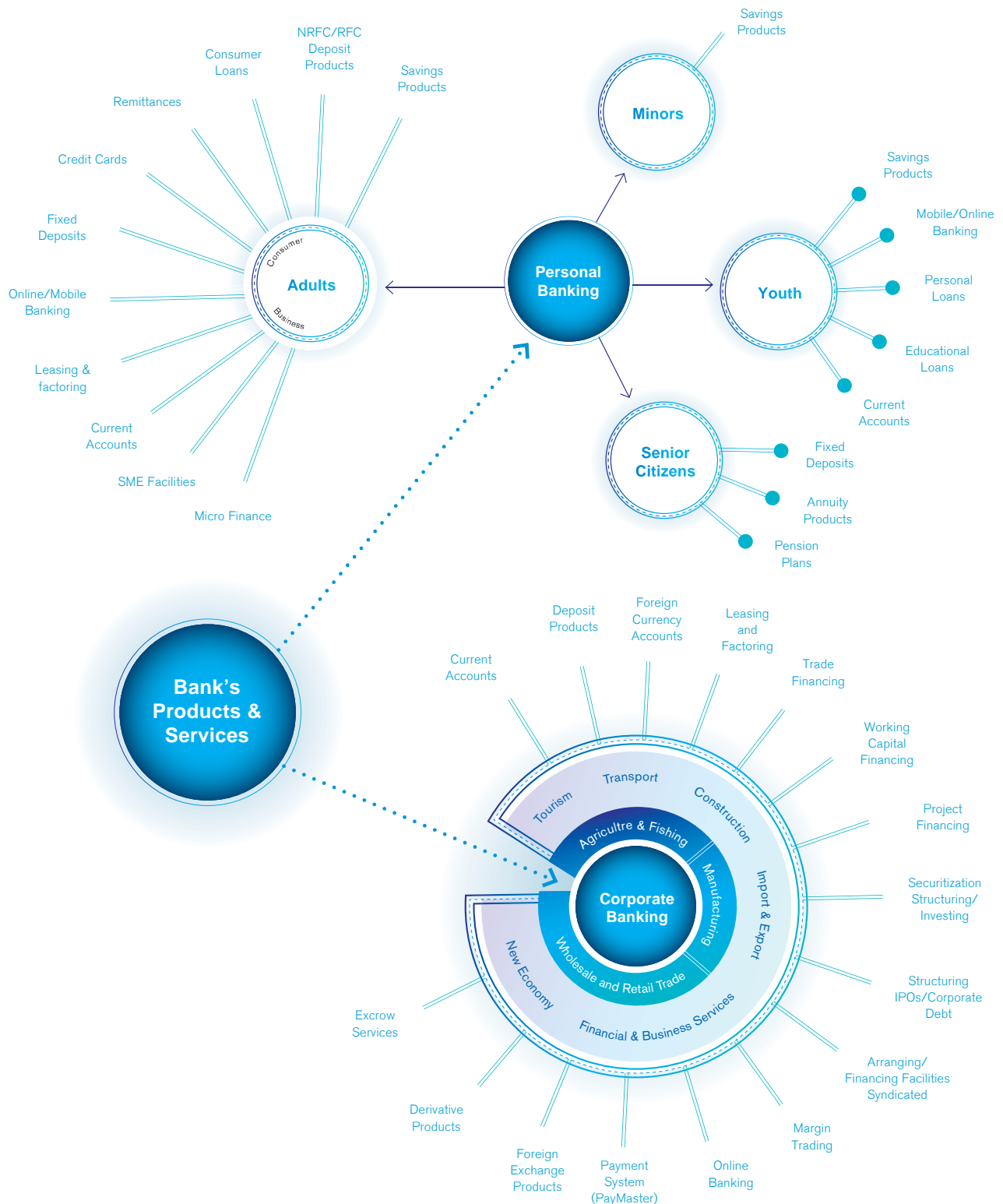
The BCP Committee has developed a formal Business Continuity Plan, in-line with the requirements and guidelines provided by the CBSL, which has been formally approved by the Board. In addition, to comply with the CBSL requirements, the plan helps the Bank remain ahead in the industry and reinforces our international presence. It addresses operational risks and strives to minimise any threats posed by shortcomings or failures of internal processes and systems, as well as external events, including natural disasters.

As the Bank rely heavily on information technology, we have put in place disaster recovery sites at remote locations and periodic role-swap exercises are carried out to test the Bank's ability to withstand any disaster situation. These exercises are aimed at identifying issues in switching machines and minimising the down time and loss of data.

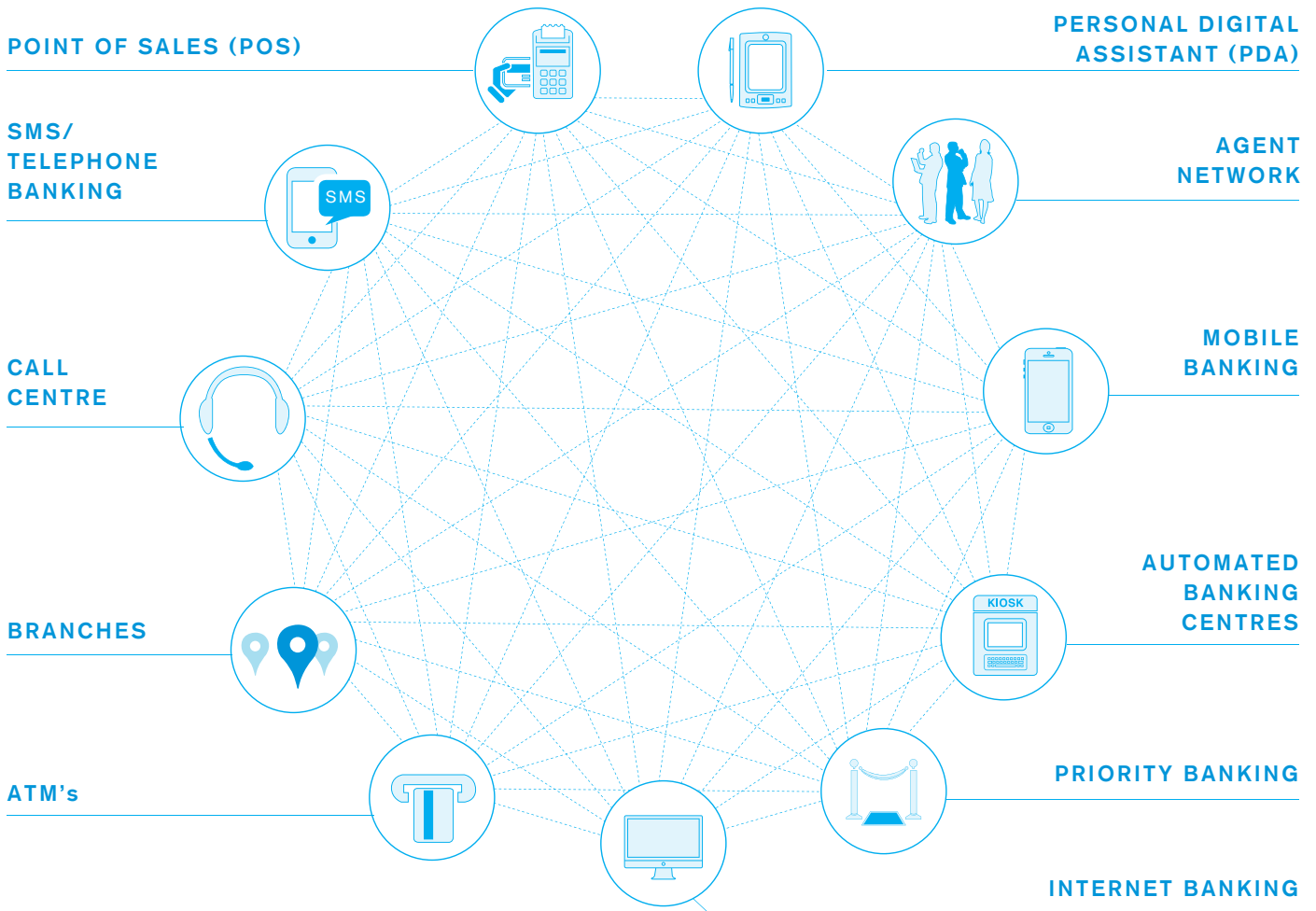


Product Responsibility

The Bank offers a wide range of products and services designed to meet a spectrum of customer needs. We constantly refine our existing products and develop new products and services addressing the evolving requirements of our customers, as well as technological change, market competition and economic and demographic developments. Flexible options within our offering enable customers to tailor products and services to their exact needs.



The Bank's mix of delivery channels has been a strong factor in our growth and success, strengthening customer loyalty. By offering an array of channels, we ensure that our products and services are readily and easily accessible. Customers can conveniently connect with us in a variety of ways, at any time of the day and from wherever they are.



The Bank serves customers' banking needs 365 days a year, through special holiday banking services at selected branches. Our supermarket banking outlets further extend banking services for added convenience. Refer to page 43 for details on banking hours.

We are proactive in making service improvements, introducing state-of-the-art technology into our processes and channels to enhance our reach and efficiency in delivery. We opened our first 24-hour automated banking centre at Ward Place in 2014 and intend to open five more centres in the coming year as we pursue our target of 15 centres by the end of 2017. We launched a new mobile application (App) for Smartphone users to access 'Combank Online' facility conveniently through their hand phone devices.

With our robust product portfolio and island-wide network of branches and ATMs, Commercial Bank supports the Sri Lankan economy and fosters inclusiveness by providing financial solutions and infrastructure across the country. It is essential that we sustain our business operations, products and services in order to play our part in the country's long-term economic growth and help improve the living standards of our people, especially in low-population and economically disadvantaged areas.

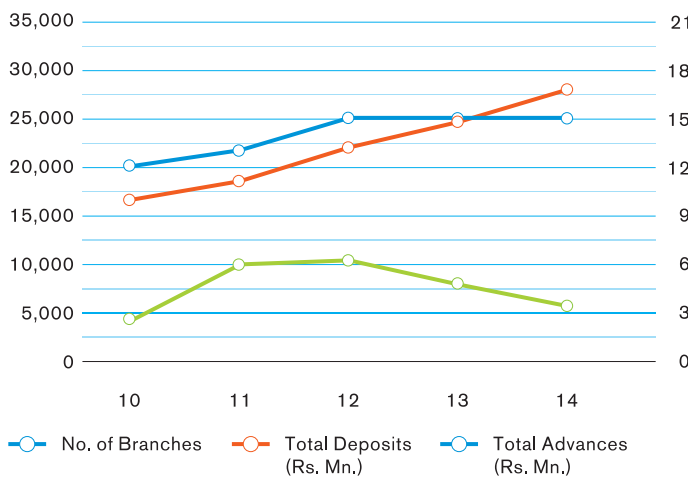
Product Responsibility

Access Points in Low-Populated or Economically Disadvantaged Areas

Sri Lanka's 30-year civil war deprived a significant part of the country of vital economic activity. The Northern and the Eastern provinces in particular were not able to benefit from opportunities available to the rest of the country. Since the end of the war in 2009, we have expanded our operations in the two provinces by opening new branches and installing ATMs, revitalising communities and helping the disadvantaged to revive their prospects. The following table summarises the number of branches and ATMs in operation as of December 31, 2014 and related business volumes, underlining the Bank's contribution to these recovering communities:

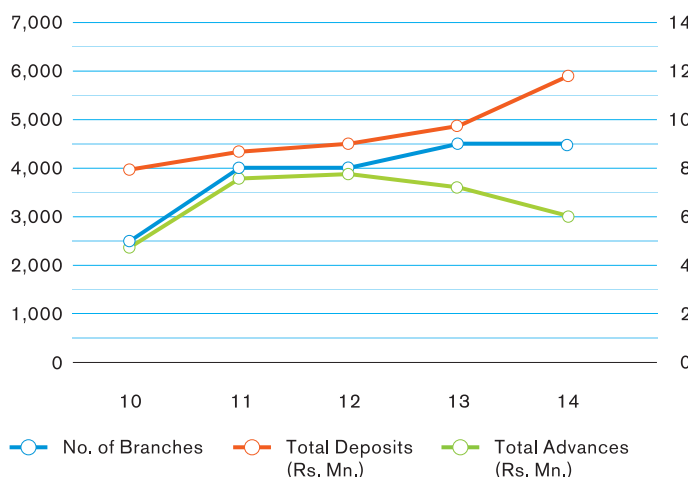
Access Points in Low Populated or Economically Disadvantaged Areas - Northern Province

(Rs. Mn.) (No.)



Access Points in Low Populated or Economically Disadvantaged Areas - Eastern Province

(Rs. Mn.) (No.)



| As at December 31, | 2014 | 2013 | 2012 |
|--------------------------|--------|--------|--------|
| Northern Province | | | |
| No. of Branches | 15 | 15 | 15 |
| No. of ATMs | 35 | 34 | 33 |
| Deposits (Rs. Mn.) | 27,857 | 24,573 | 21,907 |
| Advances (Rs. Mn.) | 5,705 | 7,914 | 10,459 |
| Eastern Province | | | |
| No. of Branches | 9 | 9 | 8 |
| No. of ATMs | 19 | 18 | 17 |
| Deposits (Rs. Mn.) | 5,898 | 4,870 | 4,501 |
| Advances (Rs. Mn.) | 3,010 | 3,596 | 3,873 |

Initiatives to Improve Access to Financial Services for Disadvantaged People

Commercial Bank has undertaken several initiatives to make financial services more readily available to disadvantaged customers, including:

- Executing advertising materials in three languages – Sinhala, Tamil and English.
- Deploying staff in the Northern and in the Eastern provinces who can communicate in all three languages.
- Providing access for wheelchairs in branches where such facilities can be accommodated. Wheelchair accessibility will be a key consideration as we open new branches and relocate existing ones. Currently, 118 branches have wheelchair access (up from 66 in 2013) and all branches have lower counters.

Products Designed to Benefit Society

During 2014, the Bank arranged financial facilities through our development lending arm, using a group lending model for micro-entrepreneurs and agriculturists who were unable to secure conventional loans due to a lack of acceptable collateral. Financial assistance was provided through both Bank-funded and refinance loan schemes.

We granted loans amounting to Rs. 39 Mn., drawn from the Bank's own funds, to customers in the timber-milling industry. This financing was used to purchase equipment that will yield environmental benefits, including reductions in natural resource consumption, energy use and waste.

The table below provides details of loans and lease facilities granted to the agricultural and microfinance sector during 2014:

| Sector/Type | Funded by the Bank | | Funded through Refinance Schemes | |
|-----------------------|--------------------|----------------|----------------------------------|----------------|
| | No. of Loans | Amount Rs. Mn. | No. of Loans | Amount Rs. Mn. |
| Agriculture | 805 | 3,160 | 3,094 | 762 |
| Agriculture - Leasing | 35 | 73 | – | – |
| Microfinance | 701 | 282 | 570 | 95 |
| Total | 1,541 | 3,515 | 3,664 | 857 |

Product/Service Labelling and Marketing Communications

At Commercial Bank, we believe in ethical marketing practices and ensure that our products and services are clearly explained, consistently branded and directed to all sectors of the public. We disseminate clear, accurate, timely and relevant information about interest rates – both nominal and annual effective – as well as fees, commissions, charges, tariffs, terms and conditions.

Up-to-date information on products and services is available through our website, as well as through our information centre, which operates from 8.30 a.m. to 5.00 p.m. on all business days. In the countries where the Bank has a significant presence, we ensure that all forms of communications are offered in languages that are widely used.

The Marketing Department, headed by the Deputy General Manager – Marketing, ensures that marketing communications materials meet the following criteria:

- Comply with corporate and information security policies.
- Reflect and support the corporate image of the Bank.
- Avoid exposing the Bank to potential litigation.
- Avoid racial content or inappropriate imagery and information.
- Are transparent and do not mislead customers.
- Present clear and consistent messaging.
- Use suitable language/s reflective of cultural awareness.
- Include information required and mandated by the Customer Charter of the CBSL.
- Avoid infringing intellectual property rights.
- Have product logos that are registered with National Intellectual Properties of Sri Lanka, in order to maintain the rights of such properties with the Bank.
- Are open to feedback from the media, as well as key media target groups.

In addition, the Bank respects the following requirements:

- Approvals by both external and internal parties prior to the launch and communication of any customer or employee related promotional activity.
- Rules and regulations concerning displays, public-address systems, branding signage and similar materials.
- Approval from the relevant Heads of departments for communications materials and website changes.
- Assurance from a designated department that information posted on the Bank's website is current, accurate and appropriate.

Sale of Banned or Disputed Products

As a matter of strict policy, the Bank does not sell or market products or services that are banned in any market or are the subject of stakeholder queries or public debate. Neither do we finance any project that is deemed illegal or that involves production of, or trade in, the following items: weapons and ammunition; radioactive material; unbounded asbestos fibre (i.e., with more than 20% asbestos content); gambling, casino or equivalent enterprises; and drift-net fishing using nets in excess of 2.5 km in length.

We also work to ensure that the Bank's total lending to industries engaged in tobacco and alcohol production, as well as wood-based and forestry operations, will remain below 3% of our overall loans portfolio.

The Bank provides a set of products and services that are highly regularised, duly registered and operate in strict compliance with the CBSL Customer Charter, especially with regard to labelling and dissemination of marketing information. Although we operate in certain overseas markets through fully-fledged banking operations, as well as via Business Promotions Officers, the products and services on offer – including features, pricing, rates and tariffs – are likewise strictly monitored and duly approved by the governing laws of each country.



Customer Privacy

Safeguarding customer privacy is of paramount concern to Commercial Bank as we handle large volumes of sensitive information arising from a wide range of transactions. We have therefore put in place systems and procedures designed to protect customers' private information and ensure confidentiality. Key measures include:

- An oath of secrecy sworn by all employees.
- Restrictions on the disclosure of account information to any third party.
- Continuous improvements in the protection of online privacy.
- Assurance of email privacy.
- Maintenance of accurate customer information.
- Preventing access to banking transactions for underage children unless a parent has given consent.
- Limitations and controls on employees' access to personal information of customers.

The Bank remains vigilant about possible threats to security of information communicated through potentially vulnerable electronic media. We are constantly strengthening the security of products and services that rely on digital transmission of data, including Internet banking, mobile banking and point-of-sales transactions. The Bank's Integrated Risk Management Department, Inspection Department and the Information Technology Department play pivotal roles in this respect through constant monitoring and applying new security precautionary measures where necessary. There were no substantiated complaints regarding breaches of customer privacy and losses of data during the reporting period.

Market Surveys on Customer Satisfaction

The Bank carries out a customer satisfaction survey annually with the following objectives:

- Assessing the needs and expectations of customers.
- Determining current satisfaction levels in relation to set customer service requirements.
- Evaluating the relative impact of specific responses on overall customer loyalty.
- Providing strategic direction for improvement in critical areas.
- Identifying opportunities that can be leveraged for competitive advantage.

The annual survey reveals current loyalty scores while also measuring year-over-year shifts in loyalty, customer satisfaction, future potential and much more. The data collected helps us improve quality standards, process efficiency and our communications outlook.

Though this survey results revealed a shift from the 'Truly Loyal' segment to the 'Trapped' segment in comparison with the previous year's results, a significant proportion as high as 74% (81% in 2013) of customers continued to be 'Truly Loyal'. The 'Trapped' segment scored 19% as against 16% in 2013. The survey also showed

a similar trend in the comparable banks too. We exceeded the established norms for customer commitment and continuity, while scores related to discontinuing relationships and customer 'inertia' remained significantly low. The survey also revealed very good scores in operational/process areas, including rankings related to account openings and loan acquisition, as well as the availability of new banking channels and communication effectiveness.

Product Development Committee

The Bank's Product Development Committee is responsible for assuring that our products and services conform to applicable laws and regulations, and reflect ethical practices. The committee, headed by the Chief Operating Officer, includes those officers holding the highest positions in the Bank's main business lines, as well as in the divisions responsible for internal audit, information technology, marketing, compliance, legal and finance. They have the expertise and authority to conduct thorough evaluations of all new development, along with any changes to our current offering, ensuring that products and services meet the following criteria:

- Properly designed to capture and deliver expected benefits to their target market.
- Financially and technically viable.
- Compliant with industry and legal requirements.
- Avoid infringement of any intellectual property rights.
- Supported with proper process instructions, procedures, controls and monitoring frameworks.
- Free of any negative impact on society and the environment when used by customers.

Managing the Social and Environmental Impacts of Products and Services

Activities undertaken directly by the Bank conform to effective social and environmental management practices. In addition, the potential impacts of activities and businesses that we assist to finance are also considered during credit evaluation. Lending decisions must be aligned with Social and Environmental Management System (SEMS), as well as applicable national laws and regulations on environmental and social issues. We make every effort to assist our customers to be in compliance with regulations, rather than simply rejecting outright proposals that do not meet current standards.

Procedures implemented under the Bank's SEMS enable us to review and manage the social and environmental issues and risks associated with investments. These procedures are applicable to any form of finance extended by the Bank; however, we do allow a certain degree of leniency when it comes to short-term financing, including working capital and trade finance facilities in which financing is provided for a year or less.

We strive constantly to ensure that effective social and environmental management practices are adopted in the Bank's activities, products and services, with a special focus on the following:

- Ensuring that projects and activities are reviewed against the applicable requirements of the Bank's Social and Environmental Policy.
- Only financing projects that will be designed, built, operated and maintained in a manner consistent with the applicable requirements of our policy.
- Making our best effort to ensure that projects are operated in compliance with the applicable requirements on an ongoing basis, during the currency of Bank's financing.
- Maintaining transparency in activities of the Bank.
- Ensuring that customers understand the policy commitments we uphold in the area of social and environmental management.

The SEMS Co-ordinator, under the purview of the Chief Manager - Risk, enables the Integrated Risk Management function to validate SEMS compliance on credit proposals of Rs. 100 Mn. or more that require a risk evaluation. The SEMS Co-ordinator is required to submit periodic confirmations – subject to audit by the Inspection Department – that the relevant financing deals comply with the terms and conditions established by the International Finance Corporation.

The Bank's lending officers also undertake desk reviews on an ongoing basis and visit financed projects sites to evaluate their environmental and social impacts, as well as how well our clients are fulfilling their related and agreed objectives. As a result of these reviews, borrowers may be obliged to take mitigating actions aligning projects in a timely manner with sustainability standards. The Bank's lending officers are required to record a summary of discussions and interactions in face-to-face encounters during client project visits.

The mandate of Commercial Bank's SEMS Co-ordinator is to ensure compliance with relevant procedures on every project. The Co-ordinator receives ongoing training to continuously update required skills. We also leverage the Co-ordinator's expertise – augmented by external support as needed – to instruct and mobilise Bank staff on environmental and other sustainability issues. As well, we take every possible step to ensure that our employees, along with the decision-makers at client firms, understand and agree to the principles outlined in the SEMS. Given below is a summary of the SEMS evaluations carried out during the reporting period.

| | |
|---|-------|
| Number of Credit Proposals Evaluated | 3,063 |
| Number of Credit Proposals Rejected | None |
| Number of Credit Proposals Approved Subject to Conditions | None |
| Number of Non-Compliance Incidents Observed | None |

Human Resources Management

At Commercial Bank, we understand that our people are our most valuable asset. Their professionalism and proficiency, along with their diverse backgrounds, experience and points of view, have contributed significantly to our success. We in turn, encourage our employees by providing equal opportunity and remuneration, and by guiding them towards their personal and professional goals through training and skills development.

We also strive to help our people achieve work-life balance. While staff relations are governed by the Shop and Office Employees Act, the Bank goes beyond these regulations in what we offer employees. Their welfare, progress and contentment are among our core priorities. We strongly believe that an effective collective bargaining process covering employee compensation and human rights concerns helps to foster strong bonds with trade unions and the executive association, which in turn ensures the long-term viability of our enterprise.

Employment

The Bank's employment policy dictates that we must recruit the candidates best suited for open positions, applying fair, objective and internationally accepted evaluation methods. We provide equal opportunity to all those who meet minimum educational and age requirements to join our organisation. New employees are recruited as either banking or management trainees. Some specialised jobs call for mid-career recruitment, although we endeavour wherever possible to fill such vacancies from our internal talent pool. New employees are made aware of the Bank's philosophy, goals, policies, procedures, rules, regulations and day-to-day business practices through orientation programmes designed to help them integrate smoothly into their roles.

Total Number and Rates of New Employee Hires by Age Group and Gender – Sri Lanka

| For the year ended December 31, Category/Age Group | 2014 | | | | 2013 | | | | 2012 | | | |
|---|-----------------------|-----------|---------------------------------|-------------|-----------------------|-----------|---------------------------------|-------------|-----------------------|------------|---------------------------------|-------------|
| | New Employee Hired | | Rate of New Employee Hired % | | New Employee Hired | | Rate of New Employee Hired % | | New Employee Hired | | Rate of New Employee Hired % | |
| | Male | Female | Male | Female | Male | Female | Male | Female | Male | Female | Male | Female |
| Corporate Management | | | | | | | | | | | | |
| Below 30 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| 30 - 50 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| 51 - 60 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| Executive Officers | | | | | | | | | | | | |
| Below 30 Years | 3 | 3 | 0.22 | 0.67 | 1 | 2 | 0.08 | 0.46 | - | 1 | - | 0.23 |
| 30 - 50 Years | 5 | 3 | 0.36 | 0.67 | 1 | 1 | 0.08 | 0.23 | 2 | - | 0.16 | - |
| 51 - 60 Years | 1 | - | 0.07 | - | - | - | - | - | - | - | - | - |
| Junior Executive Assistant and Allied | | | | | | | | | | | | |
| Below 30 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| 30 - 50 Years | - | - | - | - | 1 | 1 | 0.06 | 0.21 | - | - | - | - |
| 51 - 60 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| Banking Trainees | | | | | | | | | | | | |
| Below 30 Years | 216 | 84 | 60.34 | 51.22 | 206 | 95 | 67.76 | 43.58 | 106 | 101 | 22.70 | 61.96 |
| 30 - 50 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| 51 - 60 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| Office Assistants and Others | | | | | | | | | | | | |
| Below 30 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| 30 - 50 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| 51 - 60 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| Total | 225 | 90 | 6.52 | 7.56 | 209 | 99 | 6.20 | 8.63 | 108 | 102 | 3.26 | 9.38 |

Total Number and Rates of New Employee Hires by Age Group and Gender – Bangladesh

| For the year ended December 31, Category/Age Group | 2014 | | | | 2013 | | | | 2012 | | | |
|---|--------------------|----------|------------------------------|-------------|--------------------|----------|------------------------------|-------------|--------------------|----------|------------------------------|--------------|
| | New Employee Hired | | Rate of New Employee Hired % | | New Employee Hired | | Rate of New Employee Hired % | | New Employee Hired | | Rate of New Employee Hired % | |
| | Male | Female | Male | Female | Male | Female | Male | Female | Male | Female | Male | Female |
| Corporate Management | | | | | | | | | | | | |
| Below 30 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| 30 - 50 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| 51 - 60 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| Executive Officers | | | | | | | | | | | | |
| Below 30 Years | - | - | - | - | - | - | - | - | 1 | - | 0.98 | - |
| 30 - 50 Years | - | - | - | - | 1 | - | 0.98 | - | 2 | - | 1.96 | - |
| 51 - 60 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| Junior Executive Assistance and Allied | | | | | | | | | | | | |
| Below 30 Years | 10 | 3 | 12.82 | 3.85 | 18 | 4 | 32.14 | 21.05 | 9 | 6 | 16.07 | 31.58 |
| 30 - 50 Years | 1 | - | 1.28 | - | - | - | - | - | 2 | - | 3.57 | - |
| 51 - 60 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| Banking Trainees | | | | | | | | | | | | |
| Below 30 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| 30 - 50 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| 51 - 60 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| Office Assistants and Others | | | | | | | | | | | | |
| Below 30 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| 30 - 50 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| 51 - 60 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| Total | 11 | 3 | 14.10 | 1.42 | 19 | 4 | 11.38 | 9.09 | 14 | 6 | 8.86 | 13.64 |

The Bank employs more than 4,800 permanent and full-time employees, along with nearly 500 people on fixed-term contracts. Certain non-core functions are outsourced, based on business imperatives, with a view towards enhancing productivity and remaining competitive. In this regard, security and janitorial staff, stenographers, typists, telephone operators, multi-task assistants, drivers and office assistants are outsourced. As a policy, the Bank does not recruit employees on a part-time basis.

Human Resources Management

Total Number of Employees by Employment Contract, Gender and by Significant Location

| As at December 31, | No. of Employees | | | Composition of Employees | | |
|-------------------------------|------------------|-------|-------|--------------------------|--------|--------|
| | 2014 | 2013 | 2012 | 2014 | 2013 | 2012 |
| Sri Lanka | | | | | | |
| Full-time employees - Male | 3,449 | 3,372 | 3,312 | 74.35 | 74.62 | 75.27 |
| Full-time employees - Female | 1,191 | 1,147 | 1,088 | 25.65 | 25.38 | 24.73 |
| Total | 4,640 | 4,519 | 4,400 | 100.00 | 100.00 | 100.00 |
| Outsourced employees - Male | 352 | 358 | 344 | 61.00 | 60.58 | 56.39 |
| Outsourced employees - Female | 225 | 233 | 266 | 39.00 | 39.42 | 43.61 |
| Total | 577 | 591 | 610 | 100.00 | 100.00 | 100.00 |
| Bangladesh | | | | | | |
| Full-time employees - Male | 168 | 167 | 158 | 79.25 | 79.15 | 78.22 |
| Full-time employees - Female | 44 | 44 | 44 | 20.75 | 20.85 | 21.78 |
| Total | 212 | 211 | 202 | 100.00 | 100.00 | 100.00 |
| Outsourced employees - Male | - | - | - | - | - | - |
| Outsourced employees - Female | - | - | - | - | - | - |
| Total | - | - | - | - | - | - |

Proportion of Senior Management Hired from the Local Community

All recruits to the Bank's corporate management and senior management roles are citizens of the countries in which we operate. The sole exception is in our Bangladesh operation, where two of total nine members of the corporate management team are seconded from Sri Lanka. Therefore, 100% of our Sri Lankan corporate and senior management ranks are drawn from the local community, while in Bangladesh corporate management is comprised of 22% Sri Lankans and 78% Bangladeshis – with 100% of senior management drawn from Bangladesh.

Return to Work and Retention Rate After Maternity Leave

| Country and Description | 2014 | 2013 | 2012 |
|--|-------|-------|-------|
| Sri Lanka | | | |
| No. of employees entitled to maternity leave | 1,191 | 1,147 | 1,088 |
| No. of employees who took maternity leave | 51 | 60 | 58 |
| No. of employees who returned to work after maternity leave | 39 | 58 | 60 |
| No. of employees who are still employed for the 12-months after they return from maternity leave | 58 | 60 | 70 |
| Return to work rate (%) | 100 | 98 | 100 |
| Retention rate (%) | 100 | 100 | 100 |
| Bangladesh | | | |
| No. of employees entitled for maternity leave | 35 | 33 | 30 |
| No. of employees who took maternity leave | 3 | 5 | 4 |
| No. of employees who returned to work after maternity leave | 1 | 5 | 4 |
| No. of employees who are still employed for the 12-months after they return from maternity leave | 5 | 4 | 3 |
| Return to work rate (%) | 100 | 100 | 100 |
| Retention rate (%) | 100 | 100 | 100 |

Human Resources Development

Performance Evaluation

We consider the performance review to be a critical tool in effective employee development. The Bank's current performance appraisal system, which was established several years ago, helps us to build and maintain a target-driven culture – a key factor shaping our success as an industry leader. All permanent employees of the Bank are subject to an annual performance evaluation that has been carefully designed to yield a fair and balanced assessment of their performance. The performance measurement mechanism assesses the following factors:

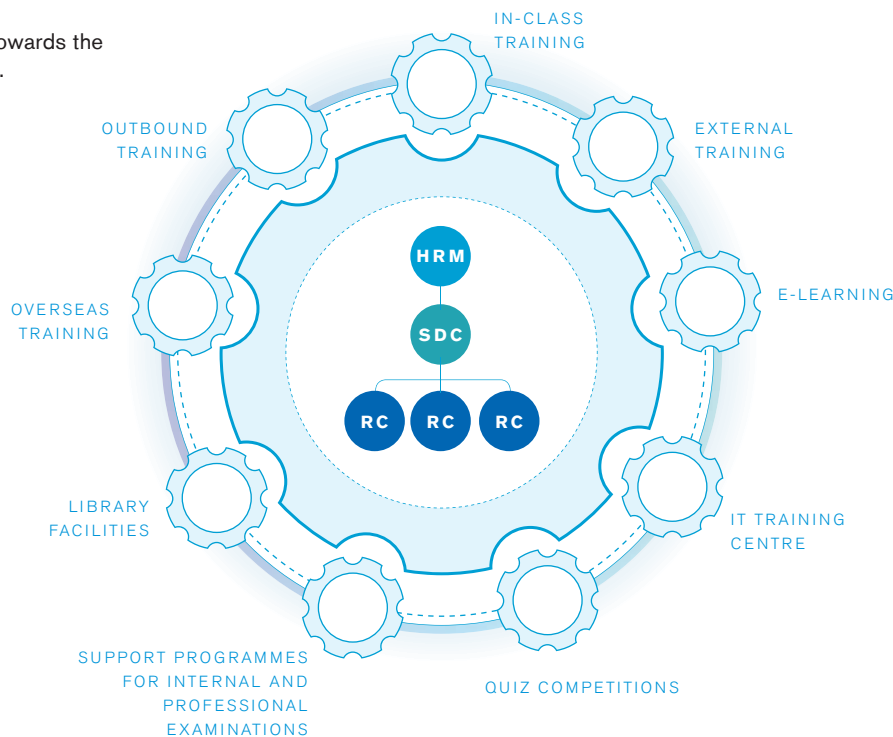
- Achievement of key performance indicators (for executive grades).
- Job knowledge and expertise, measured by both quality and quantity of work.
- Customer orientation.
- Communications and interpersonal skills.
- Planning, administration and organisation.
- Creative thinking.
- Self-development and growth.
- Emotional dimensions of workplace performance.
- Areas for improvement and further training.
- Potential for growth.
- Special contributions towards the betterment of the Bank.

Training and Education

Commercial Bank is fully committed to training and developing our employees so they can achieve their full potential and face future challenges effectively. We provide a nurturing work environment that is conducive to learning and development, encouraging our people to acquire knowledge, competencies and attitudes that will add value to their working experience.

Our Staff Development Centre (SDC) provides the Bank's workforce with essential information, training opportunities and resources, helping them to enhance their productivity and achieve new levels of professional success. The SDC helps employees realise their potential by linking learning to practice, fostering a cycle of continuous development that extends individual horizons and boosts overall morale.

The following diagram depicts the reporting structure of the SDC, including its tools and methodologies. To fulfill its responsibilities in developing the workforce, the SDC each year conducts a comprehensive needs assessment and then prepares a training calendar for employees at all levels.



Human Resources Management

The following table provides a snapshot of the various types of training the Bank provides in Sri Lanka, by employee category and gender.

| Employee Category and Type of Programme | 2014 Training Hours | | | | 2013 Training Hours | | | | 2012 Training Hours | | | |
|--|------------------------|---------------|----------------|--------------|------------------------|---------------|----------------|--------------|------------------------|---------------|----------------|--------------|
| | Male | Female | Total | Per Employee | Male | Female | Total | Per Employee | Male | Female | Total | Per Employee |
| | | | | | | | | | | | | |
| Corporate Management | 970 | 34 | 1,004 | 43.65 | 1,312 | 78 | 1,390 | 42.12 | 1,454 | 38 | 1,491 | 43.85 |
| Technical | 418 | 20 | 438 | 19.04 | 782 | 66 | 848 | 25.20 | 825 | 38 | 863 | 25.38 |
| Soft Skills | 208 | 14 | 222 | 9.65 | 234 | 12 | 246 | 7.45 | 156 | – | 156 | 4.59 |
| Overseas | 344 | – | 344 | 14.96 | 296 | – | 296 | 8.97 | 472 | – | 472 | 13.88 |
| Executive Officers | 23,926 | 8,608 | 32,534 | 17.78 | 32,275 | 9,037 | 41,311 | 21.99 | 29,489 | 8,527 | 38,016 | 20.58 |
| Technical | 13,586 | 4,198 | 17,784 | 9.72 | 24,887 | 6,641 | 31,527 | 16.78 | 25,891 | 6,793 | 32,684 | 17.70 |
| Soft Skills | 9,284 | 3,946 | 13,230 | 7.23 | 6,716 | 2,204 | 8,920 | 4.75 | 2,654 | 1,454 | 4,108 | 2.22 |
| Overseas | 1,056 | 464 | 1,520 | 0.83 | 672 | 192 | 864 | 0.46 | 944 | 280 | 1,224 | 0.66 |
| Junior Executive Assistants and Allied Grades | 41,392 | 12,998 | 54,390 | 25.01 | 59,588 | 9,846 | 69,074 | 31.45 | 19,423 | 3,014 | 22,437 | 11.33 |
| Technical | 37,860 | 11,990 | 49,850 | 22.92 | 55,388 | 8,418 | 63,806 | 29.06 | 18,295 | 2,596 | 20,891 | 10.55 |
| Soft Skills | 3,532 | 1,008 | 4,540 | 2.09 | 4,072 | 1,068 | 5,140 | 2.34 | 1,128 | 418 | 1,546 | 0.78 |
| Overseas | – | – | – | – | 128 | – | 128 | 0.06 | – | – | – | – |
| Banking Trainees | 26,606 | 11,880 | 38,486 | 73.73 | 30,169 | 11,984 | 42,153 | 80.75 | 29,360 | 12,652 | 42,012 | 66.69 |
| Technical | 26,070 | 11,592 | 37,662 | 72.15 | 28,381 | 11,392 | 39,773 | 76.19 | 28,104 | 12,336 | 40,440 | 64.19 |
| Soft Skills | 536 | 288 | 824 | 1.58 | 1,788 | 592 | 2,380 | 4.56 | 1,256 | 316 | 1,572 | 2.50 |
| Total | 92,894 | 33,520 | 126,414 | 27.24 | 123,344 | 30,584 | 153,928 | 32.54 | 79,726 | 24,231 | 103,956 | 22.59 |

Reward Management

Commercial Bank is committed to maintaining an equitable and consistent reward structure to ensure that employees' contributions to the business are recognised in different ways. This helps us to attract and retain staff while encouraging their efforts towards the achievement of the Bank's strategic goals.

There is no regulation under Sri Lanka's Shop & Office Employees Act governing the minimum wage for covered employees. However, through collective bargaining and ongoing dialogue with employee organisations, as well as discussions with labour authorities and our corporate peers, the Bank stays abreast of current trends relating to wage practices in the banking industry and in the mercantile sector generally. Our wage policy is based mainly on collective agreements – which cover specific employee categories – as well as periodic market surveys examining wage ranges in the current marketplace.

For executive officers, salaries and perks are largely decided by considering the market rates applicable for similar categories and roles. The Bank has a well-established, target-driven culture focused on achieving the goals set out in our corporate plan. Executive Directors of the Board, along with key management personnel and other executive officers, are offered incentives and receive recognition for promotions based on how well they achieve mutually agreed targets. Our approach to performance evaluation is fully aligned with the Bank's business goals and supported by a reward mechanism that recognises multiple levels of performance keyed to an incentive matrix.

Remuneration, incentives and other perks for non-executive grades are decided based on the collective bargaining process between the Bank and the Ceylon Bank Employees Union. Promotions within non-executive and executive grades are awarded through a process involving written and oral examinations, as well as individual performance evaluations.

The Bank's two employee associations – the Executive Association and the Ceylon Bank Employees Union – maintain a regular dialogue on remuneration with the Board and management, and their views are given due consideration in the formulation of relevant policies and proposals.

The wages and perks of employees who serve as Business Promotion Officers in Italy, South Korea and the Middle East are the same as for comparable roles in Sri Lanka, although these officers also receive a special allowance to cover extraordinary expenses incurred abroad.

The wages and perks of Bangladeshi staff are determined based on market practices and, as in Sri Lanka, these employees receive increments, incentives and promotions based on the results of their annual performance evaluations.

Commercial Bank's governance structure requires that any changes made to remuneration policies and procedures must be passed through the Human Resources and Remuneration Committee of the Board, which is responsible for evaluating proposals and recommending any changes to the full Board.

Benefits Provided to Full-Time Employees

As a matter of policy, the Bank does not recruit part-time employees. Our permanent employees of Sri Lanka as well as Bangladesh operations receive the following benefits:

- Bonuses reflective of performance or decided under the collective bargaining agreement.
- Fuel allowance for executives and transportation allowance for non-executive roles.
- Holiday bungalows.
- Staff loans at below-market interest rates.
- Medical benefits, including special health insurance coverage for critical illnesses.
- A death gratuity scheme extending to the legitimate dependants of a confirmed employee.
- A personal accident insurance scheme.
- Provision of free accommodation and/or subsidised transportation, or house rent or other special allowances, for employees working at locations that pose logistical, housing and cost-of-living challenges.
- Retirement benefits.

The Bank also helps branches and departments to organise annual staff get-togethers or excursions by providing an annual allowance for such events to every employee.

Although employees hired by the Bank through outsourcing are not entitled to the above benefits, the Human Resources Department ensures that they are paid at least the minimum wage under applicable statutes. We also ensure that mandatory contributions are made to defined contribution plans such as the Employees' Provident Fund and the Employees' Trust Fund, in addition to providing remuneration governed by the Payment of Gratuities Act.

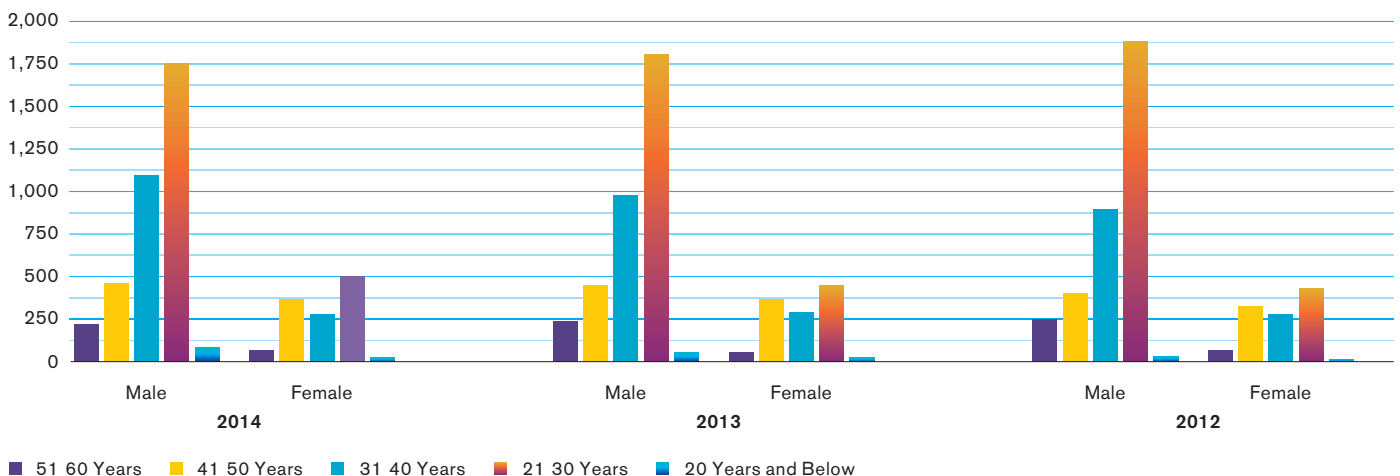
Diversity, Equal Opportunity and Equal Remuneration

Commercial Bank is dedicated to upholding the principle of equality in offering our employees both career opportunities and competitive remuneration. We seek the most qualified, educated and talented candidates and do not discriminate with regard to race, language, religious beliefs, gender or age. We only consider employees' relevant skills and competencies, as those are the attributes that create sustainable value. By advancing employees according to merit, we improve their overall personal and professional satisfaction – key components of stakeholder value.

Sri Lankan operations being the largest of our operations employs staff from various ethnicities. In certain instances, in order to serve our customers with a homely atmosphere, preference is given when hiring and deploying staff at branches based on composition of the community and the language widely used in such locality.

Age Analysis of Employees by Gender 2012-2014 (Sri Lanka and Bangladesh)

(No.)



Human Resources Management

Composition of the Board and Employees by Category

| As at December 31, | 2014 | | | | | 2013 | | | | |
|---|--------------------|--------|-------------------|------------------|------------------|------------|--------|-------------------|------------------|------------------|
| | Gender (%) | | Age Group (%) | | | Gender (%) | | Age Group (%) | | |
| | Male | Female | Below 30 Years | 30 - 50 Years | Over 50 Years | Male | Female | Below 30 Years | 30 - 50 Years | Over 50 Years |
| | Board of Directors | 100.00 | - | - | - | 100.00 | 100.00 | - | - | - |
| Corporate Management | 91.30 | 8.70 | - | 43.47 | 56.53 | 87.50 | 12.50 | - | 33.33 | 66.67 |
| Executive Officers | 75.40 | 24.60 | 15.54 | 75.13 | 9.33 | 74.66 | 25.34 | 16.39 | 73.44 | 10.17 |
| Junior Executive Assistants and Allied Grades | 73.65 | 26.35 | 68.83 | 29.65 | 1.52 | 77.27 | 22.73 | 69.35 | 28.64 | 2.01 |
| Banking Trainees | 68.58 | 31.42 | 100.00 | - | - | 58.24 | 41.76 | 100.00 | - | - |
| Office Assistants and Others | 100.00 | - | - | 53.33 | 46.67 | 100.00 | - | - | 58.00 | 42.00 |

Equal Remuneration for Women and Men: Basic Salary Ratio by Employee Category

| As at December 31, | Ratio for Basic Salary Women to Men | | |
|---|--|--------|--------|
| | 2014 | 2013 | 2012 |
| Corporate Management | 1:0.84 | 1:0.87 | 1:0.97 |
| Executive Officers | 1:0.93 | 1:0.98 | 1:0.96 |
| Junior Executive Assistants and Allied Grades | 1:0.91 | 1:0.85 | 1:0.88 |
| Banking Trainees | 1:1.00 | 1:0.98 | 1:1.06 |

Staff Welfare

Because we consider Commercial Bank's employees to be our most valuable asset, we are committed to maintaining and boosting staff morale – the springboard, in our view, of operational efficiency.

Commercial Bank Sports and Recreation Club

We believe that sports, recreation and physical fitness programmes help employees better meet the heavy demands of serving our customers well. Promoting sportsmanship and disciplined self-improvement also helps to build character. The Bank provides employees with encouragement and, in some cases, material assistance to participate in different sports. In the gym and on the playing field, they develop their personal strength, courage and dedication.

We also give an annual grant to the Commercial Bank Sports & Recreation Club and provide facilities for the Club's activities. And we provide another grant for an annual get-together of employees' children, usually held in December.

Employee and Labour Relationship Management

We strive always to cultivate a sense of belonging and shared purpose among the Bank's employees, maintaining harmonious relations based on trust, common values and mutual understanding. We encourage open and frank dialogue throughout the organisation, garnering constructive suggestions that help to promote both individual and organisation-wide well-being. As our business grows, we will continue to provide the vital mechanisms, support and guidance that foster self-development, team building, grievance resolution and camaraderie among our dedicated people.

Employee Changes

Activities related to employees' career advancement, transfers, termination, dismissal or retirement are enacted according to the policies and current requirements of the Bank. For example, it is our policy to identify suitable employees to fill any vacancies that arise, provided such vacancies can be filled directly.

Promotions

We are mindful of the need to keep employees at all levels of the organisation motivated, providing them with opportunities to progress in their careers and receive promotions. The potential for advancement depends on employees' growth in their current roles and a demonstrated ability to perform their duties at a level commensurate with the grade they aspire to.

Promotions for the non-executive cadre, including junior executive assistant and allied grades, are made in accordance with procedures set out in the collective agreement. All vacancies in the first tier of executive grades are filled internally by way of promotions – following a written test and two interviews. Candidates reach the second executive tier by achieving consistently strong performance reports and successfully completing two interviews. Promotions to higher executive tiers are governed by a formal performance appraisal process extending over three years, during which time a candidate must demonstrate that he or she has developed the specialised knowledge and skills required for the position in question.

Transfers

Transfers provide employees with valuable exposure to the full spectrum of the Bank's operations – and in some cases are used to limit the time spent in difficult postings. We do all that we can to reduce the inconvenience caused when employees must be transferred, because of business imperatives, to locations at a significant distance from their home stations.

Other than in some specialised positions, five years is the maximum length for a posting to a particular location. This helps to keep employees stimulated by new opportunities, free of the potential for complacency that can arise when a job becomes too familiar. As well, the Bank's transfer policy ensures that employees receive horizon-broadening exposure to various aspects of banking, enabling them to explore their full potential.

Separation

The Bank executes any employment separations in full compliance with applicable labour laws. Considerations of race, gender, religion or the nature of the position do not play into such decisions.

Reasons for separation include:

- Resignation/Retirement
- Termination of contract
- Violation of contract
- Dismissal due to unsatisfactory performance or misconduct
- Redundancy
- Poor health/Death

Employee Turnover by Reason for Separation

| | Sri Lanka | | | Bangladesh | | |
|---|------------|-----------|------------|------------|----------|-----------|
| | Male | Female | Total | Male | Female | Total |
| Resignations | 106 | 35 | 141 | 8 | 3 | 11 |
| Retirements | 33 | 8 | 41 | 2 | | 2 |
| Deceased | 1 | 1 | 2 | - | - | - |
| Terminations | 5 | 1 | 6 | - | - | - |
| Premature Retirement on Medical Grounds | 3 | 1 | 4 | - | - | - |
| Total | 148 | 46 | 194 | 10 | 3 | 13 |

Total Number and Percentage of Employee Attrition by Age Group and Gender – Sri Lanka

| For the year ended December 31, Category/Age Group | 2014 | | | | 2013 | | | | 2012 | | | |
|---|--------------------|-----------|-----------------------|-------------|--------------------|-----------|-----------------------|-------------|--------------------|-----------|-----------------------|-------------|
| | Employee Attrition | | Rate of Attrition (%) | | Employee Attrition | | Rate of Attrition (%) | | Employee Attrition | | Rate of Attrition (%) | |
| | Male | Female | Male | Female | Male | Female | Male | Female | Male | Female | Male | Female |
| Corporate Management | | | | | | | | | | | | |
| Below 30 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| 30 - 50 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| 51 - 60 Years | 4 | 1 | 19.05 | 50.00 | 3 | - | 13.64 | - | 3 | - | 13.64 | - |
| Executive Officers | | | | | | | | | | | | |
| Below 30 Years | 1 | 3 | 0.07 | 0.67 | 5 | 1 | 0.38 | 0.23 | 4 | 5 | 0.31 | 1.14 |
| 30 - 50 Years | 5 | 8 | 0.36 | 1.77 | 20 | 4 | 1.53 | 0.90 | 16 | 5 | 1.25 | 1.14 |
| 51 - 60 Years | 24 | 4 | 1.74 | 0.89 | 21 | 5 | 1.61 | 1.13 | 17 | 3 | 1.33 | 0.69 |
| Junior Executive Assistant and Allied | | | | | | | | | | | | |
| Below 30 Years | 38 | 5 | 2.37 | 0.87 | 34 | 9 | 2.07 | 1.87 | 19 | 9 | 1.33 | 1.86 |
| 30 - 50 Years | 9 | 5 | 0.56 | 0.87 | 5 | 3 | 0.31 | 0.62 | 2 | 5 | 0.14 | 1.03 |
| 51 - 60 Years | 5 | 5 | 0.31 | 0.87 | 4 | 4 | 0.24 | 0.83 | 1 | 3 | 0.07 | 0.62 |
| Banking Trainees | | | | | | | | | | | | |
| Below 30 Years | 52 | 15 | 14.53 | 9.15 | 49 | 14 | 16.12 | 6.42 | 23 | 9 | 4.93 | 5.52 |
| 30 - 50 Years | - | - | - | - | - | - | - | - | 1 | - | 0.21 | - |
| 51 - 60 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| Office Assistants and Others | | | | | | | | | | | | |
| Below 30 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| 30 - 50 Years | - | - | - | - | - | - | - | - | 1 | - | 0.90 | - |
| 51 - 60 Years | 10 | - | 11.11 | - | 8 | - | 8.00 | - | 9 | - | 8.11 | - |
| Total | 148 | 46 | 4.23 | 3.90 | 149 | 40 | 4.42 | 3.49 | 96 | 39 | 2.90 | 3.58 |

Total Number and Percentage of Employee Attrition by Age Group and Gender – Bangladesh

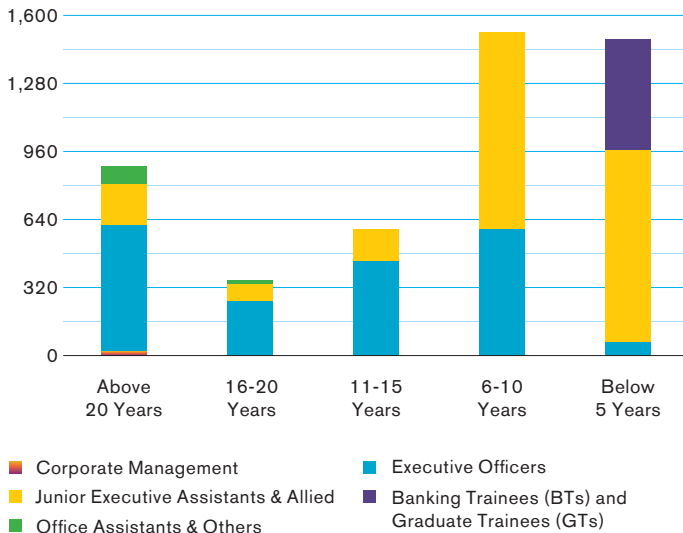
| For the year ended December 31, Category/Age Group | 2014 | | | | 2013 | | | | 2012 | | | |
|---|--------------------|----------|-----------------------|-------------|--------------------|----------|-----------------------|-------------|--------------------|----------|-----------------------|--------------|
| | Employee Attrition | | Rate of Attrition (%) | | Employee Attrition | | Rate of Attrition (%) | | Employee Attrition | | Rate of Attrition (%) | |
| | Male | Female | Male | Female | Male | Female | Male | Female | Male | Female | Male | Female |
| Corporate Management | | | | | | | | | | | | |
| Below 30 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| 30 - 50 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| 51 - 60 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| Executive Officers | | | | | | | | | | | | |
| Below 30 Years | - | - | - | - | 9 | 3 | 8.82 | 12.00 | - | - | - | - |
| 30 - 50 Years | 2 | - | 1.96 | - | 1 | 1 | 0.98 | 4.00 | 7 | 5 | 6.86 | 20.00 |
| 51 - 60 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| Junior Executive Assistant and Allied | | | | | | | | | | | | |
| Below 30 Years | 8 | 3 | 13.33 | 16.67 | - | - | - | - | - | - | - | - |
| 30 - 50 Years | - | - | - | - | - | - | - | - | 3 | 1 | 5.36 | 5.26 |
| 51 - 60 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| Banking Trainees | | | | | | | | | | | | |
| Below 30 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| 30 - 50 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| 51 - 60 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| Office Assistants and Others | | | | | | | | | | | | |
| Below 30 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| 30 - 50 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| 51 - 60 Years | - | - | - | - | - | - | - | - | - | - | - | - |
| Total | 10 | 3 | 5.95 | 6.82 | 10 | 4 | 6.33 | 9.09 | 10 | 4 | 6.33 | 13.64 |

The age of retirement is 60 for staff who have joined the Bank since 2003. Those who were employed before this date were given the option to decide and fix the age of retirement to be either 55 or 60. A staff member may also retire within a five-year period before the official retirement age and still receive benefits, provided he or she has 10 years or more of service and has secured the agreement of management.

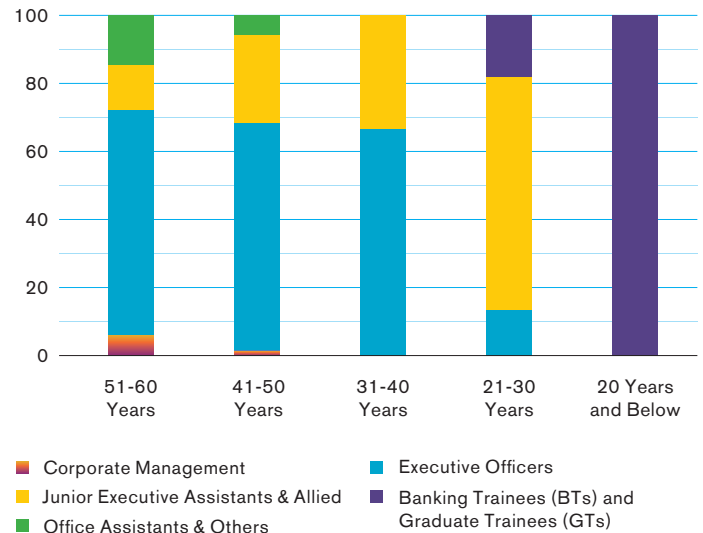


Service Analysis of Employees by Category 2014
 (Sri Lanka and Bangladesh)

(No.)


Age Analysis of Employees by Category 2014
 (Sri Lanka and Bangladesh)

(%)


Minimum Notice Period for Operational Changes

| Type of Change | Minimum Notice Period |
|---------------------------------|----------------------------|
| Collective Bargaining | 36 weeks |
| Transfers | 2 weeks |
| Terminations | 4 - 12 weeks |
| Retirements | 3 - 4 weeks |
| Dismissals | Immediate |
| Voluntarily Resignations Scheme | As specified in the scheme |

Industrial Relations

At Commercial Bank, we appreciate the important and constructive role that employee organisations and trade unions play in acting for the individual and collective good. We work with these bodies respectfully, recognising that by maintaining a meaningful dialogue on material issues, we further the achievement of our overall business goals. We do not engage in any measures that are detrimental to the interests and growth of the Bank, nor would we ever expect these organisations to do so. We take steps to ensure industrial harmony and encourage the resolution of disputes through a constructive process of negotiation, conciliation and consensus building.

More than 80% of our permanent workforce in Sri Lanka is represented by one of the two employee associations. Both the Bank and our employees have benefited from a history of consistent and cordial engagement leading to amicable solutions. Our workforce in Bangladesh does not have any employee associations.

| As at December 31, Name of Employee Association | 2014 | | 2013 | | 2012 | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| | No. | % | No. | % | No. | % |
| Ceylon Bank Employees' Union | 3,260 | 70.21 | 3,102 | 69.04 | 2,928 | 63.62 |
| Commercial Bank Executive Association | 616 | 13.27 | 590 | 13.13 | 588 | 12.78 |
| Total | 3,876 | 83.48 | 3,692 | 82.17 | 3,516 | 76.40 |

Occupational Health and Safety

People are the focus of the Bank's Human Capital Policy. We manage employees' work-life balance issues responsibly, remaining sensitive to specific needs while making accurate assessments of individual capabilities, attitude and potential. We place a high value on the physical and mental health of our staff and are mindful of the stressful effects of a performance-driven culture. For this reason, effective counselling is provided for any employees who need it. Ensuring the well-being of our employees is our most important long term investment.

To maintain a healthy workforce, the Bank offers a comprehensive medical insurance scheme for all permanent employees covering both in-house treatment and reimbursement of outside medical costs. In addition to this insurance scheme, employees covered under the collective agreement who have reached the age of 40 are entitled to claim the expenses incurred during full medical check-ups, without being admitted to a hospital, subject to a maximum threshold.

The Bank's front-line employees receive training on how to respond to emergencies such as robberies and other aggressive acts. In 2014, a Commercial Bank branch, operating 24x7, was robbed in the late hours of the day, and one staff member working at the counter received a stabbing injury. The employee's life was spared because he followed proper procedure for such a rare and catastrophic event. Bank management acted immediately to provide medical treatment and paid leave until the employee had made a full recovery, as well as certain other steps to assist the employee and his family to recover from the trauma. In addition, the management decided to restrict the banking hours of the affected branch.

To reduce the likelihood of comparable traumatic situations, we had taken several steps across our branch network, including the deployment of trained security personnel at customer locations, installing alarm systems and CCTV cameras, and ensuring prompt support from specialised departments for branches in need of assistance. The Bank's Integrated Risk Management Department reports such events to the Executive Integrated Risk Management Committee, along with actions taken to prevent such situations from recurring.

In 2014, the Bank established a procedure for working with law enforcement officials who periodically visit our branches and departments requesting information. If a staff member is asked to appear at the offices of a law enforcement authority to assist with an inquiry or investigation, or to record a statement, we will first determine that the request is relevant to his or her official duties at the Bank. We will further ensure that any such employee has sufficient guidance and necessary professional advice to fulfill the authorities' request confidently and comfortably.

Employees can easily access the intranet site of the Bank's Security Department, which clearly spells out procedures to be followed in case of an emergency. The department conducts periodic fire drills at our Head Office and Union Place locations to ensure that employees can respond appropriately in the event of a real threat. After each drill, an email is sent to all staff with feedback, including observed lapses and recommendations to remedy them. The Security Department has also identified dedicated teams within each business/service unit of the Bank to supplement its work, providing them with comprehensive training on how to respond to emergencies such as robberies, fires and earthquakes.

Handling of Grievances

The Bank has an open-door policy when it comes to addressing urgent workplace issues, initiating immediate discussions with the two employee associations. We encourage employees at all levels to bring forward any grievances, so together we can prevent small problems from becoming big issues or possibly formal disputes. If we are unable to reach an amicable resolution with the associations, they have the option of referring matters to the Commissioner of Labour.

Through the 'Speak Out' web portal maintained by the Bank's Human Resources Department, employees can air any concerns regarding workplace conditions and labour practices. They can also bring any potential violation of human rights directly to the attention of the officer responsible for employee relations in the Human Resources Department. Representatives from the Department also make regular branch visits, inviting staff to address issues relating to their welfare. These visits help us to identify risks, uncover potential rights violations and address any other issues of concern.

There were no substantiated grievances lobbied by the employees during the reporting period.

Human Rights

Commercial Bank's employment practices reflect the standards enshrined in the Universal Declaration of Human Rights proclaimed by the United Nations, as well as the Conventions of the International Labour Organisation. These include:

- Freedom of association and the right to collective bargaining.
- The elimination of all forms of compulsory labour.
- The effective abolition of child labour.
- The elimination of sexual harassment in the workplace.
- The elimination of discrimination with respect to employment.

The Bank has pledged to uphold the 10 principles of UN Global Compact when formulating policies and procedures. We are committed to safeguarding human rights and to preserving appropriate values and practices in our operations. We follow widely accepted best practices governing aspects of human rights, including minimum working age, working hours, health and safety in the workplace, and collective bargaining principles. The Bank does not condone or support any form of forced or compulsory labour, child labour, discrimination or sexual harassment.

Our Human Resources Department, business line heads, departmental heads and branch managers are all held responsible for upholding human rights at all times. They are expected to be vigilant and report promptly on any breach or violation affecting any dimension of human rights. Moreover, the Bank's Whistleblower Charter mandates staff members to shed light on potential human rights issues. Any breach or violation is subject to a formal inquiry, which can lead to corrective or disciplinary action as required – including, where warranted, the dismissal of any staff member(s) found guilty of such violations.

Our Inspection Department conducts periodic verifications to ensure that aspects of human rights are being properly handled and managed by the Human Resources Department in line with established policies. When necessary, the Inspection Department determines whether the grievance-handling procedure has been appropriately applied in an unbiased manner, in line with procedures set out in the Bank's official guidelines.

There were no incidents of human rights violations reported during 2014.

SOCIETAL RESPONSIBILITY

For Commercial Bank, the scope of corporate responsibility extends to many areas of society. We make every effort to ensure that our enterprise and partners in our supply chain conduct business in a manner that avoids moral hazards, corruption and anti-competitive behaviour.

We recognise our duty to serve underprivileged people, who are often neglected by the financial industry because they are perceived to be high-risk borrowers. We are able to serve such customers with a deep understanding of the communities where they live and work, thanks to our widespread branch network. And with the guidance of our Development Credit Department, we are able to offer agricultural, industrial and housing loan products at reasonable interest rates. As with all of the Bank's lending, our repayment plans are designed to match such customers' unique cash flow constraints, requiring minimal collateral and offering longer repayment periods.

Communities benefit in two ways from our commitment to serving disadvantaged customers. First, by offering direct financing to small-scale cultivators, farmers and low-income earners for their working capital and housing needs, we help them prosper and contribute more to the local economy. And when we provide financing to small and medium-scale entrepreneurs, their success creates jobs in the surrounding region.

Moreover, we extend our support even further by providing entrepreneurial customers with industry-specific technical expertise, along with help in managing their finances. We are committed to increasing Commercial Bank's microfinancing operations, as we believe there are tremendous opportunities in this untapped market. The Bank's 12 dedicated agricultural and microfinancing units are a testament to our belief in its future potential.

Agriculture and Microfinance Sector – Capacity-Building Programmes

Our Development Credit Department, in collaboration with various regulatory authorities and entities, implemented nine capacity-building programmes in 2014, targeting agricultural customers – cultivators, farmers, producers and traders – in various parts of the country. Our goal was to introduce these customers to new technologies, the latest scientific cultivation methods, improved productivity measures and various forms of risk-mitigation insurance – and, of course, to showcase our lending products in these sectors while helping to boost financial literacy.

| Programme | Target Group | Number of Participants |
|--|---|------------------------|
| Introduction to the Bank's lending products for the agriculture sector | Members of Traders Association – Warakapola | 30 |
| Awareness programme for tea small-holders | Green leaves suppliers – Ratnapura | 41 |
| Awareness programme for grape cultivation | Grapes cultivators – Manipay, Jaffna | 44 |
| Awareness programme for vegetable cultivation | Vegetable cultivators – Maskeliya | 38 |
| Awareness programme for seaweed cultivation | Seaweed cultivators – Jaffna | 88 |
| Awareness programme for coconut cultivation | Members of the Coconut Producers Cooperative Society – Marawila | 48 |
| Cinnamon oil processing | Cinnamon oil processing businessmen – Baddegama | 30 |
| Tea cultivation and microfinance product promotion | Tea small-holders and suppliers – Akuressa | 40 |
| Dairy farming | Commercial scale dairy farmers – Tissamaharama | 23 |

Societal Responsibility

Operations with Negative Impacts

The Bank closely monitors funding requests for projects that have potential negative impacts, such as wind power generation projects that could require resettlement of local communities. We only provide funding when a borrower can show that necessary clearances have been obtained from the appropriate authorities.

Loan proposals identified in our primary investigations as having possible negative impacts on either society or the environment are routed through the Social and Environmental Management System (SEMS) Co-ordinator. Any disbursement of loans is subject to conditions imposed by the SEMS screening process. The Bank also carries out reviews even after a loan is granted in order to ensure that the borrower fulfills all agreed commitments.

CSR Trust Fund Initiatives

| CSR PROJECTS IN 2014 – TOTAL FUNDS UTILISED: RS. 88.58 MN. TOTAL NO. OF PROJECTS COMPLETED: 75 | | | |
|--|--|---|--|
| Education | Health Care | Community | Other Projects |
| Funds Utilised: Rs. 55.60 Mn. | Funds Utilised: Rs. 14.35 Mn. | Funds Utilised: Rs. 6.77 Mn. | Funds Utilised: Rs. 11.86 Mn. |
| IT Labs Completed: 36 Ongoing: 15 Funds Utilised: Rs. 35.44 Mn. | Main Health Care Completed: 09 Ongoing: 05 Funds Utilised: Rs. 13.91 Mn. | Main Community Completed: 02 Ongoing: 04 Funds Utilised: Rs. 3.94 Mn. | Culture & Heritage Ongoing: 01 Funds Utilised: Rs. 2.72 Mn. |
| Skills Development Completed: 09 Ongoing: 02 Funds Utilised: Rs. 8.97 Mn. | Regional CSR (Health Care) Completed: 02 Funds Utilised: Rs. 0.44 Mn. | Disaster Relief Completed: 03 Funds Utilised: Rs. 2.50 Mn. | Environment Ongoing: 03 Funds Utilised: Rs. 2.10 Mn. |
| Online Learning Completed : 46 Funds Utilised: Rs. 1.08 Mn. | | Regional CSR (Community) Completed: 03 Ongoing: 02 Funds Utilised: Rs. 0.33 Mn. | Support of War Heroes Completed : 02 Funds Utilised: Rs. 7.04 Mn. |
| Scholarships Granted to University Students Awarded during the year - 50 In Force as at 31.12.2014 - 86 (Laptops Awarded - 50) Funds Utilised: Rs. 8.88 Mn. | | | |
| Regional CSR (Education) Completed: 07 Ongoing: 06 Funds Utilised: Rs. 1.23 Mn. | | | |

Established in 2004, the CSR Trust Fund receives its allocation of funds from the Bank annually, an amount up to 1% of the post-tax profits of the Bank constitutes the CSR Trust's Fund allocation. The Bank provided Rs. 52.5 Mn. from its previous year's post-tax profits to the CSR Trust in 2014. The Bank's CSR initiatives are focused on six key areas, namely, education, health care, culture & heritage, rehabilitation of war heroes, regional social initiatives, disaster relief and environment. Our main focus has been on the advancement of education of children in the country as we believe that the future of our Nation is determined by the children of today.

Apart from education many other notable projects were also undertaken during the year. The CSR Trust has invested Rs. 88.58 Mn. for its 75 CSR initiatives carried out during the year 2014.

Method of Identification of Projects and Selection Process

Generally, projects are selected for their significance to the community and for their ability to deliver sustainable long term benefits to direct recipients and to the country at large. Our staff members from the island-wide branch network are voluntarily involved in identifying project proposals from their localities.

These include IT labs to government schools, essential medical equipment to government hospitals, disaster relief measures and regional CSR initiatives. In addition, the CSR Trust continuously engages in identifying sustainable projects having a national importance through various sources from the society. All such proposals are evaluated by the CSR Coordinator and her team for conformity with the laid down guidelines of the CSR Trust. The shortlisted proposals are tabled at the monthly meeting of the Board of Trustees for their evaluation and ratification. Approved projects are implemented with the voluntary participation of staff at respective branches and in support service divisions of the Bank including IT, Procurement, Logistics, Premises and Marketing.

Brief Account of the Projects Undertaken:

Education

The Bank's main focus areas within the realm of education has been the promotion of IT skills amongst children, strengthening English language education in the country and providing scholarships and laptops for deserving undergraduates, with a view to improve their employability.

IT Education

With the aim of empowering a higher IT literacy rate in the country the Bank continued its efforts in providing fully-equipped IT labs to government schools and non-fee levying institutions across the country. Our assistance includes providing brand new computer equipment with warranty and licensed software (inclusive of UPS units for each computer and a printer for each IT lab), furniture (computer tables and chairs) and expenditure for renovation of IT labs. During the year, 36 IT labs were established and a total of Rs. 35.44 Mn. was spent on this project. Overall, the Bank has setup 158 IT labs investing Rs. 109.83 Mn. by the end of 2014, benefiting more than 115,000 students in different communities of the country covering many rural areas as well.

Phase II of this ongoing project was started in September 2013 by introducing a web based online learning programme to schools equipped with IT labs donated by the Bank, to facilitate both students and teachers to use the Internet in their learning and teaching more effectively. In this regard the Bank entered into a strategic partnership with the University of Colombo for designing a web interface on selected lessons in mathematics and science by a group of 3rd year undergraduates from the Science Faculty. This move met the aspirations of both institutions as the undergraduates are assessed in their community skills by the University under a 'Service Learning' project done voluntarily with a corporate entity. The components of the online learning project were designed based on the national school curriculum integrating free educational websites such as the world renowned Khan Academy. University students have so far conducted online learning sessions in 66 schools having IT labs donated by the Bank, of which 46 were conducted in 2014.

Furthermore, two strategic partnerships were entered into with Microsoft Sri Lanka and Cisco Systems Inc. during the ensuing period to add further value to our effort. Information and Communication Technology (ICT) is an important tool in education for increasing

productivity. Specialised businesses and industries, including the banking sector and the BPO industry strategically uses ICT as an enabling technology. We are looking at offering ICT education to school children via our IT labs to give them required knowledge and skills in computing and communication devices, software that operates them, applications that run on them and systems that are built with them. Two pilot projects were carried out for teachers to give them required qualifications in order to train their students at respective schools. A group of 12 teachers selected from 6 schools have successfully followed a certificate course in CISCO IT Essentials - Instructor at the CISCO Networking Centre - University of Moratuwa. Five schools have already commenced the CISCO IT Essentials course for the students of grade 9 and above using the IT labs provided by the Bank. Around 130 students are presently following this course. The other group of teachers from 10 schools has followed a certificate course in Microsoft Office & Free Tools at the Gateway Institute Colombo. These teachers are also entrusted to offer relevant training modules to students at their respective schools.



Online learning session at Bandagiriya Maha Vidyalyaya, Hambantota

English Education

The Sri Lankan youth must have a good knowledge of English in order to take on and outsmart the global competition. Having identified this need the CSR Trust has offered English language training programmes for students and teachers since 2012. The Bank started sponsoring the British Council's 'Road Show', a one day workshop designed for English teachers in 2013. The Teacher Training Programme was considered more sustainable as the teachers could immediately apply new methods and ideas they learnt from the training in their school lessons to enhance the English Language skills of students. We have successfully conducted our second programme with the British Council in May 2014 at the Kingswood College Kandy for a group of 200 teachers, chosen from 153 schools from the Kandy District. Overall, more than 300 English teachers have been trained to date under this initiative. The CSR Trust has spent Rs. 0.87 Mn. on this project.



Teacher training programme conducted by the British Council at the Kingswood College, Kandy

Scholarships to Undergraduates

The CSR Trust awarded another 50 undergraduates selected from seven state universities with scholarships and laptops under the 'Sarasaviyata Nawa Saviyak' community initiative. This was the seventh undergraduates scholarships presentation made by the Bank under the above programme.

Selection of scholarships recipients are done with the assistance of the University Grants Commission (UGC). Being ineligible for 'Mahapola' or any other scholarship programme, number of attempts made at the GCE A/L examination, number of school-going children in the family, parental income and distance between the university and the student's home are some of the factors that are taken into consideration in identifying recipients.

The Bank has awarded 300 scholarships to date. In addition, 125 laptops have been gifted to scholarship recipients since 2012. With the latest batch of 50, 86 undergraduates will continue to receive the scholarship grant as the rest has already completed their degree. The bursary is remitted to the recipients' bank accounts on quarterly basis upon obtaining confirmation from the Registrars of the respective universities regarding their attendance and other relevant details. The CSR Trust has spent Rs. 8.88 Mn. on this project.



Scholarship and laptop awarding ceremony for selected undergraduates under the 'Sarasaviyata Nawa Saviyak' community initiative

Laptop Computers for Visually Handicapped Undergraduates

Responding to a request made by the 'Centre for Sight' unit of the Ophthalmology Department of Teaching Hospital Kandy, the CSR Trust supported 20 visually handicapped undergraduates from Ruhuna, Peradeniya, Colombo, Sri Jayawardanepura, Kelaniya and Jaffna Universities by providing laptop computers enabling them to pursue their tertiary education. Selection of these students was done by the specialist doctors who work in the centre. According to the doctors, these students can use the laptops to take down notes and study reading materials with enlarged texts and installation of specialised software. They can also learn and use other accessibility options available in computers to enhance their knowledge in the field of IT. The CSR Trust has spent Rs. 1.88 Mn. on this project.

Health care

CSR Trust continued to invest in community health care projects to enhance medical facilities at Government Hospitals. Our assistance under this sector includes providing essential medical and other equipment required for multiple usage and renovation of hospital premises. During the year Rs.13.91 Mn. worth of essential medical equipment were provided to nine Government Hospitals. The largest investment made under this was the donation of a Colour Doppler Ultra Sound Scanner to the General Hospital (Teaching) Karapitiya for the benefit of kidney patients in and around the Southern Province. Without a scanning machine these patients had to travel to Colombo for necessary testing. Amount invested on this was Rs. 3.9 Mn. Other major donations include; two Incubators to the Neonatal Intensive Care Unit of Teaching Hospital, Peradeniya, a Hysteroscope to the Castle Street (Teaching) Hospital for Women, a Neonatal Life Saving Machine to the District General Hospital, Negombo and an Auto Refractometer to the Eye Unit of the Ashraff Memorial Hospital, Kalmunai. Essential medical and other equipment also donated to Base Hospital, Mirigama, Rehabilitation Hospital, Digana, Divisional Hospital, Karaveddy and Base Hospital, Thambuttegama.

Culture and Heritage

Preservation of our valuable historical and cultural heritage is one of the main objectives of the Bank's CSR Trust. In response to a request made by the Basnayake Nilame of Sabaragamu Maha Saman Devalaya, Ratnapura, the CSR Trust commenced the renovation of the flight of steps to Sri Pada (Adam's Peak) from 'Gangula Thenna' to 'Seetha Gangula' in May 2014. This is the second occasion that the Bank has undertaken restoration of the pathway of Sri Pada. Pathway between 'Seetha Gangula' and 'Thenna' was reconstructed by the Bank in 2008.

Sri Pada is revered as a holy site by several religions and annually thousands of pilgrims climb the steps up this holy mountain to worship. It is of particular significance to the Buddhists due to the belief that the foot print of Lord Buddha is imprinted on top of the mountain.

The renovation work is carried out under the supervision of the engineers of our Premises Department. The Civil Security Department (CSD) attached to the Sri Pada provides labour at a concessionary rate. Our Maskeliya Branch volunteered to coordinate this project by liaising with the suppliers to arrange building materials as and when required by the CSD. Approximately 80% of the work is now completed and the balance work is to be completed before March 2015. Estimated expenditure of the project is around Rs.10.4 Mn. The CSR Trust has spent Rs. 2.66 Mn. thus far on this project.

Regional CSR

Regional level CSR initiatives include development of local infrastructure, assistance to children and the aged and those needing medical attention and responding to essential common needs of the community. Identification of projects is done through our branch network with the voluntary engagement of our employees.

Assistance provided under this sphere includes construction of a separate scanning room and installation of an air-conditioner for the Dengue Treatment Unit at the District General Hospital Negombo, construction of a playing area for differently-abled children, renovation of rest room facilities at a home for elders, donation of 3 photocopy machines to government schools, donation of a water purifier for a cluster of residents in Kebithigollewa and donation of books to a school library. The CSR Trust has allocated Rs. 2.14 Mn. for projects undertaken during the year.

Disaster Relief

The CSR Trust donated 90 units of 1,000 litre water storage tanks and dry rations to the people of Kaduruwela, Ampara, Anuradhapura, Dambulla, Kekirawa and Nikaweratiya and deployed 10,000 litre water bowsers for 30 days in the Mullaitivu District, in a project to help families survive the severe drought affecting these areas.

The CSR Trust also assisted people affected by floods in some of the worst hit areas of the country such as Horana, Bandaragama, Elpitiya, Kalutara, Matugama and Anuradhapura with timely distribution of emergency relief. Packs of dry rations were distributed with the assistance of local authorities to families affected by the floods in some of these areas. Clothes were provided to needy people while children who lost their school requirements were provided with exercise books, stationery, mathematical instruments, school bags and water bottles.

Relief was also provided to the Koslanda landslide victims with the assistance of the Haldummulla Government Agent. Packs of dry rations and clothes were distributed for the displaced.

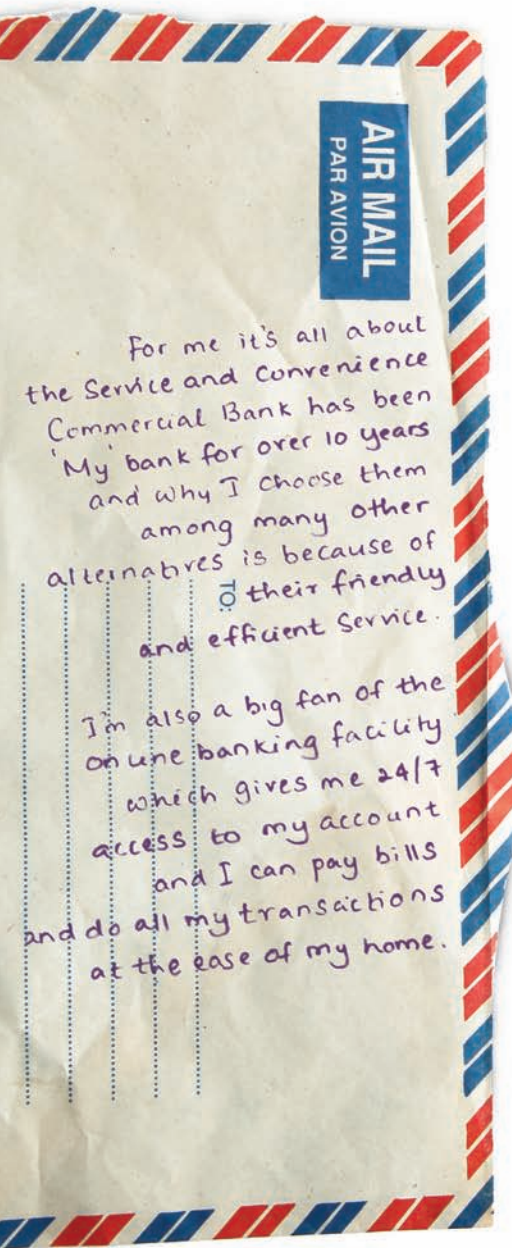
Our branches operating in and around the affected areas were voluntarily involved in distribution of the disaster relief. The CSR Trust has spent Rs. 2.50 Mn. for the relief measures undertaken during the year.

Environment

Coral Replanting Project

The joint environmental conservation project undertaken by the CSR Trust to replant coral in the Hikkaduwa Marine National Park, in partnership with the Department of Wildlife Conservation, has progressed into the phase II of the project. This initiative involves in replanting of corals in an extent of 1,000 square feet in the Walduwa area of the marine park, using techniques perfected in the Philippines. The original coral in this protected area was damaged in 1998 due to the warming of the ocean due to the 'El Niño' southern oscillation and the tsunami in 2004. Under the second phase, the process was to attach live corals to the sunken plaques containing dead corals. However, this had to be stalled temporarily as the scientists were predicting an 'El Niño' attack in 2014, according to an article published in the Time Magazine. Another reason being, that some of the cement plaques that were set down on the sea bed have got dislocated due to sand filling. As a precautionary measure it was decided to move cement plaques to the shallow waters of the Marine Park. Live corals subsequently collected from Roomassala area have been replanted thus commencing phase II of the project. As a shallow stretch has been chosen, better monitoring of the growth of the corals as well as protecting the corals from any disturbances from the boats carrying tourists to view the coral reef is ensured. Arrangements are under way to spread the replantation to a further 300 square metres, using wire mesh casings to induce quicker propagation and prevent sand filling.

By supporting the re-growth of corals in Hikkaduwa the Bank will indirectly sustain a positive impact on improving tourism in the area. Tourism was and is the main livelihood of the general public of Hikkaduwa. The arrival of tourists will provide the locals with job opportunities and entrepreneurship to promote the cultural activities and sell their products. Improved livelihood impacts the Bank's business positively. Estimated expenditure of the project is around Rs. 0.76 Mn. The CSR Trust has spent Rs. 0.46 Mn. so far on this project.



A scene from the ongoing coral re-planting project commenced by the Bank in 2013 in Hikkaduwa

Greening Project at National Hospital of Sri Lanka (NHSL)

The National Hospital of Sri Lanka (NHSL), formerly known as the General Hospital, Colombo, was established in 1864. To commemorate the 150th Anniversary, the hospital authorities initiated a project to create a patient friendly tranquil environment, in keeping with their Mission statement. The Bank, accepting the invitation from this premier healthcare institution of the country, undertook to develop and landscape 44,000 sq.ft of the hospital precincts.

The NHSL occupies 32 acres in the heart of Colombo and is the largest teaching hospital in Sri Lanka and the final referral centre in the country. Consisting of 3500 beds, 75 wards, 35 Operating Theaters and 12 Intensive Care Units the NHSL serves over 10,000 outpatients daily.

According to a study carried out by a five member cabinet Sub-Committee, 60% of the air pollution in the city of Colombo is due to the greater dependence on fossil fuel as a source of energy. In the use of fossil fuels carbon dioxide (CO₂) is produced and increase in atmospheric carbon dioxide can cause major adverse effects.

The project includes planting of CO₂-absorbent trees in specified plots of land belonging to the hospital to minimise carbon dioxide emissions in its immediate environs which will also facilitate the mental well-being of patients as well. In addition to existing trees in the garden, more mango and jack trees are to be planted. The existing ponds have been cleaned and repaired along with the benches. Lush lawns will be produced to enhance the aesthetic and environmental values of the property to facilitate the mental well-being of patients. The contractor entrusted with the work will also maintain the landscaped areas for a period of five years. The monitoring of the project is being done under the supervision of the Engineers of our Premises Department. Estimated value of the project is Rs.5.0 Mn. The CSR Trust has spent Rs. 1.90 Mn. so far on this on going project.

Community Development

Melinchimunai Project

Melinchimunai is a village located in the Kayts Island, which consists of 225 families whose sole livelihood is fishing. They were facing with a severe scarcity of drinking water for many years due to non-availability of a natural water resource. Each family had to manage with a daily ration of 5-10 litres of drinking water distributed through the bowzers of the local Provincial Council which was hardly sufficient for drinking. The CSR Trust donated a Massey Ferguson 4-wheel tractor with a 4,000 - litre water bowser to ease the suffering of more than 400 inhabitants of the village. The Parish Priest of the 'Christ the King Church' who tirelessly engages in community services for the benefit of these villagers, along with the Melinchimunai Development Society, have taken the responsibility of distributing water to these families from 02 deep wells located about 12 Km from the Church. For this purpose a tractor which had been repossessed by the Bank due to non-repayment of a lease was purchased at a reasonable cost.

Besides helping the village to minimise its water problem, the Bank also organised awareness programmes to introduce a micro finance project on seaweed and sea cucumber farming for export to encourage the fishing communities of the islands of Jaffna to develop an alternate source of income. This programme was attended by a large number of fishermen from the islands of Kayts, Mandathivu, Punkuduthivu, Nagadeepa, Delft and Analathivu. The project was jointly coordinated by the Development Credit Department of the Commercial Bank and the staff of the Bank's Velanai branch. The CSR Trust has invested Rs. 1.3 Mn. for both these projects.



A resident of Melinchimunai village drawing water from the bowser donated by the Bank

Rehabilitation of War Heroes

Abhimansala 3

We are in debt to our war heroes for safeguarding our country. As part of our ongoing efforts to support the war heroes, the CSR Trust provided patronage for the construction of a fully-furnished Villa at 'Abhimansala 3' – the Life Long Care Centre for disabled war heroes in Pangolla, Kurunegala, which was ceremonially declared open by the former President in April 2014.

The villa, which is one of eight such villas at the centre, comprises of two bedrooms, a living room cum TV lounge and bathrooms custom designed and equipped for the use of disabled military personnel. It can accommodate four occupants at a time.

In all, 'Abhimansala 3' will accommodate 52 disabled war heroes, 32 of them in eight villas donated by corporate entities including Commercial Bank, and 20 in a hospital within the complex. The centre also has a therapy swimming pool and other facilities including a gym and an Ayurveda therapy centre and several cottages for visiting families of resident war heroes. Abhimansala projects are managed by the Brave Heart Foundation which is affiliated to the Army Branch of the Seva Vanitha Foundation. Total investment of the project is Rs. 6.0 Mn.



A picture of 'Abhimansala 3' donated by the Bank

Two Houses for War Heroes

Responding to a request made by the Civil Security Department (CSD) financial assistance was provided to build two homes for deserving members of CSD. During the civil war few years back, it was the soldiers of the CSD who protected the border villages from terrorist attacks. Most of these soldiers are from poor rural families and do not have a house of their own. Further, the CSD unit attached to Sri Pada is currently providing labour at a very concessionary rate for the ongoing CSR Project at Sri Pada. The CSR Trust has contributed Rs. 1.0 Mn. for this project.

Societal Responsibility

Fighting Against Corruption Through Audits

The Bank has strict internal controls in place aiming to eliminate any form of corruption across the organisation. Our efforts in this regard are implemented by the Inspection Department, which carries out onsite and online investigations of the Bank’s operations in both Sri Lanka and Bangladesh. While majority of the audits of branches and departments in Sri Lanka are carried out by our Inspection Department, the Bank also engages its External Auditors in meeting the Bank’s Annual Audit Plan. Audits of Bangladesh operations are carried out by a team of Auditors in Bangladesh with the assistance of visiting teams from Sri Lanka. We adopt a risk-based approach through which the scope and frequency of audits for each branch or department is established. The following table provides a summary of investigations in 2014.

| Location | Onsite | Online |
|-----------------------------|--------|--------|
| Sri Lanka | | |
| - Branches | 191 | 192 |
| - Departments and Divisions | 40 | 5 |
| Bangladesh | 33 | 16 |

In 2014, there were three reported incidents of corruption involving financial losses. All were internal fraudulent acts involving unauthorised fund transfers. Subsequent investigation of these incidents revealed that the frauds were abetted by non-adherence to existing controls, as opposed to problems with the controls themselves. As a result, appropriate disciplinary actions were imposed on staff members who were directly and indirectly involved with the incidents.

Money Laundering

The Bank has an ongoing programme that actively works to prevent money laundering and any activity that facilitates the financing of terrorism and other unlawful criminal activities. Our Anti-Money Laundering (AML) Unit, headed by the AML Compliance Officer (a senior Bank official), centrally monitors transactions to detect suspicious activities. Any alerts are reported to the Financial Intelligence Unit (FIU) of the Central Bank of Sri Lanka. The programme also requires every Bank business unit to bring any questionable transactions to the attention of the AML Compliance Officer.

We constantly train staff on AML issues, providing regular updates on the Bank’s internal controls and corrective procedures – both through specifically targeted training programmes and as part of the general induction sessions conducted by our Staff Development Centre.

Supply Chain

The Bank works with a wide variety of firms, organisations and individuals in support of our business activities. We view our suppliers and service providers as important stakeholders who are vital to our success.

Suppliers and Service Providers

Utility service providers

- Energy (electricity and fuels)
- Telecommunication (data connections)

Material suppliers

Providers of various materials, including paper, IT-related supplies and other stationery items

Premises providers

- Individual building owners
- Firms renting office space
- Supermarket chains

Contractors

- Building
- Interior decoration and partitioning
- Wiring and plumbing

Travel and transportation

- Courier services (domestic and international)
- Cash transporters
- Goods transporters
- Car rental companies
- Air travel, including support services such as ticketing agencies

Human resources

- Suppliers of outsourced employees

Maintenance

- IT equipment/software maintenance companies
- Office equipment maintenance companies
- Janitorial services

Staff welfare

- Water suppliers
- Food and beverage providers
- Trainers and consultants

Assets suppliers

- Vehicle suppliers
- IT equipment/software vendors

Waste management

- Waster paper management agents/companies
- Waste food management agents/companies
- Used furniture and equipment management agents/companies

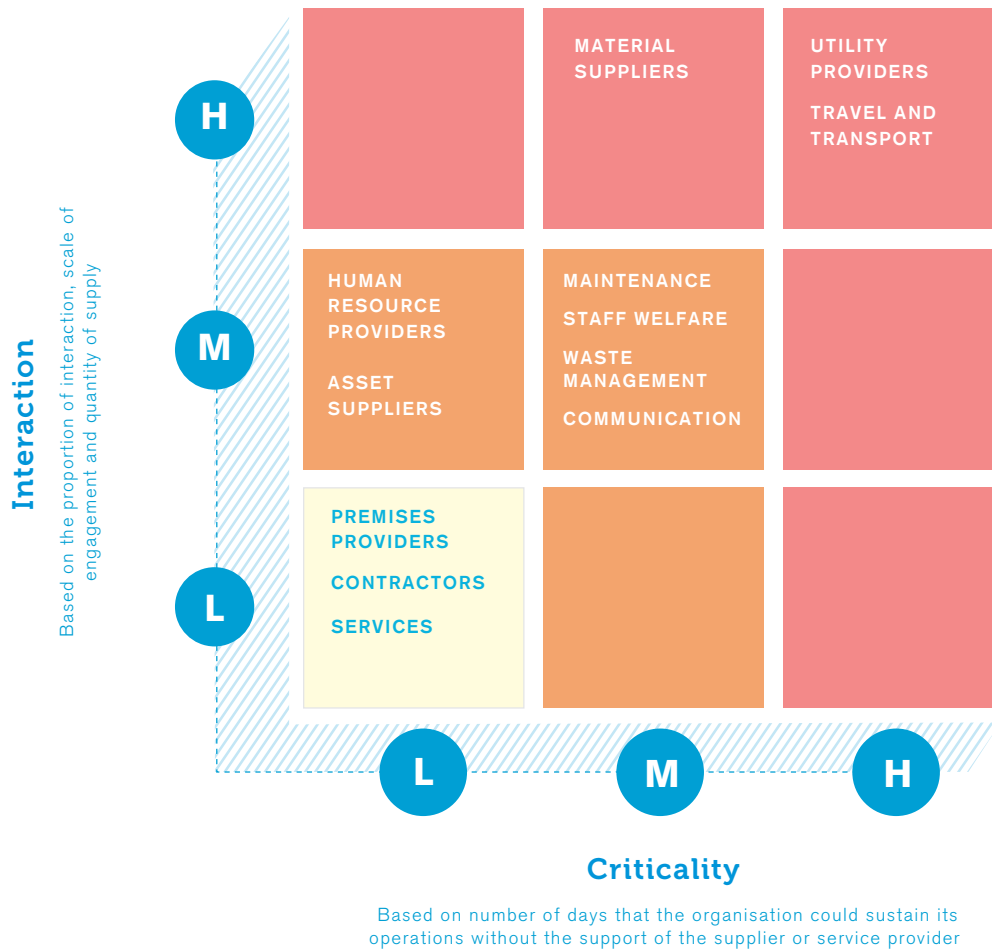
Communication

- Media
- General post
- Telecommunication (voice connections)

Services

- Insurance companies
- Lawyers and law firms
- Auditors
- Valuers

Our engagements may be routine or ad hoc, large-scale or small-scale, critical or non-critical to the normal course of business – but all create important links in the supply chain that ultimately delivers value to our stakeholders.



H High **M** Medium **L** Low

These engagements present challenges with regard to sustainability - some specific to certain types of suppliers and others common to all outside partners. The business activities of some suppliers are more vital than others to the Bank's operations. The following chart summarises material aspects by supplier type:

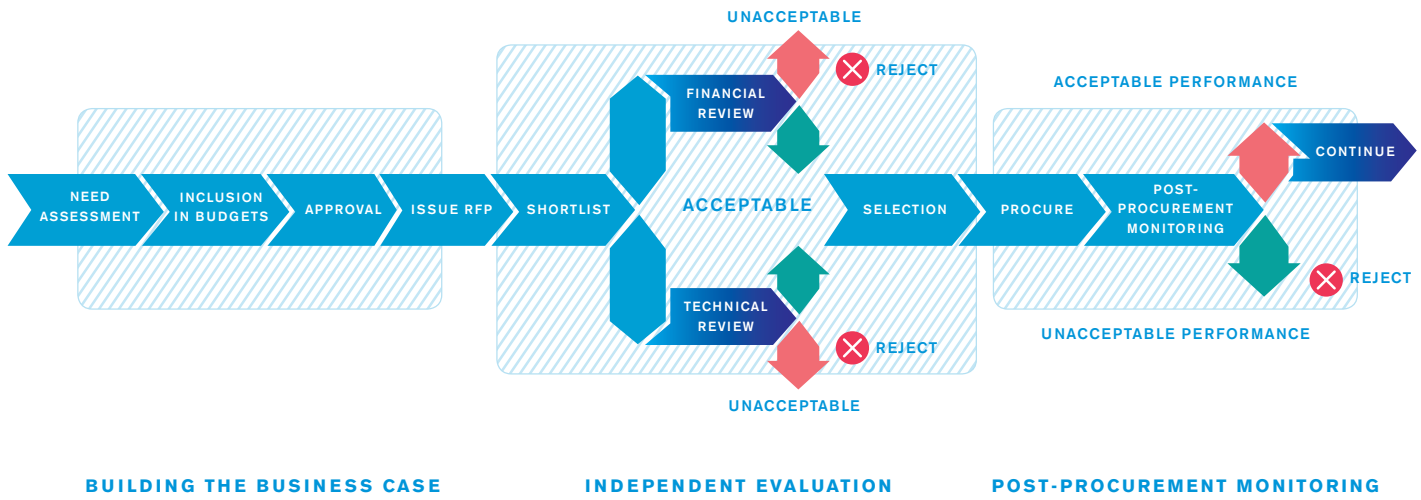
| Type of Supplier | Material Aspect |
|----------------------|---------------------|
| Contractors | Health and Safety |
| Travel and Transport | Emissions |
| Human Resources | Labour Practices |
| | Human Rights |
| Maintenance | Effluents and Waste |
| Waste Management | Effluents and Waste |

Societal Responsibility

We believe in partnering with suppliers that deliver the best value proposition to the Bank. Our procurement practices look beyond monetary value to gauge ethical behaviour and sustainable practices as equally important in forging a successful partnership.

Supplier Assessment

The Bank has established a process to promote sustainable practices within our supply chain. In addition to a financial evaluation, our standard procurement procedures include an independent technical review. This assesses a prospective supplier's technical know-how, after-sales service, experience in the field and compliance with environmental regulations and standards, as well as accepted labour and social practices.



Requests for Proposal (RFPs) issued to potential suppliers include the following compliance and responsibility requirements:

- Compliance with environmental standards
 - Compliance with the RoHS (Restriction of Hazardous Substances) Directive
 - Energy Star Rating
- Adherence to software piracy regulations (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.
- 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 RFP process and may lead to the vendor's removal from the list of registered suppliers.

Much of the Bank's procurement is done locally. In 2014, the proportion of our spending on local suppliers was 99%. Although many of the software solutions we purchase are developed by global players, we also give local IT service providers opportunities to work with us on smaller projects. These engagements help Sri Lankan firms enhance their marketability in the IT industry while also opening the door to more immediate business prospects.

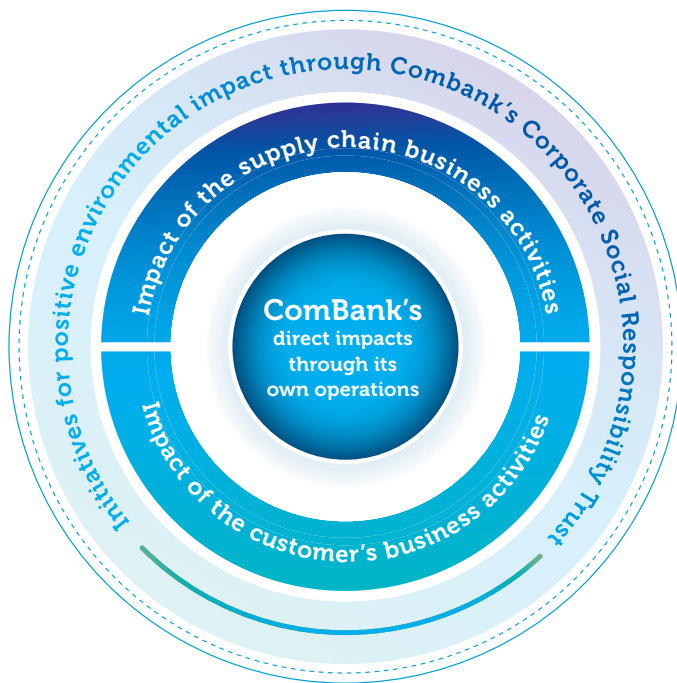
Ensuring Well-Being of Our Outsourced Staff

Commercial Bank outsources non-critical functions to reputable agencies that meet the Bank's selection criteria. A rigorously documented screening process is in place to enable the Bank to scrutinise organisations that supply outsourced workers. Aspects such as compliance with applicable labour laws, including those covering minimum pay, whether they are paid on due dates and provided with salary slips with adequate details, working hours, leaves, payment of statutory levies, child labour are looked into in this screening. In addition, a screening process vets suppliers before contracts are offered to ensure they are not involved in corrupt activities such as money laundering.

The Bank's Human Resources Department continuously monitors labour practices and procedures to ensure protection of human rights. We ensure that half-yearly Employees' Provident Fund and Employees' Trust Fund return statements are submitted to us for scrutiny. As well, our Security Department confirms that outsourced security officers are paid the statutory minimum wage by their employers. Further, the Internal Audit Department of the Bank undertakes periodic reviews to ensure that relevant procedures related to the foregoing areas are followed.

Commercial Bank's environmental management strategies focus on three aspects:

- Our direct environmental footprint related to energy consumption and the sourcing and disposal of goods.
- The indirect impact from the operations of our customers and supply-chain partners.
- CSR Trust Fund projects and initiatives designed to create an enhanced environmental footprint.



Managing our Direct Environmental Impact

Compared to many industries, banking has a negligible direct environmental footprint. Our day-to-day business activities consume minimal natural resources and do not generate high volumes of emissions or waste. In the case of Commercial Bank, our consumption of natural resources is primarily focused on energy and paper. We are conscious of the negative effects of waste on the environment, including from the disposal of IT equipment.

Reduction of Paper Usage

In 2014, we continued our efforts to minimise paper use and its negative environmental impacts by expanding the automation and centralisation of our business processes:

- The Bank's email system was made more robust through the implementation of a parallel system connecting more than 2,000 Junior Executive Assistants, which has streamlined internal communication and reduced paper use.

- To improve accuracy and efficiency while reducing paper-based administrative work, we also began rolling out a biometrics attendance system during the Reporting period. However, the existing paper-based system will continue to be used until the new technology has been fully implemented, and is expected to be completed by the end of the first quarter of 2015.
- Wherever possible, we continued to replace existing paper-based manual processes with digital media and tools.
- We continued to raise employee awareness of the paperless office concept, discouraging any unnecessary printing of documents.

Reduction of Energy Consumption

While the Bank's efforts to reduce paper use have succeeded, we're aware that they may have led to increased power consumption. However, we assume the net impact on the environment is positive - especially in light of the following steps taken to reduce energy consumption:

- Procurement of ATMs and IT equipment that have Energy Star 5 ratings and are compliant with the RoHS standards.
- Investing in energy-efficient lighting and air conditioning equipment, conserving energy over the long term.
- Completed the server virtualisation and consolidation project to further reduce energy use.
- Designing new branches to use more natural lighting.
- Giving procurement preference to ATMs that can function without an air-conditioned environment.

The following table indicate the electricity consumption pattern over the last three years.

| For the year ended December 31, Measurement Unit | 2014 Gigajoule | 2013 Gigajoule | 2012 Gigajoule |
|---|-------------------|-------------------|-------------------|
| Location | | | |
| Sri Lanka | 52.866 | 51.592 | 54.241 |
| Bangladesh | 3.078 | 3.488 | 4.205 |

Waste Management

Because most of the Bank business processes are driven by information technology, we recognise our duty to minimise the hazardous environmental impacts from using and disposing of computer equipment and peripherals. The Bank has a programme to returns used IT equipment to vendors that follow internationally recognised disposal practices.

The heads of the Bank's Logistics/Procurement and Information Technology Departments monitor compliance to ensure these activities are carried out diligently. We have also taken steps to confirm that employees responsible for procuring and disposing of assets carry out their roles in an environmentally sensitive manner.

The Bank has introduced several other initiatives to minimise the environmental impact of water usage, emissions, effluents and waste disposal. And our Staff Development Centre, when designing and conducting training programmes, ensures that employees are up to speed on the latest environmental initiatives affecting areas such as credit, operations, housekeeping and compliance.

Environmental Responsibility

We are determined to carry on expanding Commercial Bank's steadfast commitment to protecting the environment.

Waste Disposals by Type

| For the year ended December 31, | 2014 in Kg | 2013 in Kg | 2012 in Kg |
|---------------------------------|---------------|---------------|---------------|
| e-waste | Nil | Nil | 13,200 |
| Paper* | 130,335 | Unavailable | Unavailable |

*Bank started measuring disposal of paper only since 2014.

Managing Our Indirect Environmental Impacts

While the business operations of the Bank do not have a significant negative impact on the environment, the activities of our customers and suppliers may. We have therefore implemented procedures to mitigate the indirect impact caused by business and industrial activities that we help to finance, as well as by our supply-chain partners.

Managing Impacts in Our Customer Business Activities

Through our Social and Environmental Management System (SEMS), we work to ensure that any financing we extend to customers is used to support operations that are environmentally sustainable. Refer to the section 'Managing the Social and Environmental Impacts of Products and Service' on page 88 for more details on how the SEMS helps us manage the Bank's indirect environmental impact.

Supporting Environment Through Our Products

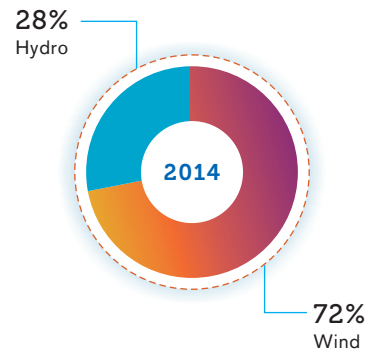
Our Investment Banking Unit and the Development Credit Department provide financial support and technical expertise for projects and business activities that create environmental benefits through reducing the use of natural resources and minimising waste. These funding were largely aimed at renewable energy generation projects and installation of modern machinery in the timber milling industry. The efficiency of these machines enables to reduce the electricity consumption by 60% and wastage by 30% respectively. This will decelerate deforestation and minimise the pollution caused by disposal of sawdust.

Loans Granted for Renewable Energy Projects by Source of Energy

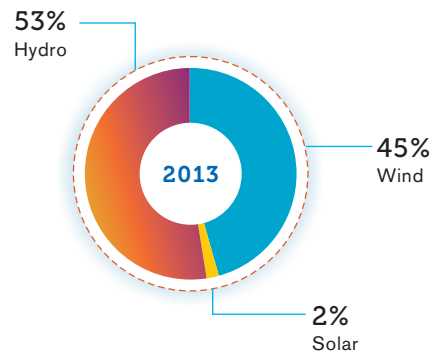
| Source of Energy | 2014 | | 2013 | |
|------------------|----------------------------|------------------------------|----------------------------|------------------------------|
| | Amount Disbursed Rs. Mn | Amount Outstanding Rs. Mn | Amount Disbursed Rs. Mn | Amount Outstanding Rs. Mn |
| Wind | 1,543 | 2,101 | 634 | 1,091 |
| Solar | - | - | - | 46 |
| Hydro | 11 | 819 | - | 1,263 |
| Total | 1,554 | 2,920 | 634 | 2,400 |

Apart from above we have extended banking facilities to many other business entities, who are engaged in providing renewable energy-generating solutions.

Loans Granted for Renewable Energy Projects (outstanding as at December 31, 2014)



Loans Granted For Renewable Energy Projects (outstanding as at December 31, 2013)



Managing Impacts in Our Supply Chain

All of the Bank's preferred product and service providers are subject to a stringent evaluation process before being included on our approved list. Assessing the commitment of these supply chain partners to eliminate or mitigate negative impacts on the environment is an essential part of our sustainability process. Refer to the section 'Supply Chain' on page 108 for more information on how we promote sustainability at every step in the Bank's supply chain.

CSR Trust Fund Initiatives

As described earlier in this Report, the CSR Trust Fund is focused on environmental protection and conservation and the initiatives taken in this regard are detailed on pages 105.

Independent Assurance Report to
Commercial Bank of Ceylon PLC

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(Chartered Accountants)
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On the elements of Sustainability Reporting in the Annual Report for the year ended December 31, 2014

Introduction

We were engaged by the Board of Directors of Commercial Bank of Ceylon PLC ("Company") to provide assurance on the following elements of the Sustainability Reporting in the Annual Report for the year ended December 31, 2014 of Commercial Bank of Ceylon PLC ("Report").

- Reasonable assurance on the data on Financial Highlights, as reported on page 6 of this Report.
- Limited assurance on the Non-Financial Indicators specified on page 7, Key Performance Indicators on page 115 and the information provided on the following stakeholder groups as detailed below.

| Stakeholder Disclosures | Annual Report Page |
|-------------------------|--------------------|
| Investors | 79 to 82 |
| Customers | 84 to 89 |
| Employees | 90 to 101 |
| Society | 101 to 108 |
| Suppliers | 108 to 110 |
| Environment | 111 to 112 |

Our conclusions

(a) Data on financial performance:

In our opinion, the data on Financial Highlights, as reported on page 6 of the Annual Report 2014 are properly derived from the Financial Statements of the Company for the year ended December 31, 2014.

(b) Key Performance Indicators and stakeholder disclosures:

Based on the limited assurance procedures performed, as described below, nothing has come to our attention that causes us to believe that the Non-Financial Indicators specified on page 7, Key Performance Indicators on page 115 and the information provided on the stakeholder groups as described in the pages set out above, have not in all material respects, been prepared and presented in accordance with the Sustainability Reporting Guidelines as described on page 70 of this Report.

Managements' responsibility

Management is responsible for the preparation and presentation of the Report in accordance with the Global Reporting Initiative (GRI) G4 Principles for Defining Report Content and Quality.

These responsibilities includes the identification of stakeholders and material aspects and for establishing such internal controls as management determines are necessary to enable the preparation of the reported performance information and other information in the report that are free from material misstatement whether due to fraud or error.

Our responsibilities and compliance with SLSAE 3000

Our responsibility is to carry out a reasonable and limited assurance engagement and to express a conclusion based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by The Institute of Chartered Accountants of Sri Lanka.

That Standard requires that we comply with applicable ethical requirements, including independence requirements, and plan and perform the engagement to obtain reasonable and limited assurance about whether the Report is free from material misstatement.

Summary of work performed

Financial Data

A reasonable assurance engagement on Financial Highlights reported on page 6 of this Report involves verification that they were properly derived from Audited Financial Statements of the Company for the year ended December 31, 2014.

Key Performance Indicators

Our limited assurance engagement on the Key Performance Indicators included in the Report consisted of making enquiries, primarily of persons responsible for the management, monitoring and preparation of the Key Performance Indicators presented in

Independent Assurance Report to Commercial Bank of Ceylon PLC

the Report, and applying analytical and other evidence gathering 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 Company's processes for determining material issues for Company's key stakeholder groups;
- Enquiries of relevant staff at corporate level responsible for the preparation of the Report;
- Enquiries about the design and implementation of the systems and methods used to collect and report the information, including the aggregation of the reported information;
- Comparing the information presented in the Report to relevant underlying sources on a sample basis to determine whether all the relevant information has been appropriately included in the Report;
- Reading the Key Performance Indicators presented within 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 sections in relation to sustainability included in 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.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement or an audit conducted in accordance with Sri Lanka Standards on Auditing and Assurance Engagements, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit or a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion on the Key Performance Indicators.

Use of this report

Our assurance report is made solely to Commercial Bank of Ceylon PLC in accordance with the terms of our engagement. Our work has been undertaken so that we might state to Commercial Bank of Ceylon PLC those matters we have been engaged to state in this assurance report and for no other purpose. We do not accept or assume responsibility to anyone other than Commercial Bank of Ceylon PLC for our work, for this assurance report, or for the conclusions we have reached.



Chartered Accountants

Colombo
February 23, 2015

Key Performance Indicators (KPIs) - 2014

| 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 | 80 |
| | Economic Value Added (EVA) | 82 |
| Environment | Reduction of energy consumption (Sri Lankan Operation) | 111 |
| Labour Practice and Decent Work | Total number and rates of new employee hires by age group and gender (Sri Lankan Operation) | 90 |
| | Total number of employees by employment contract and gender and by significant location (Sri Lankan Operation) | 92 |
| | Return to work and retention rate after maturity leave | 92 |
| | Training hours by type of programme, by employee category and gender | 94 |
| | Composition of the Board and employee ranks by category | 96 |
| | Equal remuneration for women and men: basic salary ratio by employee category | 96 |
| | Employee turnover by reason for separation (Sri Lankan operation) | 97 |
| | Total number and percentage of employee attrition by age group and gender (Sri Lankan operation) | 97 |
| | Service analysis of employees by category | 99 |
| | Age analysis of employees by category | 99 |
| | Composition of main Board and Sub-Committees as at December 31, 2014 | 152 |
| Society | Access points in low populated or economically disadvantaged areas | 87 |
| | Fighting against corruption through audits - Investigations carried out by the Inspection Department | 108 |
| Product Responsibility | Products designed to benefit society-loans and lease facilities granted to the agricultural and micro finance sector during 2014 | 86 |
| | Loans granted for renewable energy projects by source of energy | 112 |
| Other Topics | CSR Trust fund initiatives | 102 |
| | Bank's contribution to CSR Trust Fund in 2014 | 102 |

Independent Assurance Statement on Non-Financial Reporting



Introduction

DNV GL represented by DNV 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 - 2014 ('the Report'). The Report is prepared based on GRI G4 guidelines 'in accordance' - Core option and 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 (AA 1000AS), the DNV GL Protocol for Verification of Sustainability Reporting ('VeriSustain' - www.dnv.com/moreondnv/cr/; available on request).

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 - 2014 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 January - February 2015.

Scope, Aspect Boundary and Limitations of Assurance

The scope of assurance included the review of sustainability performance covering the Economic, Environment and Social information in the Report. 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 2014 to 31st December 2014 and reported in this Annual Report;
- Review of the policies, initiatives, practices and performance described in the sustainability performance reported in Commercial Bank's Annual Report - 2014 as well as references made in the report;
- Evaluation of the disclosed information in the Report, both general and specific standard disclosures 'in accordance' - Core reporting requirements covering the systems and the processes the Commercial Bank has in place for adherence to reporting principles set out in the Global Reporting Initiative Sustainability Reporting Guidelines 2013 (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;
- The sustainability disclosures related to GRI G4 - 'in accordance' - Core as declared by Commercial Bank.

The reporting 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 as set out in the Report in the section 'Material Aspects and Boundaries'. During the assurance process, we did not come across limitations to the scope of the agreed assurance engagement. 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., Indra 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. 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 the DNV-GL Protocol for Verification of Sustainability Reporting ('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;
- 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 and one in Dhaka, Bangladesh;
- 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

The Commercial Bank has implemented management systems with sustainability as the focus, to manage its key sustainability parameters. In our opinion, based on the scope of this assurance engagement, the sustainability performance reported in Commercial Bank's Annual Report - 2014 and referenced information provides a fair representation of the sustainability related strategies, management system and performance and meets the general content and quality requirements of the GRI G4 i.e.,

- **General Standard Disclosures:** We reviewed the General Standard Disclosures reported in this Report and we are of the opinion that the reported information generally meets the reporting requirement for 'in accordance' - Core based on GRI G4.
- **Specific Standard Disclosures:** We reviewed the Specific Standard Disclosures reported in this Report and we are of the opinion that the reported information generally meets the reporting requirement for 'in accordance' - Core based on GRI G4 and 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;

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;
- Occupational Health and Safety - G4-LA8;
- Training and Education - G4-LA9, G4-LA11 ;
- 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;
- Security Practices - G4-HR7;
- Assessment - G4-HR9;
- Supplier Human Rights Assessment - G4-HR10;
- Human Rights Grievance Mechanisms - G4-HR12;

Society

- Local Communities - G4-SO1, G4-SO2, FS13, FS14;
- Anti-Corruption - G4-SO3, G4-SO4, 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-PR6,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: The stakeholder identification and engagement process includes formal and informal engagement with key stakeholders to identify sustainability challenges and concerns through various channels. The material issues emerging from the stakeholder engagement were collected and prioritized, and the results are fairly reflected in the Report. In our view, the level at which the Report adheres to this principle is "Good".

Independent Assurance Statement on Non-Financial Reporting



Materiality: The process of materiality assessment has been carried out based on requirements of GRI G4 and Financial Services Sector Disclosures. The process considered the aspects that are internal and external to the organization and prioritized the aspects for sustainability management. The materiality of the aspects is fairly explained in the Report along with the management and monitoring systems. In our view, the level at which the Report adheres to this principle is **“Good”**.

Responsiveness: We consider that the response to key stakeholder concerns, through its policies and management systems including governance are fairly reflected in the Report through appropriate disclosures on management approach and strategy for risk impact mitigation. In our view, 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 and Dhaka 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 view, 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 Protocol

Completeness: The Report has fairly attempted to disclose the General and Specific Standard Disclosures including the disclosure on management approach covering the sustainability strategy, management approach, monitoring systems and sustainability performance indicators against the GRI G4 – ‘in accordance’ – Core. However certain performance indicators - internal and external to the Commercial Bank like energy, waste, occupational health and safety etc.– are partially reported due to complexity/ challenges in data aggregation and formal data aggregation systems are being deployed across all entities; In our view, the level at which the Report adheres to this principle is **“Acceptable”**.

Neutrality: The disclosures related to sustainability issues and performances are reported in a neutral tone, in terms of content and presentation. In our view, the level at which the Report adheres to the principle of Neutrality is **“Good”**.

Opportunities for Improvement

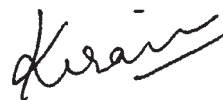
The following is an excerpt from the observations and further opportunities for improvement reported to the management of Commercial Bank and are not considered for drawing our conclusion on the Report; however, they are generally consistent with the Management's objectives:

- Bank may consider topics beyond GRI aspects related to foreign direct investment in infrastructure and other sectors, green banking, business continuity and other national and international charters to which bank and the peers subscribes in the geo locations of operations.
- 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.
- Commercial Bank may further disclose its key goals and targets with regard to identified material Aspects within the Report, so as to further improve its responsiveness to interested stakeholders.

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 towards any people interviewed.

For DNV GL



Kiran Radhakrishnan

Project Manager

DNV GL Business Assurance India Private limited, India.



Vadakepatth Nandkumar

Assurance Reviewer

Regional Sustainability Manager

DNV GL Business Assurance India Private limited, India.

February 23, 2015, Colombo, Sri Lanka.



AA1000

Licensed Assurance Provider

000-10

GENERAL STANDARD DISCLOSURES

| GRI Indicator | Description | Page Number/Explanations | External Assurance |
|---|--|--|--------------------|
| Strategy and Analysis | | | |
| G4-1 | Statement from the Chairman | 8 | Yes |
| Organisation Profile | | | |
| G4-3 | Name of the Organisation | Inner back cover | Yes |
| G4-4 | Primary Brands, Products and/or Services | 27 | Yes |
| G4-5 | Location of Organisation's Head Quarters | Inner back cover | Yes |
| G4-6 | Number of countries where the Organisation operates and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the Report | 70 | Yes |
| G4-7 | Nature of ownership and legal form | Ownership - 144 Legal form - Inner back cover | Yes |
| G4-8 | Markets served | 84 | Yes |
| G4-9 | Scale of the Reporting Organisation | 6 and 7 | Yes |
| G4-10 | Total workforce by employment type, employment contract and region broken down by gender | 92 | Yes |
| G4-11 | Percentage of employees covered by collective bargaining agreements | 99 | Yes |
| G4-12 | Organisation's supply chain | 108 | Yes |
| G4-13 | Significant changes during the reporting period regarding size, structure or ownership | 60 | Yes |
| G4-14 | Explanation of whether and how the precautionary approach or principle is addressed by the organisation | 70 | Yes |
| G4-15 | Externally developed economic, environmental and social charters and principles or other initiatives to which the organisation subscribes or endorses | 71 | Yes |
| G4-16 | Memberships in associations and/or national/international advocacy organisations | 71 | Yes |
| Identified Material Aspects and Boundaries | | | |
| G4-17 | Organisation's entities covered by the report | 70 | Yes |
| G4-18 | Process for Defining Report Content | 71 | Yes |
| G4-19 | Material Aspects identified for Report Content | 72 | Yes |
| G4-20 | Aspect Boundary for identified Material Aspects within the organisation | 72 | Yes |
| G4-21 | Aspect Boundary for identified Material Aspects outside the organisation | 72 | Yes |
| G4-22 | Explanation of the effect of any restatement of information provided in earlier reports and the reason for such restatement | 73 | Yes |
| G4-23 | Significant changes from previous reporting periods in the Scope, Aspect boundaries in the Report | 73 | Yes |
| Stakeholder Engagement | | | |
| G4-24 | List of stakeholder groups engaged by the Organisation | 75 | Yes |
| G4-25 | Basis for identification and selection of stakeholders with whom to engage | 75 | Yes |
| G4-26 | Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group | 76 | Yes |
| G4-27 | Key topics and concerns raised through stakeholder engagements and how the Organisation responded to them | 76 | Yes |

GRI Content Index: "In accordance" - Core

| GENERAL STANDARD DISCLOSURES | | | |
|------------------------------|---|---|--------------------|
| GRI Indicator | Description | Page Number/Explanations | External Assurance |
| Report Profile | | | |
| G4-28 | Reporting period | 70 | Yes |
| G4-29 | Date of most recent previous report | 70 | Yes |
| G4-30 | Reporting cycle | 70 | Yes |
| G4-31 | Contact point for questions regarding the Report or its Contents | Inner back cover | Yes |
| G4-32 | Compliance with GRI G4 Guidelines, GRI Content Index and the External Assurance Report | Compliance - Page 70 Index - This table serves the purpose of this requirement External Assurance - Page 113, 116 | Yes |
| G4-33 | Policy and current practice with regard to seeking external assurance for the Report | 70 | Yes |
| Governance | | | |
| G4-34 | Governance Structure of the Organisation, including committees under the highest governance body responsible for decision-making on economic, environment and social impacts | 146, 152 | Yes |
| G4-35 | Process for delegating authority for economic, environment and social topics from the highest governance body | 181 | |
| G4-36 | Whether the organisation has appointed an executive-level position(s) with responsibility for economic, environment and social topics and whether the post holder(s) report directly to the highest governance body | 181 | |
| G4-38 | Composition of the highest governance body and its committee | 129 (Board Profiles), 152 | |
| G4-39 | Indicate whether the Chair of the highest governance body is also an Executive Officer | 159 | |
| G4-40 | Process and criteria used for nomination and selection of members to the highest governance body and its committees. | 187 (Board Nomination Committee Report) | |
| G4-41 | Processes in place for the highest governing body to ensure conflicts of interests are avoided and managed | 165 | |
| G4-51 | The remuneration policies for the highest governance body and senior executive officers and the performance criteria in the remuneration policy related to the economic, environmental and social topics | 184 (Board Human Resource and Remuneration Committee Report) | |
| Ethics and Integrity | | | |
| G4-56 | The values, principles, standards and norms of behaviour | 150 | Yes |
| G4-57 | The internal and external mechanisms for seeking advice on ethical and lawful behaviour and matters related to organisational integrity. | 150 | |
| G4-58 | The internal and external mechanisms for reporting concerns about unethical and unlawful behaviour and matters related to organisational integrity. | 150 | |

SPECIFIC STANDARD DISCLOSURES

| DMA and Indicators | Material Aspects | Page Number (or link) | Identified Omission(s) | Reason(s) for Omission(s) | Explanation for Omission(s) | External Assurance |
|---|--|-----------------------|------------------------|---------------------------|-----------------------------|--------------------|
| Category: Economic | | | | | | |
| Material Aspect: Economic Performance | | | | | | |
| G4 - DMA | | 79 | | | | Yes |
| G4-EC1 | Direct economic value generated, distributed and retained | 80 | | | | Yes |
| Material Aspect: Market Presence | | | | | | |
| G4 - DMA | | 94 | | | | Yes |
| G4-EC5 | Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation | 94 | | | | Yes |
| G4-EC6 | Proportion of senior management hired from the local community at significant locations of operation | 92 | | | | Yes |
| Material Aspect: Indirect Economic Impact | | | | | | |
| G4 - DMA | | 82 | | | | Yes |
| G4-EC7 | Development and impact of infrastructure investments and services supported | 82 | | | | Yes |
| Category: Environment | | | | | | |
| Material Aspect: Energy | | | | | | |
| G4 - DMA | | 111 | | | | Yes |
| G4-EN6 | Reduction of energy consumption | 111 | | | | Yes |
| Material Aspect: Effluents and Waste | | | | | | |
| G4 - DMA | | 111 | | | | Yes |
| G4-EN23 | Total weight of waste by type and disposal method | 112 | | | | Yes |
| Material Aspect: Products and Services | | | | | | |
| G4 - DMA | | 88 | | | | Yes |
| G4-EN27 | Extent of impact mitigation of environmental impacts of products and services | 89 | | | | Yes |
| Material Aspect: Supplier Environment Assessment | | | | | | |
| G4 - DMA | | 110 | | | | Yes |
| G4-EN32 | Percentage of new suppliers that were screened using environmental criteria | 110 | | | | Yes |

GRI Content Index: "In accordance" - Core

SPECIFIC STANDARD DISCLOSURES

| DMA and Indicators | Material Aspects | Page Number (or link) | Identified Omission(s) | Reason(s) for Omission(s) | Explanation for Omission(s) | External Assurance |
|---|---|-----------------------|------------------------|---------------------------|-----------------------------|--------------------|
| Category: Social | | | | | | |
| Sub-Category: Labour Practices and Decent Work | | | | | | |
| Material Aspect: Employment | | | | | | |
| G4 - DMA | | 90 | | | | Yes |
| G4-LA1 | Total number and rate of new employee hires and employee turnover by age group, gender and region | 90 | | | | Yes |
| G4 - DMA | | 94 | | | | Yes |
| G4-LA2 | Benefits provided to full-time employees that are not provided to temporary or part-time employees by significant locations of operation | 95 | | | | Yes |
| G4-LA3 | Return to work and retention rates after parental leave by gender | 92 | | | | Yes |
| Material Aspect: Labour/Management Relations | | | | | | |
| G4 - DMA | | 99 | | | | Yes |
| G4-LA4 | Minimum notice periods regarding operational changes, including whether it is specified in collective agreements | 99 | | | | Yes |
| Material Aspect: Occupational Health and Safety | | | | | | |
| G4 - DMA | | 100 | | | | Yes |
| G4-LA8 | Health and safety topics covered in formal agreements with trade unions | 100 | | | | Yes |
| Material Aspect: Training and Education | | | | | | |
| G4 - DMA | | 93 | | | | Yes |
| G4-LA9 | Average hours of training per year per employee by gender and by employee category | 94 | | | | Yes |
| G4-LA10 | Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings | 93 | | | | Yes |
| G4-LA11 | Percentage of employees receiving regular performance and career development reviews by gender and employee category | 93 | | | | Yes |
| Material Aspect: Diversity and Equal Opportunity | | | | | | |
| G4 - DMA | | 95 | | | | Yes |
| G4-LA12 | Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity | 96 | | | | Yes |
| Material Aspect: Equal Remuneration for Women and Men | | | | | | |
| G4 - DMA | | 95 | | | | Yes |
| G4-LA13 | Ratio of basic salary and remuneration of women to men by employee category by significant locations of operation | 96 | | | | Yes |
| Material Aspect: Supplier Assessment for Labour Practices | | | | | | |
| G4 - DMA | | 110 | | | | Yes |
| G4-LA14 | Percentage of new suppliers that were screened using labour practices criteria | 110 | | | | Yes |
| Material Aspect: Labour Practices and Grievance Mechanisms | | | | | | |
| G4 - DMA | | 100 | | | | Yes |
| G4-LA16 | Number of grievances about labour practices filed, addressed and resolved through formal grievance mechanisms | 100 | | | | Yes |

SPECIFIC STANDARD DISCLOSURES

| DMA and Indicators | Material Aspects | Page Number (or link) | Identified Omission(s) | Reason(s) for Omission(s) | Explanation for Omission(s) | External Assurance |
|--|---|-----------------------|------------------------|---------------------------|-----------------------------|--------------------|
| Sub-Category: Human Rights | | | | | | |
| Material Aspect: Non-Discrimination | | | | | | |
| G4 - DMA | | 101 | | | | Yes |
| G4-HR3 | Total number of incidents of discrimination and corrective actions taken | 101 | | | | Yes |
| Material Aspect: Freedom of Association and Collective Bargaining | | | | | | |
| G4 - DMA | | 99 | | | | Yes |
| G4-HR4 | Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk and measures taken to support these rights | 99 | | | | Yes |
| Material Aspect: Child Labour | | | | | | |
| G4 - DMA | | 101 | | | | Yes |
| G4-HR5 | Operations and suppliers identified as having significant risk for incidents of child labour and measures taken to contribute to the effective abolition of child labour | 101 | | | | Yes |
| Material Aspect: Forced or Compulsory Labour | | | | | | |
| G4 - DMA | | 101 | | | | Yes |
| G4-HR6 | Operations and significant suppliers identified as having significant risk of forced or compulsory labour and measures to contribute to the elimination of all forms of forced or compulsory labour | 101 | | | | Yes |
| Material Aspect: Supplier Human Rights Assessment | | | | | | |
| G4 - DMA | | 110 | | | | Yes |
| G4-HR10 | Percentage of new suppliers that were screened using human rights criteria | 110 | | | | Yes |
| Material Aspect: Human Rights Grievance Mechanisms | | | | | | |
| G4 - DMA | | 100 | | | | Yes |
| G4-HR12 | Number of grievances about human rights impacts filed, addressed and resolved through formal grievance mechanisms | 100 | | | | Yes |
| Sub-Category: Society | | | | | | |
| Material Aspect: Local Communities | | | | | | |
| G4 - DMA | | 101, 102 and 86 | | | | Yes |
| G4-SO1 | Percentage of operations with implemented local community engagement, impact assessments and development programmes | 101 | | | | Yes |
| G4-SO2 | Operations with significant actual and potential negative impacts on local communities | 102 | | | | Yes |
| G4-FS13 | Access points in low-populated or economically disadvantaged areas by type | 86 | | | | Yes |
| G4-FS14 | Initiatives to improved access to financial services for disadvantaged people | 86 | | | | Yes |

GRI Content Index: "In accordance" - Core

| SPECIFIC STANDARD DISCLOSURES | | | | | | |
|--|---|-----------------------|------------------------|---------------------------|-----------------------------|--------------------|
| DMA and Indicators | Material Aspects | Page Number (or link) | Identified Omission(s) | Reason(s) for Omission(s) | Explanation for Omission(s) | External Assurance |
| Material Aspect: Anti-Corruption | | | | | | |
| G4 - DMA | | 108 | | | | Yes |
| G4-SO3 | Total number and percentage of operations assessed for risks related to corruption and the significant risks identified | 108 | | | | Yes |
| G4-SO4 | Communication and training on anti-corruption policies and procedures | 108 | | | | Yes |
| G4-SO5 | Confirmed incidents of corruption and actions taken | 108 | | | | Yes |
| Material Aspect: Compliance | | | | | | |
| G4 - DMA | | 181 | | | | Yes |
| G4-SO8 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations | 182 | | | | Yes |
| Material Aspect: Supplier Assessment for Impacts on Society | | | | | | |
| G4 - DMA | | 110 | | | | Yes |
| G4-SO9 | Percentage of new suppliers that were screened using criteria for impacts on society | 110 | | | | Yes |
| Sub-Category: Product Responsibility | | | | | | |
| Material Aspect: Product and Service Labelling | | | | | | |
| G4 - DMA | | 87 | | | | Yes |
| G4-PR3 | Type of product and service information required by the organisation's procedures for product and service information and labelling and percentage of significant product and service categories subject to such information requirements | 87 | | | | Yes |
| G4-PR4 | Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling by type of outcomes | 182 | | | | Yes |
| G4-PR5 | Results of surveys measuring customer satisfaction | 88 | | | | Yes |
| Material Aspect: Marketing Communications | | | | | | |
| G4 - DMA | | 87 | | | | Yes |
| G4-PR6 | Sale of banned or disputed products | 87 | | | | Yes |
| G4-PR7 | Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes | 182 | | | | Yes |
| Material Aspect: Customer Privacy | | | | | | |
| G4 - DMA | | 88 | | | | Yes |
| G4-PR8 | Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data | 88 | | | | Yes |
| Material Aspect: Compliance | | | | | | |
| G4 - DMA | | 181 | | | | Yes |
| G4-PR9 | Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services | 182 | | | | Yes |

SPECIFIC STANDARD DISCLOSURES

| DMA and Indicators | Material Aspects | Page Number (or link) | Identified Omission(s) | Reason(s) for Omission(s) | Explanation for Omission(s) | External Assurance |
|-------------------------|--|-----------------------|------------------------|---------------------------|-----------------------------|--------------------|
| Material Aspect: | Product Portfolio | | | | | |
| G4 - DMA | | 88 | | | | Yes |
| G4-FS1 | Policies with specific environmental and social components applied to business lines | 88 | | | | Yes |
| G4-FS2 | Procedures for assessing and screening environmental and social risks in business lines | 88 | | | | Yes |
| G4-FS3 | Processes for monitoring clients' implementation of compliance with environment and social requirements included in the agreements or transactions | 88 | | | | Yes |
| G4-FS4 | Processes for improving staff competency to implement the environmental and social policies and procedures as applied to business lines | 88 | | | | Yes |
| G4-FS5 | Interactions with clients/investees/business partners regarding environmental and social risks and opportunities | 88 | | | | Yes |
| G4-FS6 | Percentage of the portfolio for business lines by specific region, size and by sector | 372 | | | | Yes |
| G4-FS7 | Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose | 86 | | | | Yes |
| G4-FS8 | Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose | 112 | | | | Yes |
| G4-FS9 | Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment. | 108 | | | | Yes |

UNGC Principles - GRI Indicators Cross Reference

| Issue Areas | GC Principles | Relevant GRI Indicators |
|-----------------|--|------------------------------------|
| Human Rights | Principle 1 Businesses should support and respect the protection of internationally-proclaimed human rights | EC 5, LA 4, LA9, LA 14, HR 3, SO 5 |
| | Principle 2 Businesses should make sure that they are not complicit in human rights abuses | HR 3, HR 5, HR 6, HR 10, HR 12 |
| Labour | Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining | LA 4, HR 4 |
| | Principle 4 Businesses should uphold the elimination of all forms of forced and compulsory labour | HR 6 |
| | Principle 5 Businesses should uphold the effective abolition of child labour | HR 5 |
| | Principle 6 Businesses should uphold the elimination of discrimination in respect of employment and occupation | HR 3, LA 12, LA 13 |
| | Principle 7 Businesses should support a precautionary approach to environmental challenges | EN 6, EN 23 |
| Environment | Principle 8 Businesses should undertake initiatives to promote greater environmental responsibility | FS 1, FS 5 |
| | Principle 9 Businesses should encourage the development and diffusion of environmentally-friendly technologies | EN 6 |
| | Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery | SO 3, SO 4, SO 5 |
| Anti-Corruption | | |

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Stewardship

As a responsible corporate citizen accountable to all its stakeholders, the Bank is in compliance with the best practices in corporate governance and has in place a sound risk management framework.

Board of Directors



1

K.G.D.D. DHEERASINGHE

Chairman

Dharma Dheerasinghe, joined the Board on December 20, 2011. Prior to his appointment as the Chairman on July 29, 2014, he was the Deputy Chairman of the Bank. He is also the Chairman of Commex Sri Lanka S.R.L - Italy, Indra Finance Ltd. which are subsidiaries of the Bank. He also serves as the Chairman of Board Human Resources and Remuneration Committee, Board Nomination Committee, Board Credit Committee, Board Investment Committee and Board Related Party Transactions Review Committee of the Bank.

Dheerasinghe, an eminent Economist with a distinguished career of over 40 years in the banking industry. Previously, he was the Senior Deputy Governor of the Central Bank of Sri Lanka and was also the Chairman of the Monetary Policy Committee, Sovereign Ratings Committee and Secretary to the Monetary Board. He was also the Alternate Executive Director for Bangladesh, Bhutan, India and Sri Lanka at the International Monetary Fund.

He was an Independent Non-Executive Chairman of Bartleet Finance PLC. Dheerasinghe has published widely on many aspects of economics including debt capital markets and financial globalisation and has over 30 referred articles in reputed journals and as book chapters in Sri Lanka and overseas. He has presented more than 50 papers at international seminars. He has been a Visiting Lecturer and Moderator/Examiner in Universities of Colombo, Kelaniya, Sri Jayewardenepura and Moratuwa and several professional bodies in Sri Lanka. He has made a significant contribution to the development of the Government debt securities market by innovating and structuring key financial instruments and developing its institutional framework.

He is a graduate of the University of Colombo where he obtained B. Com. and B. Phil (Econ.) with first class honours. He has obtained M.A. (Econ.) from the University of Leeds, UK. He is an Honorary Fellow of the Institute of Bankers of Sri Lanka and holder of Honorary ACI Diploma.

He holds 20,653 Voting Shares.

2

M.P. JAYAWARDENA

Deputy Chairman

Preethi Jayawardena was first appointed to the Board on December 28, 2011 and was appointed as the Deputy Chairman of the Bank on July 29, 2014. He is the Chairman of Board Integrated Risk Management Committee.

He is a Fellow of The Institute of Chartered Accountants of Sri Lanka. He serves as the group consultant at Chemanex PLC and a Group Director of CIC Holdings PLC. He is also the Chairman of Lanka Ratings Ltd., Commercial Insurance Brokers (Pvt) Ltd., Cal Exports Lanka (Pvt) Ltd., Chemanex Exports (Pvt) Ltd., and serves on the Boards of many other public and private companies. Prior to joining Chemanex PLC, he served in Zambia Consolidated Copper Mines in Africa for over 13 years in various senior positions including Head of Treasury, managing a loan portfolio in excess of US \$ 2 Bn. He is a Member of the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka and the Vice-Chairman of The Sri Lanka Institute of Directors.

3

J DURAIRATNAM

Managing Director/Chief Executive Officer

Jegan Durairatnam was first appointed to the Board on April 28, 2012. He was appointed as the Managing Director/CEO of the Bank on July 17, 2014. Prior to that, he functioned as the Chief Operating Officer of the Bank from April 2012 to July 2014.

He is also the Managing Director of Commercial Development Company PLC, a Director of Lanka Financial Services Bureau Ltd. and Lanka Clear (Pvt) Ltd.

He possesses substantial professional experience in Banking, out of which 9 years as a member of Corporate Management. His Banking experience covers all aspects of International Trade, Off-shore Banking, Credit, Operations and Information Technology. He has served the Bank in several management positions, including Deputy General Manager, Assistant General Manager - International Division and Head of Imports. He holds a Bachelor's Degree from the University of Peradeniya.

He holds 379,087 Voting Shares.

Board of Directors

4

PROF. U.P. LIYANAGE

Prof. Uditha Liyanage was first appointed to the Board on December 14, 2010. He is the Chairman of the Board Technology Committee.

He is a Fellow of the Chartered Institute of Marketing, UK and holds an MBA and Ph.D. in Business Management from the Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura. He is the Chairman of OneZero Co. Ltd. and also a Director of Richard Peiris Co. (Arapico - Plastic Sector), Chemanex PLC, Ceylon Cold Stores PLC, Singer Sri Lanka PLC, Thalawakelle Tea Estate PLC and Diesel and Motor Engineering PLC. He is presently the Professor of Management of the PIM. He counts 18 years executive experience in 3 leading private sector organisations. He possesses 21 years of teaching/research experience in Marketing/Management at postgraduate level. He has published widely on branding and strategic marketing and addressed numerous local and international conferences.

5

L. HULUGALLE

Lakshman Hulugalle was first appointed to the Board on March 30, 2011. He is the Deputy High Commissioner for Sri Lanka High Commission in Australia. He is a Director of SATNET (Pvt) Ltd and Waters Edge Ltd.

He was the Director General of the NGO and INGO Secretariat of the Ministry of Defense and the Deputy Chairman of National Livestock Development Board. He is also the Advisor to the Provincial Council of Sabaragamuwa. He holds a degree in Hotel Management from the Sri Lanka Hotel School and a Diploma in Marketing and Advertising of the Sri Lanka Institute of Marketing.

He has also served as the Director General of Media Centre for National Security (2006-13), Vice-Chairman of Ceylon Fisheries Corporation (2006-10), Consultant to the Ministry of Youth Affairs, Sports and Rural Development (1995), Co-ordinating Secretary to Hon. Mahinda Rajapaksa, Minister of Labour and Vocational Training (1994), Co-ordinating Secretary of Hon. Gamini Dissanayake at the Ministry of Lands, Land Development and Ministry of Mahaweli Development (1978-89) and Ministry of Plantations (1989-90). He is the former Chairman of Star TV Lanka (Pvt) Ltd., (2001-05). He has also represented the Government of Sri Lanka in many international conferences and workshops.

6

S. SWARNAJOTHI

S. Swarnajothi was first appointed to the Board on August 20, 2012. He is the Chairman of the Board Audit Committee.

He is a Fellow of the Institute of Chartered Accountants of Sri Lanka and a Fellow of the Certified Management Accountants of Sri Lanka and also a member of the Institute of Certified Management Accountants of Australia. He 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.

Swarnajothi held office as Auditor General of Sri Lanka from January 2008 to August 2010 and prior to that held many senior positions in the Public Sector as well as in the Private Sector. He currently functions as a member of the Tax Appeals Commission which position he had held since May 2014.

He holds 8,490 Non-Voting Shares.

7

H.J. WILSON

Hakan John Wilson was first appointed to the Board on July 3, 2014. He is currently the Head of Banking and Chief Banking Specialist of the IFC/World Bank Group.

A holder of 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, Mr. Wilson is a Swedish national resident in Nairobi, Kenya.

He has held several key positions over a period of nine years as Vice President and Senior Vice-President at Swedbank, the largest retail bank in Sweden, overseeing Exports, Project Finance, Structured Finance, Equity Capital Markets, International Strategy, Mergers and Acquisitions and Investor Relations.

Mr. Wilson has also served as Managing Director and Head of Investment Banking for the Swedish operations of a large retail Bank. He has been with the IFC/World Bank Group since January 2009.

8

S. RENGANATHAN

Sivakrishnarajah Renganathan was first appointed to the Board on July 17, 2014. Since July 2014 he functions as the Executive Director and Chief Operating Officer of the Bank.

Renganathan who has served Commercial Bank throughout the entirety of his career for more than 33 years and has held several key positions in the Bank.

In July 2003, 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, and was appointed Country Manager - Bangladesh, in which capacity he led the Bangladesh team of staff over a five year tenure, building up the Bank's operations in Bangladesh. On his return to the country, he was appointed as the Bank's first Chief Risk Officer (CRO) and was responsible for preparing and implementing the Bank's Integrated Risk Management Policy.

In April 2011, he was appointed to the pivotal position of Deputy General Manager - Personal Banking Division.

He has served among others, as a Member of the General Council of the Institute of Bankers of Bangladesh, founder President of the Sri Lanka Bangladesh Chamber of Commerce and Industry, Executive member of the Foreign Investors Chamber of Commerce and Industry in Bangladesh and as Assistant Treasurer of the Sri Lanka - India Society.

S. Renganathan is a 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 Sri Lanka (FIB). He is also an associate member of Financial Services Institute of Australasia. He has received extensive Leadership, Management and Banking training in the USA, London, Japan, Thailand, Abu Dhabi, India and many other countries.

He holds 190,034 Voting and 10,190 Non-Voting Shares.

9

K.M.M. SIRIWARDANA

Mahinda Siriwardana was first appointed to the Board on August 28, 2014.

He is the Director General of Department of Fiscal Policy and Ministry of Finance and Planning where he involved in the activities related to tax policy, government revenue and overall macro-fiscal management.

He is also involved in co-ordinating with public, private and international agencies, including International Monetary Fund (IMF), World Bank (WB) and International Rating Agencies, mainly on matters related to fiscal policy as well as overall macro-economy.

Prior to joining the Ministry of Finance and Planning in 2010, Mr. Siriwardana served in the Central Bank of Sri Lanka for over 20 years where he also held the position as an Additional Director of the Economic Research Department.

Mr. Siriwardana has served on many Boards, including Bank of Ceylon (BOC), and at present, he serves on the Board of Directors of Export Development Board (EDB), Sri Lanka Export Credit Insurance Corporation (SLECIC) and Hotel Developers (Lanka) PLC (Hilton - Colombo).

He holds a Bachelor of Arts (BA) Degree in Economics from the University of Kelaniya, and a Master of Arts (MA) Degree in Economics and a Postgraduate Diploma in Economic Development from the Vanderbilt University, USA.

Mr. Siriwardana ceased to hold office w.e.f. February 23, 2015.

10

Ms. J.R. GAMAGE

Company Secretary

Ranjani Gamage, is an Attorney-at-Law who counts over 15 years experience at the Bank. She was appointed as the Company Secretary of Commercial Bank in May 2014. She has received extensive training on secretarial and legal fields at a leading Law firm prior to joining the Bank.

Acknowledgments

The Chairman and the Board of Directors would like to acknowledge the yeomen services rendered by the former Chairman, Mr. D.S. Weerakkody and former Managing Director, Mr. W.M.R.S. Dias and deeply appreciate the valuable contribution made by them. The Board of Directors warmly welcome Mr. H.J. Wilson, Mr. S. Renganathan and Mr. K.M.M. Siriwardana to the Board.

Corporate Management

1



Jegan Durairatnam

Managing Director/Chief Executive Officer

2



S. Renganathan

Chief Operating Officer

3



Nandika Buddhipala

Chief Financial Officer

7



Chandana Gunasekera

Deputy General Manager - Personal Banking

8



Sanath Manatunge

Deputy General Manager - Corporate Banking

9



Richard Rodrigo

Assistant General Manager - Plan Implementation/
Compliance Officer

4



Rohan Muttiah
Chief Information Officer

5



Isuru Tillakawardana
Deputy General Manager -
Human Resource Management

6



Hasrath Munasinghe
Deputy General Manager - Marketing

10



Carmelita De Silva
Assistant General Manager - Corporate Banking

11



Felician Perera
Assistant General Manager - Recoveries

12



Prins Perera
Head of Global Markets

13



Sandra Walgama
Assistant General Manager - Personal Banking I

14



Krishan Gamage
Assistant General Manager - Information Technology

15



Palitha Perera
Assistant General Manager - Operations

19



Selva Rajasooriyar
Assistant General Manager - Personal Banking II

20



S. Prabagar
Assistant General Manager - Management Audit

21



Asela Wijesiriwardane
Head of Global Treasury

16



Prasanna Indrajith
Assistant General Manager - Finance

17



Chinthaka Dharmasena
Assistant General Manager - Services

18



Naveen Sooriyarachchi
Assistant General Manager -
Corporate and Investment Banking

22



Risijaya Srikantha
Assistant General Manager - International

23



Niran De Costa
Assistant General Manager - Personal Banking III/SME

Senior Management

Personal Banking

1



Roshan Perera

Senior Regional Manager -
Colombo Metro

2



Leel Rodrigo

Senior Regional Manager -
Colombo South

3



Priyantha De Silva

Head of Branch Credit Monitoring

4



Ivan Fernando

Senior Regional Manager -
Greater Colombo

8



Thusitha Suraweera

Chief Manager - Card Centre

9



Yasmin Weerasuriya

Regional Manager - South Western

10



Darshanie Perera

Regional Manager - Colombo North

5



Chanura Wijetillake

Senior Regional Manager - Colombo Inner

6



Saman Kalansuriya

Head of Leasing/Personal Loans

7



Delakshan Hettiarachchi

Senior Regional Manager - Central

11



Mithila Shamini

Regional Manager - Colombo Outer

12



Pradeep Banduwansa

Chief Manager - eBanking Division

13



Udaya Dissanayake

Chief Manager - Central SME

14



**Nirmalanie
Wijegoonawardena**

Chief Manager - City Office

15



Palitha Jagoda

Chief Manager - Super Market Banking

16



Saneth Jayasundara

Regional Manager - North Central

17



Amal Alles

Regional Manager - Wayamba

18



S. Ganeshan

Regional Manager - Eastern

Corporate Banking

1



B.A.H.S. Preena

Head of Corporate Banking

2



Eric Bastian

Chief Manager - Exports

3



Sidath Pananwala

Chief Manager - Corporate Banking

4



Kelum Amarasinghe

Chief Manager - Travels and NRFC

Bangladesh Operations

8



Dilrukshi Nanayakkara

Chief Manager - Corporate Banking

9



Sushara Vidyasagara

Chief Manager - Investment Banking

1



Ajith Naranpanawe

Country Manager

2



D. Das Gupta

Senior General Manager

6



Mahmood Rashid

Senior Assistant General Manager -
Internal Control and Compliance

7



Mostafa Anowar Sohel

Senior Assistant General Manager -
Human Resources

Treasury

5



Anura Wickramarachchi

Chief Manager - Foreign Operations

6



Mahinda Wijeratne

Chief Manager - Off-Shore
Banking Centre

7



Feroza Ameen

Chief Manager - Islamic Banking

1



C.P. Fernando

Chief Manager - Treasury Processing

3



Dilan Rajapakse

Chief Operating Officer

4



A.K. Nandy

Senior Deputy General Manager -
Chittagong

5



Binoy Gopal Roy

Deputy General Manager - Finance and
Accounts

8



Reaz Wahid

Senior Assistant General Manager -
International Trade

Support Services

1



Vajira Thotagammana

Head of Information Technology
Operations

2



S. Yoganandasivam

Head of Information Technology -
Research and Development

3



Amitha Munasinghe

Head of Information Systems Audit

4



S. Shanmugarajah

Head of ICBS

8



M.P. Dharmasiri

Chief Manager - Finance

9



John Premanath

Chief Manager - Inspection

5



Bindu Perera
Head of Premises

6



Esala Silva
Chief Manager - Central Clearing

7



Thayalan Gnanapragasam
Chief Manager - Central Administration
and Staff Advances

10



Sujeeva Ranasinghe
Chief Manager -
Human Resource Management

11



Kapila Hettihamu
Chief Manager - Risk

12



Priyanthi Perera
Chief Manager - Operations

13



Udayakanth Fernando
Chief Manager - Staff Development Centre

14



Namal Gamage
Chief Manager - Legal

15



Shanthikumar Fernando
Chief Manager - Research and
Development

16



Sampath Weerasuriya
Chief Manager - Security and Safety

Chairman's Statement

Dear Stakeholder,

We believe that good governance contributes to the long term success of a company, creating trust and engagement between the company and its stakeholders. In this regard I am proud to state that your Bank was able to successfully meet the challenges in relation to all aspects of governance in 2014 as well.

This section of the Annual Report demonstrates the governance framework in place at Commercial Bank and how it ensures adherence to the requirements of the Banking Act Direction No. 11 of 2007 and amendments thereto, on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' issued by the Central Bank of Sri Lanka and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC).

As you are well aware, the Governance Structure of the Commercial Bank is aimed at satisfying the legitimate claims of all stakeholders and to fulfill the Bank's economic, social and environmental responsibilities in an exemplary and transparent manner. We are fully aware that exemplary governance is key to our long term success, enabling us to deliver sustainable shareholder value. We trust that good ethical behaviour and sound ethical culture are central to achieving above objectives. Hence, your Board has put in place systems and procedures that the right strategies and controls are in place in order to deliver value to all stakeholders in achieving the above goal.

At Commercial Bank we strive to align business practices with the best interests of all our stakeholders, and to maximise transparency through timely disclosure of information and maintain quality and accuracy in financial reporting.

Board diversity remains a key consideration for us and we continue to take a forward-looking approach to refreshing our Board composition. Your Board has a diverse mix of individuals with skills, experience in different industries, to maximise its effectiveness and enable us to respond appropriately to the greater demands currently being placed on Board members.

I take this opportunity to thank Mr. D.S. Weerakkody, former Chairman, who relinquished his duties as a Board Member in keeping with regulatory requirements and Mr. W.M.R.S. Dias, former Managing Director/CEO, who resigned from the Board with his retirement from the Bank after serving the Bank for over four decades. I wish to thank both of them for their enormous contribution and value added to the Board and the success of the Bank and wish them good luck. I am delighted to welcome Mr. S. Renganathan, Mr. H.J. Wilson and Mr. K.M.M. Siriwardana who joined the Board during the year. They bring significant business leadership, industrial, financial and accounting experience to the Board and complement our existing Board membership.

Whilst assuring you that we take every effort to continuously improve our Corporate Governance Philosophy, we hope that this brief message will be of value to you in assessing how the regulatory requirements and best practices are being put into action within your Bank. We welcome your valuable feedback to continue with our commitment to promote and practice good governance at the highest levels at Commercial Bank.

As the Chairman of the Bank, I wish to assure all our stakeholders that your Board of Directors is fully committed to raise the bar to realise the Bank's strategy through ethical behaviour and promoting good governance practices across all units of the Bank.

Yours Sincerely,



K.G.D.D. Dheerasinghe
Chairman

Colombo
January 23, 2015

Highlights of 2014

45th Annual General Meeting held on March 31, 2014.

Elections/Re-elections to the Board

- 1 Mr. D.S. Weerakkody, Chairman of the Bank, was re-elected to the Board as the Chairman upon his re-election as a Director. Mr. Weerakkody relinquished his duties w.e.f. July 28, 2014. Mr. Weerakkody was an Independent Non-Executive Director.
- 2 Mr. K.G.D.D. Dheerasinghe, Deputy Chairman of the Bank was appointed as the Chairman. Mr. K.G.D.D. Dheerasinghe is an Independent Non-Executive Director.
- 3 Mr. M.P. Jayawardena, a member of the Board since December 28, 2011 was re-elected to the Board and appointed as the Deputy Chairman upon his re-election as a Director.

Mr. Jayawardena is an Independent Non-Executive Director.
- 4 Mr. J. Durairatnam, the former Chief Operating Officer/ Executive Director of the Bank was appointed as the Managing Director/Chief Executive Officer.
- 5 Mr. R. Renganathan was appointed as a Executive Director to the Board upon his appointment as Chief Operating Officer of the Bank.
- 6 Mr. H.J. Wilson and Mr. K.M.M. Siriwardana were appointed to the Board as Non-Executive Directors, both of them are Independent Non-Executive Directors.

Key Areas of Focus and Major Developments to Strengthen the Governing Mechanism

- * Refining the self-assessment process of the Directors.
- * Maintain the Governance structure which comprises of a total independent Board of Directors.
- * Setting up of a new Board Sub-Committee by the Board for reviewing all related party transactions carried out by the Bank and its listed subsidiary to strengthen the governance procedures in by early adopting the Code of Best Practice on Related Party Transactions issued by the Securities and Exchange Commission (SEC) which is now a part of the Continuing Listing Requirements of the Colombo Stock Exchange (CSE).

Annual General Meeting 2014

The Bank's 45th Annual General Meeting (AGM) was held on March 31, 2014. At the AGM, 387 voting shareholders (345 in 2013) and 148 non-voting shareholders (130 in 2013) were present by person or by proxy.

The following Resolutions were passed at the 45th AGM:

- Approval of Annual Report of the Board of Directors on the affairs of the Company and Statement of Compliance and the Financial Statements for the year ended December 31, 2013 and the Report of the Auditors thereon.
- Approval of a Final Dividend of Rs. 4/- for 2013 (Satisfied by way of Rs. 2/- in cash and Rs. 2/- in shares).
- Re-appointment/re-election of two Directors in place of those vacating, retiring by rotation or otherwise.
- Appointment of Messrs KPMG, Chartered Accountants, as the External Auditor of the Bank for 2014 and authorisation of the Directors to approve their remuneration.
- Authorisation of the Board of Directors to determine donations for 2014.

Major External Steering Instruments on Governance

- Companies Act No. 07 of 2007.
- Banking Act No. 30 of 1988 and amendments thereto.
- Banking Act Direction No. 11 of 2007 of the Central Bank of Sri Lanka on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' and amendments thereto.
- Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka (a voluntary Code).
- Listing Rules of the Colombo Stock Exchange.
- Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 and amendments thereto.

Major Internal Steering Instruments on Governance

- Articles of Association of the Bank.
- Board of Directors' working procedure.
- Board approved policies on all major operational aspects.
- Policy for secrecy of information, credit and other internal manuals.
- Integrated risk management procedures.
- Processes for anti-money laundering.
- Processes for internal controls.
- Bank's Code of Ethics.
- Bank's whistleblowers charter.
- Internal Circulars on ethical/operational practices.
- Communication policy of the Bank.

Reference Web Links for Further Information

- Banking Act:
http://www.cbsl.gov.lk/pics_n_docs/09_lr/_docs/acts/banking_act_7th_rev_latest.pdf
- Banking Act Direction No. 11 of 2007:
http://www.cbsl.gov.lk/pics_n_docs/09_lr/_docs/directions/bsd/BSD_2013/bsd_LCB_up_to_30_Nov_2013.pdf
- Listing Rules of the Colombo Stock Exchange:
http://www.cse.lk/listing_rules.do
- Companies Act:
[http://www.drc.gov.lk/App/ComReg.nsf/200392d5acdb66c246256b76001be7d8/\\$FILE/Act%207%20of%202007%20\(English\).pdf](http://www.drc.gov.lk/App/ComReg.nsf/200392d5acdb66c246256b76001be7d8/$FILE/Act%207%20of%202007%20(English).pdf)
- Securities and Exchange Commission of Sri Lanka Act:
<http://www.sec.gov.lk/wp-content/uploads/SEC-Act-Revised-Edition-2009.pdf>

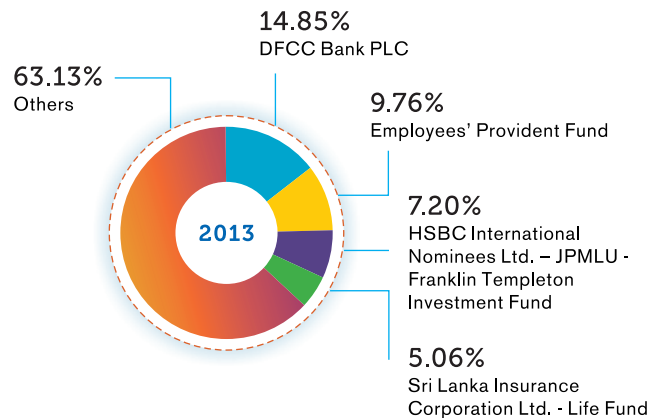
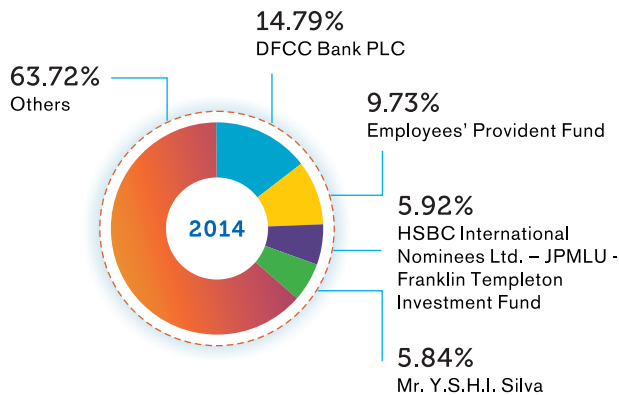
Ownership Structure

As per the share register at end of 2014, the Bank had a total of 8,374 voting shareholders (9,091 voting shareholders as at end 2013). DFCC Bank PLC continued to be the largest shareholder, with a stake of 14.79% of the Ordinary Voting Shares of the Bank (14.85% in 2013). The top 20 voting shareholders of the Bank accounted for 69.80% of the total shareholding of the Bank (68.83% in 2013). These statistics amply demonstrates the strong confidence these shareholders have placed in the Bank. Details of the ownership structure are found on Item 4 of the Section on 'Investor Relations Supplement' on pages 254 and 255 including the names of the Twenty Largest Shareholders (both voting and non-voting) of the Bank as at end 2014.

All voting shareholders have the right to exercise their votes to impact decisions at the Annual General Meeting of the Bank and the Extraordinary General Meetings are called upon when required.

The information on ownership structure is published in the Interim Financial Statements of the Bank as well, which is available on the Bank's website, <http://www.combank.net/newweb/interim-financials>

Ownership Structure



Statement of Compliance

Your Bank is committed to deliver exemplary corporate governance across all business units and its subsidiaries. Our aim is to provide insight into how we meet the spirit of corporate governance through adopting a discursive approach to our disclosures.

We are happy to inform you that the Bank is fully compliant with the requirements of the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for the Licensed Commercial Banks in Sri Lanka' and subsequent amendments thereto issued by the Central Bank of Sri Lanka. Refer the tables on pages 154 to 167 for the requirements of the 'Corporate Governance Principles' and the response of the Bank on its degree of compliance.

In addition, tables appearing on pages 168 to 180 demonstrate the Bank's adherence to the requirements of the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission (SEC) of Sri Lanka.

Further, the Board of Directors wish to confirm that they have met all requirements of the Companies Act No. 07 of 2007 and also wish to confirm to the best of their knowledge and belief and satisfied that all statutory payments due to the Government, other regulatory institutions and those payments related to employees, have been made on time. The full Statement of Directors' Responsibility is appearing on pages 206 and 207.

A diagram depicting the Governance Structure of the Bank is illustrated on page 146 of this Annual Report.

Summary of Compliance

The tables on the right depict the requirements of the Direction No. 11 of 2007 and amendments thereto of the Central Bank of Sri Lanka and the Governance Code issued jointly by the ICASL and the SEC of Sri Lanka.

Since the Bank is in compliance with the requirements of the aforesaid Direction of the Central Bank of Sri Lanka, the Colombo Stock Exchange exempted the Bank from complying with the requirements stipulated in Section 7.10 on 'Corporate Governance' of the Continuing Listing Requirements of the Colombo Stock Exchange issued in 2010.

Summary of Requirements as per the Direction of the Central Bank of Sri Lanka

| | Code Ref. | Page/s |
|---|-----------|--------|
| Responsibilities of the Board | 3 (1) | 154 |
| The Board's Composition | 3 (2) | 157 |
| Criteria to Assess the Fitness and Propriety of Directors | 3 (3) | 159 |
| Management Functions Delegated by the Board | 3 (4) | 159 |
| Chairman and Chief Executive Officer | 3 (5) | 159 |
| Board Appointed Committees | 3 (6) | 160 |
| Related Party Transactions | 3 (7) | 165 |
| Disclosures | 3 (8) | 166 |
| Transitional and Other General Provisions | 3 (9) | 167 |

Summary of Requirements as per the Joint Code of the CA Sri Lanka and the SEC

| | Code Ref. | Page/s |
|--------------------------------------|---------------|-----------|
| Chairman and Chief Executive Officer | A.2.1 & A.5.7 | 169 & 171 |
| Board Balance | A.5.1 | 170 |
| Nomination Committee | A.7.1 | 171 |
| Appointment of New Directors | A.7.3 | 172 |
| Appraisal of Board Performance | A.9.3 | 173 |
| Board-Related Disclosures | A.10.1 | 173 |
| Disclosure of Remuneration | B.3 & B.3.1 | 175 |
| Major and Material Transactions | C.3 & C.3.1 | 176 |
| Audit Committee | D.3.4 | 178 |
| Code of Business Conduct and Ethics | D.4.1 & D.4.2 | 179 |
| Going Concern | D.1.5 | 177 |
| Communication with Shareholders | C.2.2 - C.2.7 | 176 |
| Members of Remuneration Committee | B.1.3 | 173 |
| Directors' Report | D.1.2 | 177 |
| Financial Statements | D.1.3 | 177 |
| Related Party Transactions | D.1.7 | 177 |
| Management Report | D.1.4 | 177 |
| Corporate Governance Report | D.5.1 | 179 |
| Audit Committee Report | D.3.3 | 178 |
| Statement on Internal Control | D.1.3 & D.2.3 | 177 & 178 |
| Sustainability Reporting | G.1.1 - G.1.7 | 180 |

This is not an exhaustive list and is provided purely for the convenience of the readers of this Report to assess the governance requirements applicable to the Bank arising from the aforesaid Direction/Code and the degree of compliance.

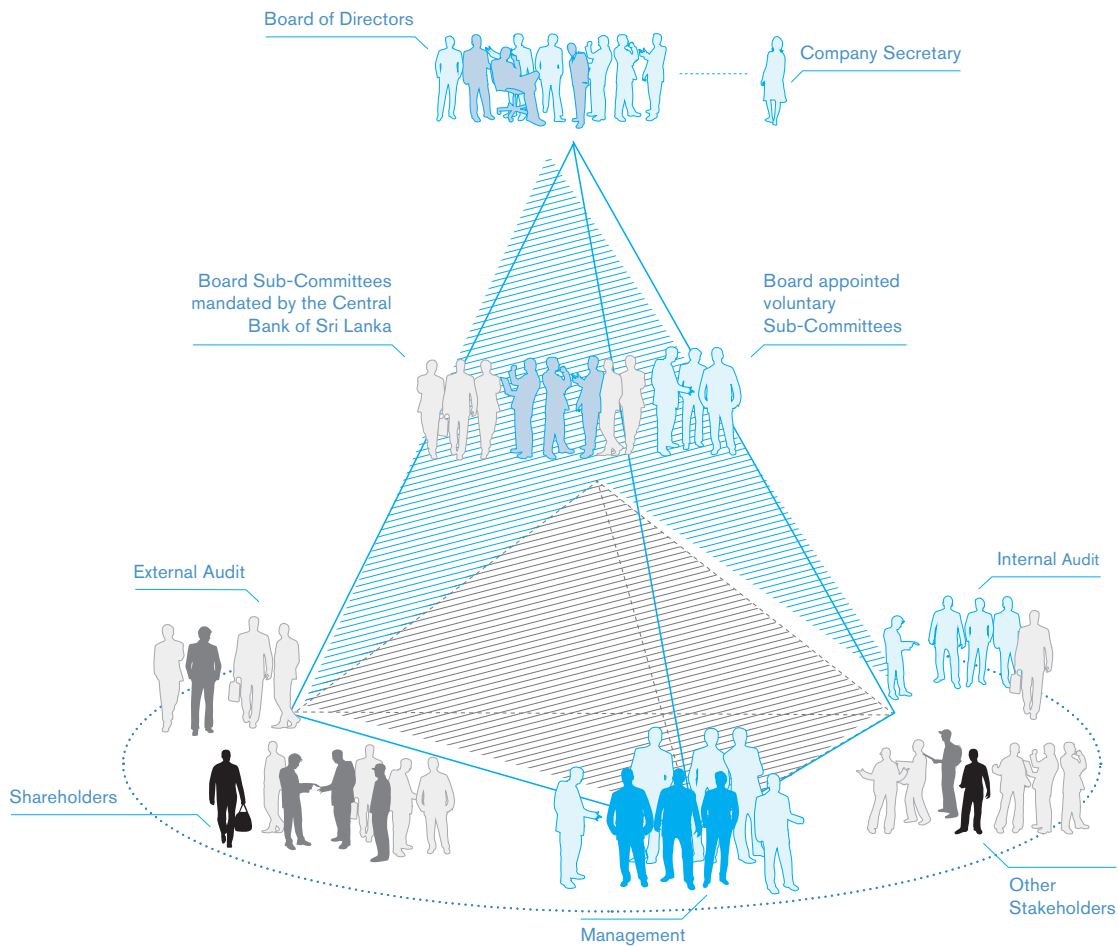
Corporate Governance

“Those seeking to strengthen Corporate Governance and enhance the Board’s oversight often look for (and recommend) ‘leading’ or ‘best’ practices - and with good reason; they suggest processes, policies and approaches that work”.

The Directors’ Prism: Building Better Boards - KPMG Audit Committee Institute

The governance practices of one organisation would not be appropriate for another as corporate cultures, financial reporting risks and governance needs would vary dramatically from one entity to another. The Board of Directors of any organisation is considered to sit at the pinnacle of the organisation structure with a close relationship with the management, Internal Auditors and External Auditors to meet the objectives expected by the stakeholders in a dynamic environment.

Constructing an ideal Board of Directors will depend primarily on the tone set at the top of any Governance Structure and the Board’s mission to continually improve and enhance the effectiveness of the Board. Accordingly, set-out below is the Governance Structure of the Bank within which the Board endeavours to construct an efficient and effective Governance Structure.



The Board of the Bank strives to add value in addition to achieving the basic compliance requirements and hence discharges its oversight responsibilities very effectively and efficiently to meet the objectives of all its stakeholders. The Board members possess a wide range of knowledge, skills and personal attributes which inculcates sound judgment, integrity and high ethical standards and more so the ability and willingness to challenge and probe into the day-to-day operational decisions of the Bank.

Further, to fulfill the governance responsibilities, the Board should also have clear lines of sight into management's decision-making and risk-management processes. In the Governance structure present at the Bank, the Board is able to establish clear lines of sight of the decisions made by the management and the risk exposures that may arise from same.

The Bank's Governance Structure also addresses the complexity inherent in governance due to multiple business units/products available in the Bank and ensures effective co-ordination is prevalent at all times. It also ensures balancing considerations regarding centralisation versus decentralisation and considering local business, customer, compliance, legal and other stakeholder needs.

The Board appointed Sub-Committees play a key role in assisting the Board in this regard.

Integrated Risk Management at Commercial Bank

Risk Governance and Policy framework enshrine integrity and effectiveness of the Risk Management structure of the Bank. A structured process for monitoring, identification, assessment, mitigation of key risks and proper communication across the Bank is in place. Periodic overview of risk measures and summary of emerging risk that require attention of the Board Integrated Risk Management Committee (BIRMC) is shared by the Risk Management Department. The Executive Integrated Risk Management Committee (EIRMC) is entrusted with the management of risk at Management level. The impact of changes in the environment on the strategy from risk perspective is under constant discussion and the relevant policies and limits are assured of getting linked inextricably to such strategic changes coming under management oversight. Risk matters are assured to be addressed appropriately and timely manner. The BIRMC undertakes self-evaluation on effectiveness of risk oversight process annually to determine adherence to its responsibilities.

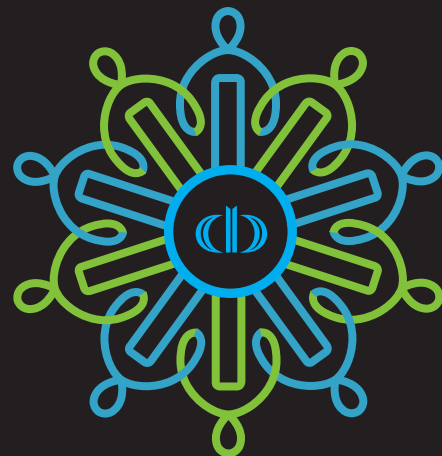
The Board of Directors of the Bank is primarily responsible for exercising oversight over the effective management of the overall Risk Profile of the Bank. The Board will be assisted in fulfilling the oversight obligation by the BIRMC which was appointed as per Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' under Section 46 (1) of the Banking Act No. 30 of 1988. The Integrated Risk Management System of

Single-minded

Commercial Bank works to one agenda...from Board Room to 'shop floor' everyone 'walks to a single drum', pursuing a common goal.

Such cohesion of intent and purpose distinguishes the Bank in an environment often volatile and uncertain.

The Bank has eight Board Sub-Committees, out of which four are voluntary. These ensure that the Board and the Management (representing the staff) are working in sync to achieve the set goals and targets.



Corporate Governance

the Bank steered by the aforesaid Board Sub-Committee with the assistance of the Integrated Risk Management Team ensures timely identification and management of significant risks including exposure to Credit, Market and Operational Risks.

A full report on the Bank’s Risk Management Mechanism is found in the Section on ‘Managing Risk at Commercial Bank’ on pages 218 to 245 of this Stewardship section. Report of the Board Integrated Risk Management Committee is given on pages 185 and 186.

Information Technology Governance

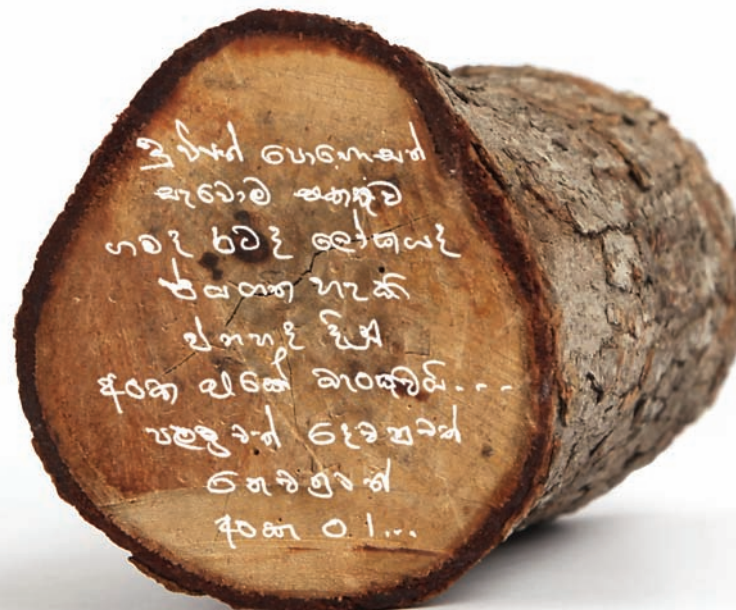
Information Technology has become the backbone for conducting the business of banking, with almost exclusive reliance on the use of Information and Communication Technology. Increasing complexity and inter-dependency of technology, demand the Bank to adopt effective IT Governance.

As such, proper alignment of technology with Bank business objectives is ensured by the Information Technology Governance Mechanism in place at the Bank. IT Governance which forms an integral part of the Bank’s Corporate Governance, deals primarily with optimising the linkage between Strategic Direction and Information Systems Management of the Bank. In this regard, having an organisation structure with well-defined roles for those responsible for information, business processes, applications, infrastructure, etc., ensures generation of value for our stakeholders while mitigating risks associated with incorrect deployment and use of Information Technology.

The Board Technology Committee took several measures to further strengthen IT Governance at the Bank, including responsibility for ensuring implementation of the Mechanism illustrated below.

The core objectives of the Bank’s Strategic Information Technology Governance that impact the diverse functional areas of the Bank are set out below:

| Objective | IT Governance Mechanism |
|------------------------------|--|
| Compliance | Investing in and deploying Licensed Software with a view towards educating all stakeholders on Intellectual Property Laws as well as the risk posed to the Bank by malware. |
| Operations Efficiency | Streamlining of payments process so that integrity is maintained across value chain through near real-time processing where possible. Use of a world-renowned Enterprise Resource Planning System to assist Management Reporting. |
| Reliable Financial Reporting | Close integration of the different IT systems used by various units of the Bank. Use of a world-renowned Enterprise Resource Planning System for Financial Reporting. |



| Objective | IT Governance Mechanism |
|---------------------------------|---|
| Information Security Management | <p>Achieving ISO/IEC 27001:2013 certification in 2013, reaffirming our commitment to customer confidentiality.</p> <p>Ensuring that information security extends throughout the Bank and beyond as a means of proactive management of information security risks and controls.</p> |
| Prudent Capital Expenditure | <p>All major IT-related procurement is reviewed by an independent 3rd party Evaluation Committee.</p> <p>Final approval of IT capital expenditure is sought from the Board of Directors of the Bank based on value and recommendations of the Assistant General Manager - Services, the Chief Information Officer, the Chief Operating Officer and the Managing Director.</p> |
| Customer Convenience | <p>A constant drive for improvement and a commitment to high quality uninterrupted service levels to ensure systems availability translating to customer convenience at each of our delivery channels.</p> <p>Ensuring process efficiencies and disciplines through certification to increase the contribution to customer convenience.</p> |
| IT Risk Management | <p>Integrated Risk Management Department of the Bank identifies IT-related risks as a part of its continuous risk assessment procedures.</p> <p>Existing risk management processes are further strengthened and where appropriate new processes are designed to understand risks and implement controls to effectively manage them to mitigate the risk exposure.</p> <p>The IT experts of the Bank's External Auditors carryout a comprehensive health check on the operational aspects of the Bank's computer system prior to commencement of the year-end audit.</p> |
| 'Green' IT | <p>Protecting the environment by reducing the carbon footprint through migration to e-Statements, Document Workflow and Soft Copy and Electronic Banking channels.</p> <p>Returning used IT equipment to recyclers certified by the Central Environmental Authority to dispose them as per international standards.</p> |

The above objectives and strong IT governance structure in place at the Bank ensure that investments made by the Bank for IT infrastructure deliver quantifiable business return with the right balance between financial performance and IT enablement.

Internal Control Mechanism

The internal control framework of the Bank assists the management to deal with rapidly changing economic and competitive environments, shifting customer demands and priorities, and restructuring for future growth, ensuring achievement of goals and objectives. Internal controls promote efficiency, good governance and ethical behaviour, reduce the risk of asset loss, help to ensure the reliability of Financial Reporting and compliance with laws and regulations. Further, the management has a better ability to provide the Board of Directors with an overview of the management's pursuit of achieving the operational and financial objectives whilst operating within the confines of the relevant legal and regulatory requirements and reliable financial reporting.

The Internal Control process of the Bank, diagrammatically presented on the right depicts the process in place at the Bank which encompasses assessing the control environment on an on-going basis to ensure the existing control activities prevalent are evaluated regularly to mitigate current and perceived risks and communicating same to the Board. Further, monitoring the effectiveness of the controls in place, assessing and following up of the probable risks of breach or lapses on an on-going basis are also effective processes established at the Bank.



Corporate Governance

This process ensures effective communication within the Bank and contributes to ensuring that the right business decisions are made. The status of activities of the Bank's control system is followed up continuously through periodic reporting to the Management and to the Board Audit Committee.

The Bank's internal audit function is headed by the Assistant General Manager - Management Audit and is responsible for providing an independent, objective assurance and an oversight role over internal control mechanism, in order to systematically evaluate and recommend improvements for more effective internal control procedures, governance process, information system controls and risk management.

Observations/findings at internal audits are tabled at the meetings of the Board Audit Committee of the Bank for review and discussion in furtherance of the effectiveness of control mechanism.

As mandated by the Banking Act Direction No. 11 of 2007, the Board provides a report on the Bank's internal control mechanism which confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes is carried out in accordance with relevant accounting principles and regulatory requirements.

The Bank's External Auditors' Report also provide the Board with the evidence that enables it to conclude whether the Bank's Internal Control Mechanism is appropriately designed and is operating effectively.

The Report of the Board Audit Committee which sets out its terms of reference, objectives and function is given on pages 188 to 190.

Ethics and Integrity

The Bank pays close attention to the moral concerns in order to effect the correct ethical decisions on a day-to-day basis over and above observing the law. We believe that upholding an ethical culture in banking is of critical interest to the customers, employees, regulators, alike and to the Bank itself as a secured, reliable and efficient banking system is one of the pillars of economic stability of any country. Hence, nurturing and maintaining an ethical culture is of utmost importance for banks. Our core ethical values include honesty, integrity, fairness, responsible citizenship and accountability.

The Bank has compiled a 'Code of Conduct and Business Ethics', which encompasses the core values of the Bank, relating to lawful and ethical conduct in business. This Code applies to all employees and should be strictly adhered to at any given circumstances. Whilst the Board, the Chairman and the Managing Director have the ultimate responsibility, the day-to-day responsibility lies with the line management and irrespective of one's position in the Bank every staff member is personally responsible for ensuring that they act fully in accordance with the Bank's standards.

Enforcing a Corporate Code of Ethics requires understanding and active participation by everyone in the Bank since the Code spells out the expected standards of behaviour and sets the operating principles to be followed. This effort is strengthened regularly through:

- Consistent application of core values and principles of the code.
- Communicating the contents to all employees and even making the Code available to those outside the Bank.
- Introduction and making the Code available to all new recruits during induction programmes.
- Reiterating during management development programmes conducted for prospective and newly appointed managers.
- Promoting a culture among the senior staff to be vigilant for any symptoms of malpractices, by paying attention to the behaviour of their subordinates.
- Expecting the Managers to know his staff and customers well, to be vigilant to detect warning signals and serve as role models for compliance.
- A transparent system of fair reward and punishment.

We adopt the 'ETHICS PLUS Decision-Making Model' in addressing ethical issues, which helps us to reach a course of action or a sound decision in a structured and systematic way. We encourage our staff to report any malpractice and have made available the following channels for reporting:

- Escalation through line management.
- Direct reporting to Compliance Officer or referral to Managing Director and/or Chairman, if necessary.
- 'Speak out' - Grievance handling mechanism.
- Whistleblowers Charter.

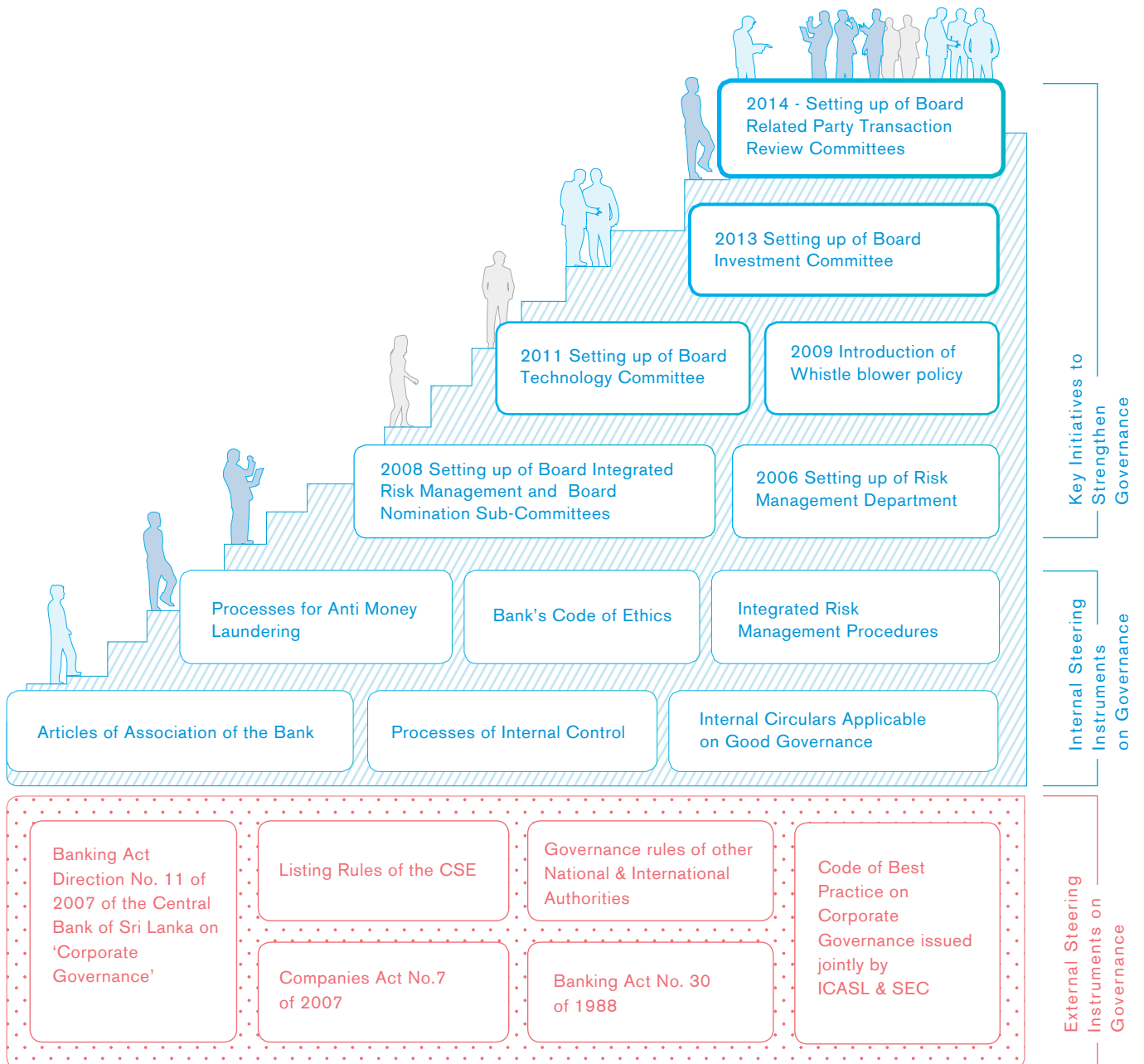
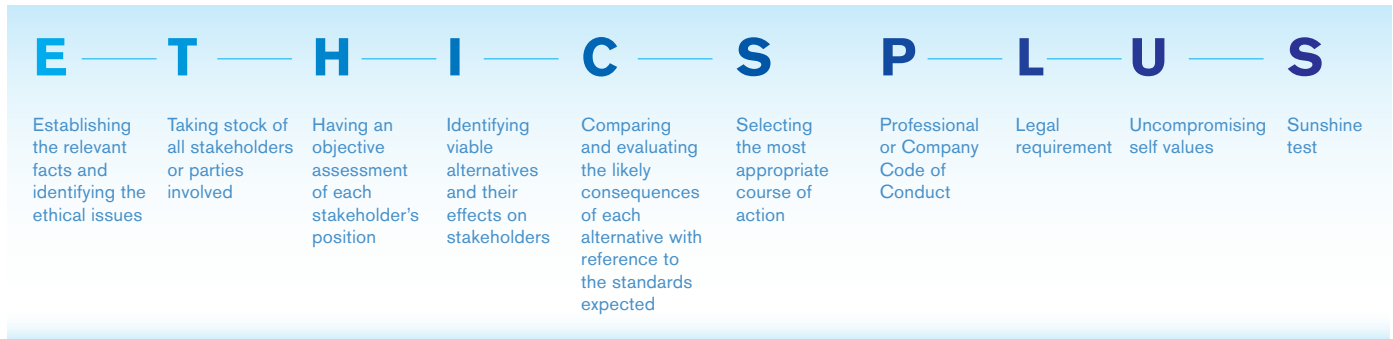
In all such reporting we assure total confidentiality pertaining to the reporter's anonymity and protection from any harassment. Complaints when received are dealt with quickly and follow up action taken as and when necessary, through disciplinary procedures. Where there are doubts to be cleared, the employees are encouraged to consult either the Head of the Department/Branch, Senior Officers or the Compliance Officer. In cases of suspected corruption, fraud or other forms of criminality, we take steps to report to the regulatory and/or relevant law enforcement authorities.

In a nutshell, our business ethics means, "Choosing the good over the bad, the right over the wrong, the fair over the unfair and the truth over the untruth". Also amongst the guiding principles of the Bank's Code of Ethics are strict compliance, confidentiality, avoidance of conflicts of interest, encouraging the reporting by the Officers of the Bank on illegal and unethical behaviour.

Refer the web link for Bank's Code of Ethics:

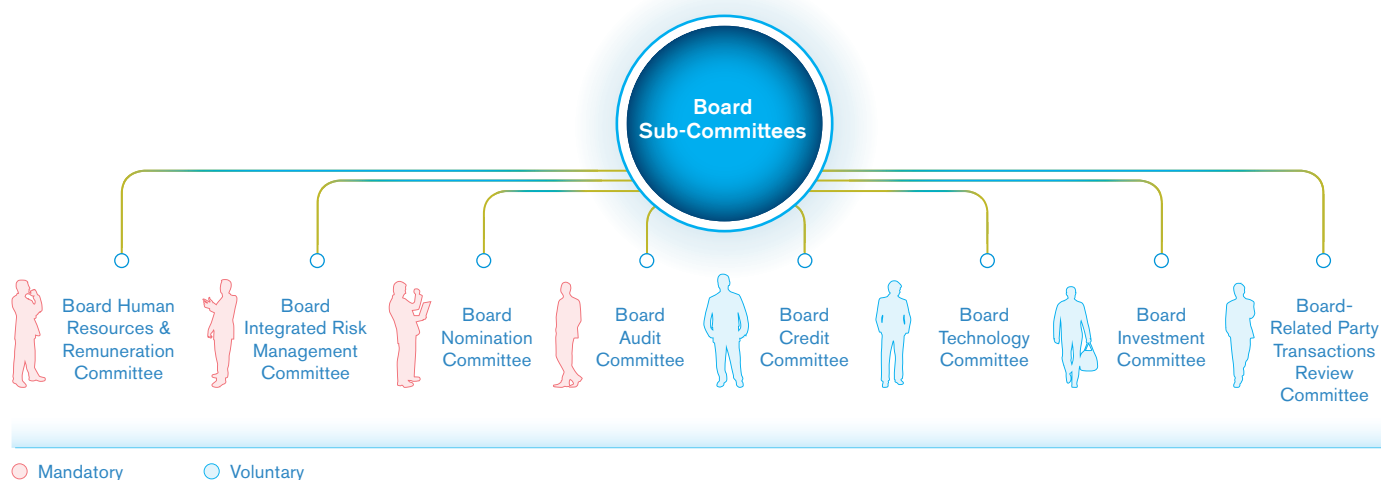
<http://www.combank.net/newweb/info/104>

Ethic PLUS Decision-Making Model



The Board and its Sub-Committees

The Bank has in place a number of mandatory and voluntary Board Sub-Committees to fulfill regulatory requirements, for better governance and to assist the Board. These Committees meet regularly to consider and discuss matters falling within respective Charters and their recommendations are duly communicated to the main Board. These Committees consist of permitted number of Executive and Non-Executive Directors as per the Banking Act Direction aforesaid and the Continuing Listing Requirements of the Colombo Stock Exchange as set out below:



Composition of Main Board and Board Sub-Committees as at December 31, 2014

| Name of Committee | Executive Members | Non-Executive Members | Independent Members | Non-Independent Members | Gender | | Age Group | |
|---|-------------------|-----------------------|---------------------|-------------------------|--------|--------|----------------|---------------|
| | | | | | Male | Female | Below 50 Years | Over 50 Years |
| Main Board | 02 | 07 | 07 | 02 | 09 | Nil | Nil | 09 |
| Board Human Resources and Remuneration Committee | 01* | 03 | 03 | 01 | 04 | Nil | Nil | 04 |
| Board Integrated Risk Management Committee | 02 | 05 | 05 | 02 | 07 | Nil | Nil | 07 |
| Board Nomination Committee | 01* | 03 | 03 | 01 | 04 | Nil | Nil | 04 |
| Board Audit Committee | 02* | 03 | 03 | 02 | 05 | Nil | Nil | 05 |
| Board Credit Committee | 02 | 01 | 01 | 02 | 03 | Nil | Nil | 03 |
| Board Technology Committee | 02 | 01 | 01 | 02 | 03 | Nil | Nil | 03 |
| Board Investment Committee | 02 | 02 | 02 | 02 | 04 | Nil | Nil | 04 |
| Board-Related Party Transactions Review Committee | 02 | 02 | 02 | 02 | 04 | Nil | Nil | 04 |

* Attended by invitation

Details of members of the Main Board and Board Sub-Committees as at December 31, 2014

| Name of Committee Name of Director | Main Board | | Board Human Resources and Remuneration Committee | | Board Integrated Risk Management Committee | | Board Nomination Committee | | Board Audit Committee | | Board Credit Committee | | Board Technology Committee | | Board Investment Committee | | Board Related Party Transactions Review Committee | |
|---------------------------------------|------------|------------|--|------------|--|------------|----------------------------|------------|-----------------------|------------|------------------------|------------|----------------------------|------------|----------------------------|------------|---|------------|
| | Status | DOA | Status | DOA | Status | DOA | Status | DOA | Status | DOA | Status | DOA | Status | DOA | Status | DOA | Status | DOA |
| Mr. D.S. Weerakkody | C* | 29.07.2005 | C* | 30.12.2011 | | | | C* | 30.12.2011 | | | | | | | | | |
| Mr. K.G.D.D. Dheerasinghe | C* | 20.12.2011 | C* | 30.12.2011 | C** | 30.12.2011 | C* | 30.12.2011 | | | C | 30.12.2011 | | | C | 13.03.2013 | C | 26.12.2014 |
| Prof. U.P. Liyanage | M | 14.12.2010 | M | 30.12.2011 | M | 01.04.2011 | M | 25.11.2011 | M* | 30.12.2011 | | | C | 30.12.2011 | | | | |
| Mr. W.M.R.S. Dias* | M | 14.12.2010 | B | 14.12.2010 | M | 27.02.2009 | B | 14.12.2010 | B | 14.12.2010 | M | 20.04.2011 | | | M | 13.03.2013 | | |
| Mr. L. Hulugalle | M | 30.03.2011 | | | M | 01.04.2011 | | | M | 27.05.2011 | | | | | | | | |
| Mr. M.P. Jayawardena | M | 28.12.2011 | M | 29.08.2014 | C** | 30.12.2011 | M | 29.08.2014 | M* | 30.12.2011 | M* | 30.12.2011 | | | | | | |
| Mr. J. Durairatnam | M | 28.04.2012 | B | 29.08.2014 | M | 28.04.2012 | B | 29.08.2014 | B | 28.04.2012 | M | 29.08.2014 | M | 18.06.2012 | M | 13.03.2013 | M | 26.12.2014 |
| Mr. S. Swarnajothi | M | 20.08.2012 | | | M | 24.08.2012 | | | C | 24.08.2012 | | | | | | | M | 26.12.2014 |
| Mr. H.J. Wilson | M | 03.07.2014 | | | | | | | | | | | | | M | 29.08.2014 | | |
| Mr. S. Renganathan | M | 17.07.2014 | | | B | 29.08.2014 | | | B | 17.07.2014 | M | 25.11.2014 | M | 29.08.2014 | B | 29.08.2014 | M | 26.12.2014 |
| Mr. K.M.M. Siriwardana | M | 28.08.2014 | | | M | 29.08.2014 | | | M | 29.08.2014 | M* | 29.08.2014 | | | | | | |

DOA - Date of Appointment Status - C - Chairman/ M - Member/ B - Participated by Invitation

Mr. D.S. Weerakkody - C* until July 28, 2014

Mr. K.G.D.D. Dheerasinghe - C* from August 29, 2014,
C** until August 28, 2014

Mr. W.M.R.S. Dias* - until July 16, 2014

Mr. M.P. Jayawardena - C** from August 29, 2014, M* until August 28, 2014

Mr. K.M.M. Siriwardana - M* until November 25, 2014

Prof. U.P. Liyanage - M* until October 31, 2014

Number of Meetings Held and Attendance

| Name of Committee Name of Director | Main Board | | Board Human Resources and Remuneration Committee | | Board Integrated Risk Management Committee | | Board Nomination Committee | | Board Audit Committee | | Board Credit Committee | | Board Technology Committee | | Board Investment Committee | | Board Related Party Transactions Review Committee | |
|---------------------------------------|--------------------|----------|--|----------|--|----------|----------------------------|----------|-----------------------|----------|------------------------|----------|----------------------------|----------|----------------------------|----------|---|----------|
| | 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. D.S. Weerakkody | 13 | 13 | 5 | 5 | | | 3 | 3 | | | | | | | | | | |
| Mr. K.G.D.D. Dheerasinghe | 18 | 18 | 7 | 7 | 2 | 2 | 5 | 5 | | | 12 | 12 | | | 10 | 10 | 1 | 1 |
| Prof. U.P. Liyanage | 18 | 13 | 7 | 6 | 4 | 2 | 5 | 3 | 7 | 1 | | | 4 | 2 | | | | |
| Mr. W.M.R.S. Dias | 12 | 12 | 4 | 4 | 2 | 1 | 2 | 2 | 6 | 6 | 6 | 6 | | | 5 | 5 | | |
| Mr. L. Hulugalle | 18 | 17 | | | 4 | 3 | | | 8 | 5 | | | | | | | | |
| Mr. M.P. Jayawardena | 18 | 17 | 4 | 3 | 4 | 3 | 2 | 2 | 7 | 7 | 8 | 8 | | | | | | |
| Mr. J. Durairatnam | 18 | 18 | 4 | 4 | 4 | 3 | 2 | 2 | 8 | 7 | 4 | 4 | 4 | 3 | 10 | 10 | 1 | 1 |
| Mr. S. Swarnajothi | 18 | 17 | | | 4 | 2 | | | 8 | 7 | | | | | | | 1 | 1 |
| Mr. S. Renganathan | 6 | 6 | | | 2 | 2 | | | 2 | 2 | 1 | 0 | 2 | 2 | 5 | 4 | 1 | 1 |
| Mr. H.J. Wilson | 6 | 5 | | | | | | | | | | | | | 4 | 4 | | |
| Mr. K.M.M. Siriwardana | 5 | 4 | | | 2 | 2 | | | 1 | 1 | 3 | 2 | | | | | | |

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

1. Mr. K.D.N. Buddhipala - Chief Financial Officer
2. Mr. R. Rodrigo - Compliance Officer
3. Mr. K.D.N. Luxshman - Deputy General Manager - Management Audit/ Secretary (from January 01, 2014 - June 30, 2014)

4. Mr. S. Prabagar - Assistant General Manager - Management Audit/ Secretary (from July 01, 2014 - December 31, 2014)

5. Mr. S.C.U. Manatunga - Chief Risk Officer from January 01, 2014 - July 30, 2014

6. Mr. S.K.K. Hettihamu - Chief Manager - Integrated Risk Management (from October 01, 2014 - December 31, 2014)

7. Mr. S.M.A. Jayasinghe - Consultant - attended 7 out of 8 meetings

Note: Mr. K.M.M. Siriwardana ceased to hold office w.e.f. February 23, 2015

Corporate Governance

Bank's Compliance with Direction No. 11 of 2007, issued by the Central Bank of Sri Lanka on the subject 'Corporate Governance for Licensed Commercial Banks in Sri Lanka'

Annual Corporate Governance Report of Commercial Bank of Ceylon PLC ('the Bank') for the year ended December 31, 2014 is given below:

In terms of Section 46 (1) of the Banking Act No. 30 of 1988, subsequently amended, the Monetary Board has been empowered to issue Directions to Licensed Commercial Banks, regarding the manner in which the business of such banks is to be conducted, in order to ensure the soundness of the banking system. In the exercise of the powers conferred by the above Section, the Monetary Board has issued Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka'.

The aforesaid Direction consists of two distinct parts viz., Direction 2 and Direction 3. Direction 2 consists of eight principles, for explanatory purposes and/or clarification purposes only. Strict compliance is necessary for the rules that are set out in Direction 3. The Bank made every endeavour to comply with the rules of Corporate Governance as indicated in Direction 3 of the Corporate Governance Direction. Details of such compliance for the year 2014 are fully disclosed below against each requirement of Direction 3.

| Relevant Section | Rule | Degree of Compliance |
|--|--|--|
| 3 (1) - Responsibilities of the Board | | |
| 3 (1) (i) | The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following: | |
| | (a) Approve and oversee the strategic objectives and corporate values; | Complied with. Approving, overseeing, and monitoring the execution of the strategic objectives, corporate values, overall business strategy and policies are handled directly by the Board. Board's views relating to the above are communicated throughout the Bank. |
| | (b) Approve Overall Business Strategy including Risk Policy and Risk Management procedures and mechanisms; | Complied with. Corporate Strategic Plan for the 5 year period of 2014-2018 was approved by the Board on February 17, 2014 after discussing related issues in detail with the Corporate Management. Corporate Plan has been aligned to the overall Risk Strategy of the Bank through the involvement of Independent Risk Management Committee. Risk appetite of the Bank emanated throughout the corporate strategy by way of capital allocation, adoption of risk matrix to measure the risk levels and governance and compliance embedded into Bank wide Risk Management Policy framework. Refer 'Board Integrated Risk Management Committee Report' on pages 185 and 186 Bank's Strategic Plan for 2015-2019 was approved on January 12, 2015 by the Board. |
| | (c) Identifying principal risks and implementation of Risk Management procedures; | Complied with. Identifying principal risks, approving overall risk policy and Risk Management procedures are carried out mainly through the Board Integrated Risk Management Committee which is reviewed annually. Refer 'Board Integrated Risk Management Committee Report' on pages 185 and 186. |
| | (d) Policy of communication with shareholders and borrowers; | Complied with. A Board approved Communication Policy is available and reviewed, as and when required. Annual General Meeting is also used to have an effective dialogue with the shareholders on matters which are relevant and of concern to the general membership. |
| | (e) Review Bank's Internal Control Systems and Management Information Systems; | Complied with. Adequacy and the integrity of the Bank's Internal Control Systems and Management Information Systems are reviewed by the Board Audit Committee. Board Audit Committee reports are submitted to the Board periodically for review. |

| Relevant Section | Rule | Degree of Compliance |
|------------------|---|--|
| | (f) Identify and designate Key Management Personnel; | <p>Complied with.</p> <p>For financial reporting purposes, the Bank has defined the Board of Directors as KMPs after assessing the definition provided in LKAS 24 on 'Related Party Disclosures'.</p> <p>For Corporate Governance reporting and monitoring purposes, the Bank has included selected members of the Corporate Management in addition to the Board of Directors as KMPs of the Bank.</p> <p>The definition of the KMP is reviewed as and when necessary.</p> |
| | (g) Define areas of authority and key responsibilities of the Board and Key Management Personnel; | <p>Complied with.</p> <p>Bank has a Board approved Formal Schedule which is the Board Charter for 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.</p> |
| | (h) Ensure appropriate oversight of the affairs of Key Management Personnel; | <p>Complied with.</p> <p>Affairs of the Bank are regularly discussed and monitored by the Directors at the Board level and by the Members of Corporate Management at Management level.</p> |
| | (i) Periodically assess the effectiveness of the Board of Directors' own Governance practices: | <p>Complied with.</p> <p>An evaluation form specifically designed to cover the related areas was completed by the Directors for the purpose of evaluating the effectiveness of Governance practices for 2014. Responses of Directors were discussed for necessary action at a Nomination Committee meeting and a subsequent Board meeting. Directors make declarations on areas of interests at the time of applying to the Bank's Board and subsequently as and when it is needed. Conflict of interest (if any) is managed based on this information.</p> <p>A quarterly report is sent to the Board on possible areas of conflict (if any).</p> |
| | (j) Ensure an appropriate succession plan for Key Management Personnel; | <p>Complied with.</p> <p>Succession plan is reviewed at regular intervals to ensure that the Bank has named successors for the Key Management Personnel in the Bank and has development plans to ensure their readiness.</p> |
| | (k) Meeting regularly with the Key Management Personnel; | <p>Complied with.</p> <p>The Members of the Corporate Management regularly make presentations and take part in discussions on their areas of responsibility and to monitor progress made towards achieving corporate objectives at Board meetings.</p> |
| | (l) Understand the regulatory environment; | <p>Complied with.</p> |
| | (m) Exercise due diligence in the hiring and oversight of External Auditors; | <p>Complied with.</p> <p>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.</p> |

| Relevant Section | Rule | Degree of Compliance |
|------------------------|---|---|
| 3 (1) (ii) | Board shall appoint a Chairperson and CEO and define and approve responsibilities; | <p>Complied with.</p> <p>Positions of the Chairman and the Managing Director (MD)/Chief Executive Officer (CEO) are separated. Further, functions and responsibilities of the Chairman and the CEO are properly defined and approved in line with Direction 3 (5) of these Directions.</p> <p>Refer Direction 3 (5) on pages 159 and 160 of this Report for details.</p> |
| 3 (1) (iii) | Board shall meet regularly at Board meetings with active participation in person by majority of the Directors; | <p>Complied with.</p> <p>Board meetings are held monthly, mainly to review the performance of the Bank and its Subsidiaries and other relevant matters referred to the Board by the Heads of respective divisions, while special Board meetings are convened whenever necessary. During 2014, the Board met 18 times. These meetings ensure that prompt action is taken to align the business processes to achieve the expectations of all stakeholders.</p> <p>Refer 'Number of Meetings Held and Attendance' on page 153.</p> |
| 3 (1) (iv) | Arrangements to be in place for inclusion of matters and proposals by all Directors in the agenda; | <p>Complied with.</p> <p>All Board members are given an equal opportunity to include matters and proposals in the agenda, where such proposals relate to the promotion of business and the management of risks of the Bank.</p> |
| 3 (1) (v) | Adequate Notice of Board meetings; | <p>Complied with.</p> <p>Monthly Board meetings are generally scheduled for the last Friday of the month and Notices are sent one week before the date of the meeting. For any other Special Board meeting, adequate Notice is given.</p> |
| 3 (1) (vi) | Action taken for not attending Board meetings; | <p>All Directors have attended at least two-thirds of the meetings held during 2014.</p> |
| 3 (1) (vii) and (viii) | Appointment and setting responsibilities of the Board Secretary who's advice and service should be accessible to all Directors; | <p>Complied with.</p> <p>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.</p> <p>All Board members have full access, to the assistance of the Company Secretary to ensure that proper Board procedures are followed and all applicable rules and regulations are complied with.</p> |
| 3 (1) (ix) and (x) | Maintaining minutes of the Board meetings with sufficient detail; | <p>Complied with.</p> <p>The Company Secretary maintains the minutes of the Board meetings with sufficient details and the minutes are open for inspection by any Director. Draft minutes prepared by the Company Secretary are approved by the Chief Executive Officer and Chairman and then circulated among other Directors for their observations. Necessary amendments are made thereto based on the issues raised by such other Directors.</p> |
| 3 (1) (xi) | Seeking Independent Professional Advice; | <p>Complied with.</p> <p>The Directors are permitted to seek independent professional advice at the Bank's expense. A Board approved procedure is in place in this connection.</p> |

| Relevant Section | Rule | Degree of Compliance |
|--|--|--|
| 3 (1) (xii) | Avoid conflicts of interest due to other commitments to other organisations and related parties; | Complied with. Directors make declarations on areas of interests at the time of applying to the Bank Board and subsequently as and when it is needed. Conflict of interest (if any) is managed based on this information. A quarterly report is sent to the Board on possible areas of conflict (if any). Directors do not participate in making decisions on matters, in which they have an interest and avoid conflicts of interest with the activities of the Bank. Such Directors' presence is disregarded in counting the quorum for agenda of meetings at which such issues are considered. |
| 3 (1) (xiii) | Formal schedule of matters to ensure proper direction and control of the Bank; | Complied with. 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. |
| 3 (1) (xiv) | Inform Director Bank Supervision in a possible situation of Insolvency; | No such situations have arisen. The Bank has a Board approved procedure to take action in the event of such a possibility. |
| 3 (1) (xv) | Ensure Bank is adequately capitalised at levels required by the Monetary Board; | Complied with. The Bank has duly complied with Capital Adequacy requirements and requirements under other prudential grounds throughout the year. |
| 3 (1) (xvi) | Publish a Corporate Governance Report; | Complied with. This Report serves the said requirement. |
| 3 (1) (xvii) | Adopt a Self-Assessment of Directors; | Complied with. 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. |
| 3 (2) - The Board's Composition | | |
| 3 (2) (i) | Number of Directors not less than 7 or more than 13; | Complied with. During the year ended December 31, 2014 there were 9 Directors on the Board. |
| 3 (2) (ii) | Total period of service of a Director shall not exceed 9 years; | Complied with. The period of service of all the Non-Executive Directors are within 9 years. |
| 3 (2) (iii) | Appointment of Employee as a Directors; | Complied with. There are two Executive Directors namely the Managing Director and the Chief Operating Officer on the Board. Accordingly, the number of Executive Directors does not exceed one-third of the total number of Directors of the Board. |

| Relevant Section | Rule | Degree of Compliance |
|------------------|--|---|
| 3 (2) (iv) | Board to consist of at least three Independent Non-Executive Directors or one-thirds of the total Directors; Independence determined under the rules set-out in the code; | Complied with. Independent Non-Executive Directors during the year under review were: Mr. D.S. Weerakkody (up to July 28, 2014) Mr. K.G.D.D. Dheerasinghe Mr. M.P. Jayawardena Prof. U.P. Liyanage Mr. L. Hulugalle Mr. S. Swarnajothi Mr. H.J. Wilson (from July 03, 2014) Mr. K.M.M. Siriwardana (from August 28, 2014) |
| 3 (2) (v) | Appointment of Alternate Director; | No such situation has arisen. |
| 3 (2) (vi) | Credibility, skills and experience of Non-Executive Directors | Complied with. The profiles of all Directors including Non-Executive Directors are found on pages 129 to 131 detailing their skills and experience. |
| 3 (2) (vii) | Presence of Non-Executive Directors with necessary skill and experience in the Board; | Complied with. All Board meetings held during 2014 were duly constituted with the presence of all the Non-Executive Directors. Refer 'Number of Meetings Held and Attendance' on page 153. |
| 3 (2) (viii) | Expressly indentify and provide details of Independent Non-Executive Directors; | Complied with. Refer Note 1 that appears on page 182. Profiles of the Non-Executive Directors are given on pages 129 to 131. |
| 3 (2) (ix) | Formal and transparent procedure for the appointment of new Directors; | Complied with. New appointments to the Board and re-elections of Directors are based on the recommendations of the Board Nomination Committee. There is a procedure in place for the orderly succession of appointments to the Board. Appointment of the 3 Directors who joined the Board during the year, complied with the above procedure. Refer page 187 for the 'Board Nomination Committee Report'. |
| 3 (2) (x) | Directors appointed to fill a casual vacancy to be subject to election at first AGM; | Complied with. All Directors appointed to the Board are subject to re-election by shareholders at the first Annual General Meeting after their appointment. |
| 3 (2) (xi) | Proper procedure to be followed for Resignation/Removal of a Director; | Mr. W.M.R.S. Dias (retired w.e.f. July 16, 2014, upon reaching the age of retirement). Mr. D.S. Weerakkody relinquished his office as the Chairman on July 28, 2014 having served the Board for 9 years. No removal or resignation of Directors took place during the year. However, there is a procedure in place to deal with such situations. |
| 3 (2) (xii) | Appointments to other Banks; | None of the present Directors of the Bank acts as a Director of another bank. Refer the Profiles of Directors on pages 129 to 131. |

| Relevant Section | Rule | Degree of Compliance |
|---|--|--|
| 3 (3) - Criteria to Assess the Fitness and Propriety of Directors | | |
| In addition to provisions of Section 42 of the Banking Act No. 30 of 1988, the criteria set out below shall apply to determine the fitness and propriety of a person who serves or wishes to serve as a Director of a Bank. Non-Compliance with any one of the criteria as set out herein shall disqualify a person to be appointed, elected or nominated as a Director or to continue as a Director. | | |
| 3 (3) (i) | Directors age shall not exceed 70 years of age; | All Directors are below 70 years of age. |
| 3 (3) (ii) | Directors shall not hold of office in more than 20 companies; | No Director holds directorships of more than 20 companies/entities/institutions inclusive of Subsidiaries or Associate Companies of the Bank. |
| 3 (4) - Management Functions Delegated by the Board | | |
| 3 (4) (i) | The Directors shall understand the delegation arrangements in place; | Complied with. |
| 3 (4) (ii) | Extent of delegation to be within appropriate limits; | The Board is empowered by the Articles of Association to delegate to the MD/ CEO any of the powers vested with the Board, upon such terms and conditions and with such restrictions as the Board may think fit. |
| 3 (4) (iii) | Review the delegation process; | Complied with. A delegation process is in place and the delegated powers are reviewed periodically to ensure that they remain relevant to the needs of the Bank. |
| 3 (5) - The Chairman and Chief Executive Officer | | |
| 3 (5) (i) | Division of roles of the Chairman and Chief Executive Officer; | Complied with. 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) | Chairman preferably be an Independent Director and if not designate a Senior Director; | Complied with. Chairman is an Independent Non-Executive Director. |
| 3 (5) (iii) | Relationship between Chairman, CEO and other Directors; | Complied with. 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. Refer Note 2 appearing on page 182 for further details. |
| 3 (5) (iv) - (viii) | The Role of Chairman and CEO to be in line with the duties and responsibility set-out in this Directive; | Complied with. 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. |

| Relevant Section | Rule | Degree of Compliance |
|---|--|--|
| 3 (5) (ix) | The Chairman, shall not engage in activities of direct supervision of Key Management Personnel or other executive duties; | Complied with. The Chairman does not directly get involved in the supervision of Key Management Personnel or any other executive duties. |
| 3 (5) (x) | The Chairman shall ensure effective communication with shareholders and views of shareholders are communicated to the Board; | Complied with. At the Annual General Meeting 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. |
| 3 (5) (xi) | The Chief Executive Officer to function as the apex executive-in-charge of the day-to-day management of the Bank; | Complied with. The CEO is supported by the members of the Corporate Management to manage the day-to-day management of the Bank's operations and business. |
| 3 (6) - Board Appointed Committees | | |
| 3 (6) (i) | Each Bank shall have at least four Board appointed Sub-Committees reporting to the Board; | Complied with. The following mandatory Board Sub-Committees have been appointed by the Board, which requires each such committee to report to the Board: <ol style="list-style-type: none"> 1. Board Human Resources and Remuneration Committee 2. Board Integrated Risk Management Committee 3. Board Nomination Committee 4. Board Audit Committee In addition, the Board has appointed the following Sub-Committees too: <ol style="list-style-type: none"> 1. Board Credit Committee 2. Board Technology Committee 3. Board Investment Committee 4. Board Related Party Transactions Review Committee Refer pages 183 to 193 for the Reports of the Board Sub-Committees. |
| 3 (6) (ii) | The following rules shall apply in relation to the Audit Committee: | Refer Sections of Composition, Charter, Meetings and the Methodology of the Board Audit Committee Report on pages 188 to 190. |
| | (a) Chairman of the Audit Committee shall be an Independent Non-Executive Director with relevant experience; | Complied with. Chairman of the Committee Mr. S. Swarnajothi is an Independent Non-Executive Director. He is a Fellow of The Institute of Chartered Accountants of Sri Lanka and a Fellow of the Certified Management Accountants of Sri Lanka and also a member of the Institute of Certified Management Accountants of Australia. He 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. He held office as Auditor General of Sri Lanka from January 2008 to August 2010. He currently functions as a member of the Tax Appeals Commission. |
| | (b) Composition of the Audit Committee; | Complied with. The Committee comprises of two other Independent Non-Executive Directors. Refer Audit Committee Report on pages 188 to 190. |

| Relevant Section | Rule | Degree of Compliance |
|------------------|---|---|
| | (c) Make recommendations on the appointment of the External Auditor, implementation of the Central Bank Guidelines, application of the relevant accounting standards and service period, audit fee and any resignation or dismissal of the Auditor; | <p>Complied with.</p> <p>Prior to the appointment of External Auditors for audit services, necessary action is taken to ensure compliance with applicable legal and statutory requirements.</p> <p>The evaluation is carried out by the Board Audit Committee in consultation with the Chief Financial Officer.</p> |
| | (d) Review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes; | <p>Complied with.</p> <p>The Board has adopted a policy of rotation of Auditors, once in every 5 years, in keeping with the principles of good Corporate Governance.</p> |
| | (e) Develop and implement a policy on the engagement of an External Auditor to provide non-audit services. Ensure that the provision by an External Auditor of non-audit services does not impair the External Auditor's independence or objectivity; | <p>Complied with.</p> <p>Following action is taken prior to the assignment of non-audit services to External Auditors by the Bank:</p> <p>(a) 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.</p> <p>(b) 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.</p> <p>(c) Assigning such non-audit services to External Auditors is discussed at Board Audit Committee meeting/s and required approval is obtained to that effect.</p> |
| | (f) Discuss with External Auditor nature and scope of auditor; | <p>Complied with.</p> <p>The Auditors make a presentation at the Board Audit Committee meeting with details of the proposed Audit Plan and the Scope, which includes the external audit scope, review of Directors' Statement of Internal Control and agreed upon procedures on Corporate Governance Code. Members of the Board Audit Committee obtain clarifications in respect of the contents of the presentation, if deemed necessary.</p> |
| | (g) Review of Financial Information of the Bank; | <p>Complied with.</p> <p>Quarterly Financial Statements as well as year end Financial Statements are circulated to all members of the Board Audit Committee.</p> <p>A detailed discussion takes place at the Board Audit Committee meeting regarding such Financial Statements. Once the members of the Board Audit Committee have obtained required clarifications in respect of all aspects included in the Financial Statements, such Financial Statements are recommended for approval by the Board of Directors.</p> |
| | (h) Discuss issues, problems and reservations arising from the interim and final audits with External Auditors; | <p>Complied with.</p> <p>External Auditor discussed the audit progress, issues noted during interim and year-end audits with the Board Audit Committee.</p> <p>The Committee met the External Auditors twice during the year without the presence of the Executive Directors and Corporate Management.</p> |

| Relevant Section | Rule | Degree of Compliance |
|------------------|---|--|
| | (i) Review the External Auditor's Management Letter and management's response thereto; | <p>Complied with.</p> <p>Upon receipt of the interim Management Letter and year-end Management Letters, Auditors are invited to make a presentation at a Board Audit Committee meeting to discuss significant findings which have arisen during the audit. Thereafter, the Board Audit Committee decides on remedial action to be taken in respect of such findings, if any, and relevant Heads of Departments are instructed to take such action.</p> |
| | (j) Review the adequacy of the scope, functions and resources of the Internal Audit Department; | <p>Complied with.</p> <p>The Annual Audit Plan prepared by the Internal Audit Department is submitted to the Board Audit Committee for approval. This plan covers the scope and resource requirement relating to the Audit Plan.</p> <p>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 Board Audit Committee has been obtained in this regard.</p> <p>Internal Audit Department reports directly to the Assistant General Manager - Management Audit who will be reporting directly to the Board Audit Committee. Hence, it is independent. The audits are performed with impartiality, proficiency and due professional care.</p> |
| | (k) Consider the major findings of internal investigations and management's responses thereto; | <p>Complied with.</p> <p>Significant findings of investigations carried out by the Internal Audit Department along with the responses of the management are tabled and discussed at Board Audit Committee meetings.</p> |
| | (l) The Chief Financial Officer, the Chief Internal Auditor and External Auditors may attend meetings. Board Members and the Chief Executive Officer to attend meetings upon invitation. Committee to meet with the External Auditors without the Executive Directors being present | <p>Complied with.</p> <p>The immediate requirement of two meetings between the Board Audit Committee and External Auditors has been met. In addition, the Non-Executive Directors have been provided with an opportunity of discussing matters relating to audit on a private basis.</p> |
| | (m) Terms of reference of the Committee; | <p>Complied with.</p> <p>Refer 'Board Audit Committee Report' on pages 188 to 190.</p> |
| | (n) Regular Committee meetings | <p>Complied with.</p> <p>Refer 'Board Audit Committee Report' on pages 188 to 190.</p> |
| | (o) The Board shall disclose details of the activities, Number of Committee meetings held and details of attendance to Committee meetings; | <p>Complied with.</p> <p>Refer 'Board Audit Committee Report' on pages 188 to 190.</p> |

| Relevant Section | Rule | Degree of Compliance |
|------------------|---|---|
| | (p) Secretary of the Committee; | Complied with. The Secretary of the Committee records and maintains all minutes of the meetings. |
| | (q) Review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters; | Complied with. The Bank has a Whistleblowing Policy which has been reviewed and approved by the Board Audit Committee and the Board of Directors. Board's responsibility towards encouraging communication on any non-compliance and unethical practices were addressed in the Board Charter. 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) | Human Resources and Remuneration Committee: | Mr. K.G.D.D. Dheerasinghe, Chairman of the Bank is the Chairman of the Human Resources and Remuneration Committee and has two other Independent, Non-Executive Directors as its members. Refer Sections of Composition, Charter, Meetings and the Methodology of the 'Board Human Resources and Remuneration Committee Report' on pages 183 and 184. |
| | The Committee shall determine the remuneration policy, set goals and targets to evaluate performance relating to the performance of Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank; | Complied with. The Bank has a formal process for annual performance evaluation for the CEO and Key Management Personnel. The performance evaluations for a particular year are formally approved before April in the subsequent year. The Committee met seven times during the year. Refer 'Board Human Resources and Remuneration Committee Report' on pages 183 and 184. |
| 3 (6) (iv) | The Board Nomination Committee shall attend to the following: Implement a procedure to select/ appoint new Directors, CEO and Key Management Personnel. Recommend (or not recommend) the re-election of current Directors and set the criteria for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions; | Complied with. The Board Nomination Committee is chaired by the Chairman of the Bank and the Committee comprises of two other Independent Non-Executive Directors. Refer Sections of Composition, Charter, Meetings and the Methodology of the 'Board Nomination Committee Report' on page 187. |
| | Ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office; | Complied with. The Board Nomination Committee ensures that all Directors are fit and proper persons to hold office as specified in the Direction. The Board Human Resources and Remuneration Sub-Committee ensures that Key Management Personnel are fit and proper persons to hold office as specified in the Direction. |

| Relevant Section | Rule | Degree of Compliance |
|------------------|--|--|
| | Consider and recommend additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel; | For Directors - Complied with. For Key Management Personnel - This activity is handled by the Board Human Resources and Remuneration Committee. The Bank has complied with the above requirement. |
| | Committee shall be chaired by an Independent Director. The CEO may be present at meetings by invitation; | Committee was chaired by an Independent Director. CEO was present at meetings by invitation. |
| 3 (6) (v) | The following rules shall apply in relation to the Integrated Risk Management Committee: | Refer Sections of Composition, Charter, Meetings and the Methodology of the 'Board Integrated Risk Management Committee Report' on pages 185 and 186. |
| | The Committee to consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories; | Complied with. Members of the Board Integrated Risk Management Committee (BIRMC) are given below: Mr. M.P. Jayawardena - <i>Chairman</i> Prof. U.P. Liyanage Mr. L. Hulugalle Mr. S. Swarnajothi Mr. K.M.M. Siriwardana Mr. J. Durairatnam Mr. S.K.K. Hettihamu |
| | Assess all risks of the Bank, review adequacy and effectiveness of all management level committees; | Complied with. The Committee minutes evidence that all risk indicators such as key operational risk indicators, non-financial operating risk indicators, analysis of NPA ratio and default ratios, high risk sector advances/NPA segmentation by industry and risk grading, cross border and counterparty risk exposures have been reviewed on a monthly basis. Further, adequacy and effectiveness of all management level risk-related committees such as Executive Integrated Risk Management Committee, ALCO, Credit Policy Committee and Executive Committee on Monitoring NPAs are reviewed by the BIRMC annually. |
| | Take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements; | Complied with. 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. Recommendations/suggestions are also discussed if any risk indicator exceeds the tolerance limits and the progress of rectification of the position and implementation of the recommendations are being monitored closely. |

| Relevant Section | Rule | Degree of Compliance |
|---|---|---|
| | Meet at least quarterly to assess all aspects of risk management including updated business continuity plans; | <p>Complied with.</p> <p>The Committee meets quarterly to review risks associated with various business segments and takes appropriate decisions in managing risks across all the business units of the Bank. The BIRMC reviews risk management policies and procedures of the Bank including Business Continuity Plans and make appropriate recommendations to the Board of Directors. Further, BIRMC assess Key Risk Indicators relating to Credit, Market and Operational Risks on a monthly basis with a view to identify adverse trends in advance and take appropriate action to avoid the same.</p> <p>During the year Committee met 04 times.</p> |
| | Take appropriate actions against the officers responsible for failure to identify specific risks; | Committee refers such matters, if any, to the Human Resources Department for necessary action. |
| | Submit a Risk Assessment Report within a week of each meeting to the Board; | Complied with. |
| | Establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated Compliance Officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically; | <p>Complied with.</p> <p>Compliance function is in place to assess the Bank's compliance with external and internal regulations. The Compliance Officer submits a Positive Assurance Certificate on Compliance with Mandatory Banking and Other Statutory Requirements on quarterly basis to the Board Audit Committee and the Board Integrated Risk Management Committee. Any significant matters are discussed in detail at the Committee meetings and instructions are issued to respective departments for remedial action.</p> |
| 3 (7) - Related Party Transactions | | |
| 3 (7) (i) and (ii) | The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person; | <p>All members of the Board are required to make declaration of the positions held with related parties at the time of appointment and thereafter this is further reviewed annually. This information is provided to the Finance Division enabling them to capture relevant transactions.</p> <p>In the event of any change (during the year) the Directors are required to make a further declaration to the Company Secretary. The Bank is taking initiatives to further strengthen the monitoring mechanism.</p> <p>Directors refrain from participating at relevant sessions in which lending to related entities are discussed to avoid any kind of an influence.</p> <p>Transactions carried out with related parties as defined by LKAS 24 on 'Related Party Disclosures' in the normal course of business are disclosed in Note 60 to the Financial Statements on 'Related Party Disclosures' on pages 374 to 378.</p> <p>Directors' in contracts which do not fall into the definition of related party transactions as per LKAS 24 are reported separately in the Annual Report, outside the Financial Statements.</p> <p>A Board approved process is in place to ensure compliance with the requirement.</p> <p>As an effort to further strengthen the monitoring mechanism of related party transactions Board has formed the Related Party Transactions Review Sub-Committee during the year 2014. The declarations made by the Directors at Board meeting are provided to the Secretary of the Related Party Transactions Review Committee to monitor and capture required information.</p> |

| Relevant Section | Rule | Degree of Compliance |
|----------------------------|--|---|
| 3 (7) (iii) | The Board shall ensure that transactions carried out with related parties as defined in Direction 3 (7) (i) of the code are of arm's length basis; | Board approved process is in place to ensure compliance with the requirements. In order to further strengthen the process, the Board Related Party Transactions Review Committee (BRPTRC) was formed towards the end of 2014 on a voluntary basis which comprise of the following members: Mr. K.G.D.D. Dheerasinghe (Chairman) Mr. S. Swarnajothi Mr. J. Durairatnam Mr. S. Renganathan |
| 3 (7) (iv) | Accommodation by the Bank to a Director or a close relation of a Director, has to be sanctioned by not less than two-thirds of the Board voting in favour other than the Director concerned; | All accommodations to Directors and/or their close relatives are approved either at a Board meeting or through circulation of Board Papers. All accommodations to Directors and/or their close relatives are secured by security which is prescribed by the Monetary Board. |
| 3 (7) (v) | Appointment of Director subsequent to approval of facilities to him/her; | No such situation has arisen during the year. |
| 3 (7) (vi) and (vii) | Accommodation to employees, close relations or any concern in which the employee or close relation has a substantial interest; | Accommodation specified in this Direction was granted to employees only under 'Staff Benefit Schemes' of the Bank. |
| 3 (8) - Disclosures | | |
| 3 (8) (i) | Financial reporting, statutory and regulatory reporting; | Complied with. Annual Audited Financial Statements and Interim Financial Statements of the Bank were prepared and published during 2014 in the newspapers (in Sinhala, Tamil and English) in accordance with the formats prescribed by the Supervisory and Regulatory Authorities and applicable accounting standards. |
| 3 (8) (ii) | The Board shall ensure that the following minimum disclosures are made in the Annual Report: | |
| | (a) A statement confirming that the Annual Audited Financial Statements has been prepared in accordance with accounting standards and regulatory requirements; | Complied with. 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', 'Managing Director's and Chief Financial Officer's Statement of Responsibility'. Refer page 211. |
| | (b) A Report by the Board confirming the Bank's internal control mechanism leading to financial reporting provides reasonable assurance on the reliability of financial reporting, and the published Financial Statements are prepared in accordance with accounting principles and regulatory requirements; | Complied with. Report by the Board on the effectiveness of the Bank's internal control mechanism to ensure that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, is given on 'Directors' Statement of Internal Control' on pages 208 and 209 that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements is given on pages 206 and 207 on 'Statement of Directors' Responsibility'. In addition, all Directors have signed the 'Annual Report of Board of Directors' found on pages 194 to 204, wherein all Directors have collectively taken the responsibility for the above requirement. |

| Relevant Section | Rule | Degree of Compliance | | | | | | | | | | | | | | | | | |
|--|---|--|--|-----------------------------|--|------|------|---|------|------|--|------|------|--------------|------|------|------------|------|------|
| | (c) The External Auditor's certification on the effectiveness of the internal control mechanism; | Complied with. The Bank obtained an assurance report from the External Auditors on the effectiveness of the internal control mechanism referred to in Direction 3 (8) (ii) (b) above. Refer page 210. | | | | | | | | | | | | | | | | | |
| | (d) Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank; | Complied with. Profiles of Directors are given on pages 129 to 131, transactions of the Directors with the Bank are given in the 'Directors' Interest in Contracts with the Bank' on page 212 and the total of fees/remuneration paid to the Directors by the Bank is given in Note 20 to the Financial Statements on page 309. | | | | | | | | | | | | | | | | | |
| | (e) Total net accommodation granted to related parties and the percentage of such accommodation to the Bank's regulatory capital; | Complied with. Total net accommodations granted to each category of related parties are given in Note 60 to the Financial Statements on pages 374 to 378 The net accommodations granted to each category of related parties as a percentage of the Bank's regulatory capital are given below: Direct and indirect accommodation to related parties: <table border="1"> <thead> <tr> <th rowspan="2">Category of Related Party Transactions</th> <th colspan="2">% of the Regulatory Capital</th> </tr> <tr> <th>2014</th> <th>2013</th> </tr> </thead> <tbody> <tr> <td>Key Management Personnel & Close Family Members (*)</td> <td>0.02</td> <td>0.01</td> </tr> <tr> <td>Key Management Personnel & Close Family Members (**)</td> <td>0.16</td> <td>0.17</td> </tr> <tr> <td>Subsidiaries</td> <td>1.00</td> <td>0.03</td> </tr> <tr> <td>Associates</td> <td>0.00</td> <td>0.00</td> </tr> </tbody> </table> <p>(*) As defined in LKAS 24 on 'Related Party Disclosures' (for Financial Reporting) (**) Board and selected members of Corporate Management</p> | Category of Related Party Transactions | % of the Regulatory Capital | | 2014 | 2013 | Key Management Personnel & Close Family Members (*) | 0.02 | 0.01 | Key Management Personnel & Close Family Members (**) | 0.16 | 0.17 | Subsidiaries | 1.00 | 0.03 | Associates | 0.00 | 0.00 |
| Category of Related Party Transactions | % of the Regulatory Capital | | | | | | | | | | | | | | | | | | |
| | 2014 | 2013 | | | | | | | | | | | | | | | | | |
| Key Management Personnel & Close Family Members (*) | 0.02 | 0.01 | | | | | | | | | | | | | | | | | |
| Key Management Personnel & Close Family Members (**) | 0.16 | 0.17 | | | | | | | | | | | | | | | | | |
| Subsidiaries | 1.00 | 0.03 | | | | | | | | | | | | | | | | | |
| Associates | 0.00 | 0.00 | | | | | | | | | | | | | | | | | |
| | (f) The aggregate amount of remuneration paid by the Bank, transactions engaged by the Bank with its Key Management Personnel | Complied with. The aggregate values of remuneration paid and transactions with the Bank by Key Management Personnel as defined by LKAS 24 for financial reporting purposes are given in Note 60 to the Financial Statements on pages 374 to 378 Further, in addition to the above, total Deposits and repurchase agreements held and total Direct and Indirect facilities obtained as at December 31, 2014 by the Key Management Personnel (Board and selected members of Corporate Management) amounted to Rs. 142.1 Mn. and Rs. 113.9 Mn. respectively. | | | | | | | | | | | | | | | | | |
| | (g) The External Auditor's Certification; | Complied with. The factual findings report has been issued by the External Auditors on the level of compliance with the requirements of these Directions. The findings presented in their report addressed to the Board did not identify any inconsistencies to those reported above. | | | | | | | | | | | | | | | | | |
| | (h) A report on compliance and measures taken to rectify any material non-compliance; | Complied with. Refer 'Statement of Directors' Responsibility' on pages 206 and 207 for details of the compliance with prudential requirements, regulations, laws and internal controls. | | | | | | | | | | | | | | | | | |
| | (i) A statement on the regulatory/supervisory concerns on lapses in the Bank's risk management, or non-compliance. | Not Applicable. There were no significant supervisory concerns on lapses in the Bank's risk management or non-compliance with this Direction that have been pointed out by the Director of Bank Supervision of Central Bank of Sri Lanka and requested by the Monetary Board to be disclosed to the public. | | | | | | | | | | | | | | | | | |
| 3 (9) - Transitional and Other General Provisions | | The Bank has complied with this requirement. | | | | | | | | | | | | | | | | | |

Bank’s adherence with Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka (‘Code’).

‘The purpose of Corporate Governance is to facilitate effective, entrepreneurial and prudent management that can deliver long-term success of the company’ (UK Combined Code 2010). Hence, a good Corporate Governance Code needs to address the needs of both the Company (the Bank) and its shareholders. In this regard, it is pertinent to mention that the ‘Code of Best Practice on Corporate Governance’ issued jointly by The Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC) focuses adequately on fulfilling the aspirations of both parties mentioned above. The Bank has incorporated the requirements of amendments made to the said Code in September 2013.

We have categorised extent of adherence by the Bank to the requirements of the six fundamental principles laid down in the aforesaid Code, into two sections, purely for the convenience of our stakeholders. Hence, Section 1 and Section 2 and the governance structures in place are tabulated below:

Section 1 of the Code deals with the Company (the Bank) and it mainly covers the governance aspects in regard to Company Directors, their remuneration, relations with shareholders and accountability and audit. (Refer pages 168 and 179).

Section 2 of the Code deals with the Shareholders and discusses how a good corporate citizen discharges its responsibilities towards both Institutional Investors and other Investors. (Refer pages 179 and 180).

Section 1: The Company (The Bank)

| Corporate Governance Principle | Reference to Code | Degree of Compliance |
|--|-------------------|--|
| A. Directors | | |
| A.1 The Board | | |
| The Bank is headed by an effective Board of Directors with local and international experience (professionals/business leaders) drawn from different backgrounds <i>inter alia</i> banking, accounting, management, marketing and human resources. Their leadership skills, direction provided and controls put in place ensure the achievement of the objectives of the Bank set out in the Corporate Plan and the Budget, which aims to satisfy the expectations of all stakeholders. (Summary of the profiles of Directors are given on pages 129 to 131). | | |
| Board Meetings | A.1.1 | Complied with. During the year the Board met 18 times. Circulation of Board Papers to obtain Board's consent was minimised and these decisions were confirmed at the immediately succeeding Board meeting. Refer response to requirement 3 (1) (iii) and (iv) of the Banking Act Direction No. 11 of 2007 on page 156 for details. Refer 'Number of Meetings Held and Attendance' on page 153. |
| Role of the Board | A.1.2 | Complied with. Refer response to requirement 3 (1) (ii) of the Banking Act Direction No. 11 of 2007 on page 156 for details. Refer 'Directors' Statement on Internal Control' that appears on pages 208 and 209 for details on compliance on above aspects. |
| Compliance with Laws and seeking Independent Professional Advice | A.1.3 | Complied with. The Board collectively and Directors individually complied with the laws of the country as applicable to the Bank. Refer response to requirement 3 (1) (xi) of the Banking Act Direction No. 11 of 2007 on page 156 for further details. Refer pages 183 to 193 for Reports of all Board appointed Sub-Committees for further details. |

| Corporate Governance Principle | Reference to Code | Degree of Compliance |
|--|-------------------|--|
| Access to advice and services of the Company Secretary | A.1.4 | Complied with. Refer response to requirement 3 (1) (vii) to (ix) of the Banking Act Direction No. 11 of 2007 on page 156 for details on advice and services of Company Secretary. The removal of the Company Secretary is a matter to be considered by the Board as a whole. |
| Independent Judgment of Directors | A.1.5 | Complied with. All Directors exercise independent judgment in decisions made by the Board on issues of strategy, performance, resource allocation and the conduct of business. |
| Dedicating Adequate Time and Effort by the Directors | A.1.6 | Complied with. All Directors of the Bank dedicate adequate time and effort to fulfill their duties as Directors of the Bank (both before and after the Board meetings), to ensure that the duties and responsibilities owed to the Bank are satisfactorily discharged. In addition, Directors will function as members of one or more Sub-Committees of the Board (details of which are found on page 153) and ensure that they allocate adequate time for the fulfillment of their duties as members of such Board Sub-Committees. Refer 'Number of Meetings Held and Attendance' on page 153. |
| Training for New and Existing Directors | A.1.7 | Complied with. Both new and existing Directors of the Bank are provided with guidelines on general aspects of directorships and industry specific matters. In this regard, the Directors have recognised the need for continuous training, expansion of knowledge and to take part in such professional development as and when they consider necessary which would assist them to carry out their duties as Directors. The training and development needs of Directors are reviewed periodically for this purpose. |
| <h3>A.2 Chairman and Chief Executive Officer (CEO)</h3> <p>There is a clear division of responsibilities between conducting the business of the Board and day-to-day operations of the Bank, in order to ensure a balance of power and authority. The Chairman is responsible for leading the Board and for its effectiveness. The CEO's role is primarily to conduct the business operations of the Bank with the help of the Corporate Management. Hence, the roles of the Chairman and CEO are clearly distinct from one another. The Chairman is also the ultimate point of contact for shareholders, particularly on matters related to Corporate Governance.</p> | | |
| Separation of the Roles of Chairman and MD/CEO | A.2.1 | Complied with. Refer response to requirement 3 (5) (i) of the Banking Act Direction No. 11 of 2007 on page 159 for details. |
| <h3>A.3 Chairman's Role</h3> <p>Chairman is responsible for providing leadership and effectively managing the Board while preserving the order and facilitating effective discharge of Board functions. The Chairman also takes timely action to preserve good Corporate Governance by the Board.</p> | | |
| Role of the Chairman | A.3.1 | Complied with. Refer response to requirement 3 (5) (i) to 3 (5) (x) of the Banking Act Direction No. 11 of 2007 on pages 159 and 160 for details. |

| Corporate Governance Principle | Reference to Code | Degree of Compliance |
|--|-------------------|--|
| <p>A.4 Financial Acumen</p> <p>The Code requires that the Board comprises of members with sufficient financial acumen and knowledge to offer guidance on matters of finance. The Board of the Bank has met the above requirement as some of the Board members are Qualified Accountants having professional qualifications and are equipped with sufficient financial acumen and knowledge to offer guidance on matters of finance.</p> | | |
| Financial Acumen and Knowledge | A.4 | <p>Complied with.</p> <p>The Board comprises of members with academic and professional qualifications in Accounting, Business Finance, Management and Law and experience gained from both private and public enterprises.</p> <p>Refer pages 129 and 131 for the Profiles of the Directors.</p> |
| <p>A.5 Board Balance</p> <p>The Code requires that balance is maintained between the Executive and Non-Executive Directors (NEDs) so that no individual or a small group of individual Directors are able to dominate the Board's Decision-Making.</p> | | |
| Presence of a Strong Team of NEDs | A.5.1 | <p>Complied with.</p> <p>All Directors except CEO and COO are NEDs. Refer response to requirement 3 (2) (iv) of the Banking Act Direction No. 11 of 2007 on page 158 for details.</p> |
| Independence of NEDs | A.5.2 & A.5.3 | <p>Complied with.</p> <p>All seven NEDs were Independent by the end of 2014 and this is well above the minimum prescribed by this Code, which is two NEDs or NEDs equivalent to one-third of the total number of NEDs, whichever is higher. All seven Directors were independent throughout the year and were independent of management and free of any business or other relationship that could impair their independence.</p> |
| Annual Declaration of NEDs | A.5.4 | <p>Complied with.</p> <p>Every NED of the Bank has made written submissions as to their independence against the specified criteria set out by the Bank, which is in line with the requirements of Schedule J of the Code.</p> |
| Annual determination by the Board on the Independence of NEDs | A.5.5 | <p>Complied with.</p> <p>The Board has determined the independence of Directors based on the declarations submitted by the NEDs, as to their independence, as a fair representation and will continue to evaluate their independence on this basis annually. No circumstances have arisen for the determination of independence by the Board, beyond the criteria set out in the Code. Independent Non-Executive Directors during the year under review were –</p> <p>Mr. D.S. Weerakkody - <i>relinquished office on July 28, 2014</i> Mr. K.G.D.D. Dheerasinghe Mr. M.P. Jayawardena Prof. U.P. Liyanage Mr. L. Hulugalle Mr. S. Swarnajothi Mr. H.J. Wilson Mr. K.M.M. Siriwardana</p> |
| Appointment of an Alternate Director | A.5.6 | No such situation arose during the year under review. |

| Corporate Governance Principle | Reference to Code | Degree of Compliance |
|--|-------------------|---|
| Requirement to appoint a 'Senior Non-Executive Director' and making himself available for confidential discussions | A.5.7 & A.5.8 | There is no requirement to appoint a 'Senior Non-Executive Director' as the positions of the Chairman and the CEO are separated and the Chairman is an Independent Director. |
| Conducting meetings with NEDs only | A.5.9 | Complied with. Chairman meets with the NEDs without the presence of Executive Directors, whenever necessary. |
| Recording in Board minutes of concerns which cannot be unanimously resolved | A.5.10 | Concerns of the Directors which cannot be unanimously resolved by the Directors if any, are recorded in the minutes of Board meetings with adequate details by the Company Secretary. This would be approved by the Chairman and the other members of the Board. However, there were no such issues during the year. |
| A.6 Supply of Information | | |
| The Code requires the Bank's management to submit timely information to the Board with sufficient information for making decisions, which would enable them to discharge their duties. | | |
| Obligation of the management to provide appropriate and timely information to the Board | A.6.1 | Complied with. The Bank ensures that the Directors receive adequate information in a timely manner. On urgent matters, every effort is made to provide information as early as possible. The Board Papers are prepared by the Heads of the respective banking departments and other divisions to provide adequate information to the Board enabling it to deliberate on all key issues concerning the Bank. Further, Directors are free to raise inquiries for additional information, whenever necessary. In addition, members of the Corporate Management make presentations on issues of importance. The Chairman ensures that all Directors are briefed adequately on issues arising at Board meetings. |
| Adequate Notice for Board Meetings | A.6.2 | Complied with. Refer response to requirement 3 (1) (v) of the Banking Act Direction No. 11 of 2007 on page 156 for details. |
| A.7 Appointments to the Board | | |
| The Code requires having a formal and transparent procedure in place for the appointment of new Directors to the Board. | | |
| Presence of a Nomination Committee and annual assessment of composition of the Board | A.7.1 & A.7.2 | Complied with. New appointments to the Board and Re-Elections of Directors are considered and recommended by the Nomination Committee and based on such recommendations, final decisions are made by the Board in a formal and transparent manner. Further, this Committee annually assesses the composition of the Board to ensure that the combined knowledge and experience of the Board matches the strategic demands faced by the Bank. Mr. D.S. Weerakkody served as the Chairman of the Nomination Committee up to July 28, 2014. Thereafter Mr. K.G.D.D. Dheerasinghe was appointed as the Chairman of the Committee. Refer page 187 for the 'Board Nomination Committee Report' for the terms of reference and the composition of members of this Committee. |

| Corporate Governance Principle | Reference to Code | Degree of Compliance |
|---|-------------------|---|
| Disclosure of required details to Shareholders on new appointments to the Board | A.7.3 | Complied with. When new Directors are appointed, a brief resumé of each such Director, including the nature of his or her expertise, the names of other companies in which the Director holds directorships, etc., are informed to the Central Bank of Sri Lanka (CBSL) and the Colombo Stock Exchange (CSE), in addition to disclosing this information subsequently in the Annual Report. Further, the required information is published in a few selected newspapers for the information of interested parties. Any changes in the details provided by the Directors are disseminated to the CSE without delay. |
| A.8 Re-election | | |
| The Code requires all Directors to submit themselves for re-election, on regular intervals and at least once in every three years. | | |
| Re-election of Non-Executive Directors including Chairman and Directors | A.8.1 & A.8.2 | Complied with. Directors to retire at the Annual General Meeting (AGM): 1. (i) Directors to Retire by Rotation - 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 Directors who have been longest in office (subject to retirement by rotation): - Mr. L. Hulugalle at the AGM held in March 2012 - Mr. K.G.D.D. Dheerasinghe and Prof. U.P. Liyanage at the AGM held in March 2013. (iii) Accordingly, two Directors, out of the above three Directors are required to retire by rotation at the next AGM. (iv) It is stated in Article 86 that as between persons who became or were last Re-elected Directors on the same day, the Directors to retire shall (unless they otherwise agree among themselves) be determined by lot. Under the circumstances, Mr. L. Hulugalle and Prof. U.P. Liyanage offered themselves for re-election by rotation at the next AGM. The Board recommended the re-election of Mr. L. Hulugalle and Prof. U.P. Liyanage after considering the contents of the Affidavits and Declarations submitted by them and all other related issues, including the contribution made by them. 2. The following Directors were appointed to fill casual vacancies during the year under review: (i) Mr. H.J. Wilson (ii) Mr. S. Renganathan (iii) Mr. K.M.M. Siriwardana Refer brief resúmes of the aforementioned Directors on pages 129 and 131. |
| A.9 Appraisal of Board Performance | | |
| The Code requires the Board to appraise its own performance periodically to ensure that its responsibilities are satisfactorily discharged. | | |
| Annual appraisal of the Board's performance and the performance of its Sub-Committees | A.9.1 & A.9.2 | Complied with. The performance of the Board is evaluated by the Nomination Committee and Board. A self-assessment was carried out by the Directors at the end of the year and the appraisal forms were first submitted to the Nomination Committee and then to the Board, in order to ensure that the Board functions effectively and efficiently and also to facilitate continuous improvement. |

| Corporate Governance Principle | Reference to Code | Degree of Compliance |
|---|-------------------|--|
| Disclosure of Criteria used for the Performance Evaluation | A.9.3 | Complied with. Refer 'Report of the Board Human Resources and Remuneration Committee' on pages 183 and 184 for details of the criteria considered for performance evaluation of the Board. |
| A.10 Disclosure of Information in respect of Directors | | |
| The Code requires that details of the Directors be disclosed in the Annual Report for information of the Shareholders. | | |
| Disclosure of information on Directors in the Annual Report | A.10.1 | Complied with. The following details pertaining to each Director are disclosed as follows: (a) Brief profile with expertise and experience - pages 129 to 131. (b) Other business interests - page 212. (c) Remuneration - Note 20 on page 309. (d) Status of independence - Note 1 on page 182. Details of Board meetings and Board Committee meetings held during the year are indicated on page 153. |
| A.11 Appraisal of Chief Executive Officer (CEO) | | |
| The Code requires the Board to assess the performance of the CEO at least annually to ascertain degree to which the CEO meets the pre-set Financial and Non-Financial targets. | | |
| Setting annual targets and the appraisal of performance of the CEO | A.11.1 & A.11.2 | Complied with. The Bank has a formal process for annual performance evaluation of the CEO. At the beginning of each financial year, the Board, supported by the Board Human Resources and Remuneration Committee discusses with the CEO and establish criteria to evaluate and assess the performance of the CEO. Assessment of performance of the CEO is carried out by the Board at the end of each year to ensure that pre-agreed targets have been achieved or if not whether there are acceptable reasons for not achieving them. The performance evaluation for particular year is formally approved before April in the subsequent year. |
| B Directors' Remuneration | | |
| B.1 Remuneration Procedure | | |
| The Code requires that the Bank should establish a formal and transparent procedure in place for developing an effective remuneration policy for both Executive and Non-Executive Directors where no Director is involved in deciding his/her own remuneration to avoid potential conflict of interest. | | |
| Establishment of a Remuneration Committee | B.1.1 | Complied with. Refer response to requirement 3 (6) (iii) of the Banking Act Direction No. 11 of 2007 on page 163 for details. Refer 'Board Human Resources and Remuneration Committee Report' for the Terms of Reference on pages 183 and 184. |
| Composition of the Committee | B.1.2 & B.1.3 | Complied with. As prescribed in this Code, all members of the Board Human Resources and Remuneration Committee are Non-Executive Directors. Chairman of the Committee is appointed by the Board. The CEO attends meetings by invitation. Refer pages 183 and 184 of the 'Board Human Resources and Remuneration Committee Report' for details of the Chairman and the Members of the Board Human Resources and Remuneration Committee. |

| Corporate Governance Principle | Reference to Code | Degree of Compliance |
|---|-------------------|--|
| Determination of the Remuneration of Non-Executive Directors | B.1.4 | Complied with. Refer response to requirement 3 (6) (iii) of the Banking Act Direction No. 11 of 2007 on page 163 for details. |
| Ability to consult the Chairman and/or CEO and to seek professional advice by the Committee | B.1.5 | Complied with. Each Committee has the authority to seek internal and external independent professional advice on remuneration of other Executive Directors and also on matters falling within its purview at the Bank's expense. Views of Chairmen of each Committee are obtained, in addition to the views of the CEO. |
| <h3>B.2 Level and make-up of Remuneration</h3> <p>The Bank ensures that the remuneration of Executive and Non-Executive Directors is at a satisfactory level to attract and retain the services of Directors.</p> <p>The proportion of remuneration of Executive Directors is linked to corporate and individual performance.</p> | | |
| Remuneration packages of Executive Directors | B.2.1 | Complied with. The Board Human Resources and Remuneration Committee and the Main Board ensures that two Executive Directors namely, the Managing Director and the Chief Operating Officer who are on the Board are provided with a suitable remuneration package. |
| Competitiveness of levels of Remuneration | B.2.2 | Complied with. The Board Human Resources and Remuneration Committee reviews information relating to executive pay from time to time to ensure same is on par with the market/industry rates as well as is aligned to the strategic objectives of the Bank. |
| Comparison of Remuneration with other Companies in the Group | B.2.3 | Complied with. The Bank looks at market rates for the key positions in the Bank every three years by carrying out a market survey. The information of which is used for the annual revisions. |
| Designing the Performance based Remuneration of Executive Directors | B.2.4 | Complied with. Objectives for two Executive Directors are set at the beginning of the year to align their interest with those of the Bank and the remuneration including the performance bonus is decided based upon the degree of achievement of such pre-set targets. |
| Executive Share Options | B.2.5 | Complied with. Share options were offered to Executive Directors and Corporate/Senior Members of the management. The details of which are given in Notes 50.2 of the Financial Statements on page 362. |
| Designing the Performance-Related Remuneration of Executive Directors | B.2.6 | Complied with. For details refer 'Board Human Resources and Remuneration Committee Report' on pages 183 and 184 |
| Early Termination of Executive Directors | B.2.7 & B.2.8 | Not applicable. Terminations of Executive Directors, (MD/CEO and Chief Operating Officer) are governed by their contracts of service/employment. |

| Corporate Governance Principle | Reference to Code | Degree of Compliance |
|--|-------------------|---|
| Levels of Remuneration of Non-Executive Directors | B.2.9 | Complied with. Non-Executive Directors of the Bank are paid a fee commensurate with their time and role in the Bank. They are not entitled to receive shares under the existing Employee Share Option Schemes of the Bank. |
| B.3 Disclosure of Remuneration | | |
| The Code requires the Bank to disclose in its Annual Report the details of the remuneration of the Board and the Remuneration Policy. | | |
| Disclosure of Remuneration | B.3.1 | Complied with. Refer 'Board Human Resources and Remuneration Committee Report' on pages 183 and 184 for disclosures on the names of the Remuneration Committee members and the Remuneration Policy of the Bank. Also refer Note 20 to the Financial Statements on page 309 for the aggregate remuneration paid to Executive and Non-Executive Directors. |
| C Relations with Shareholders | | |
| C.1 Constructive use of Annual General Meeting (AGM) and Conduct of General Meetings | | |
| The Code requires the Board to use the AGM which is a major event in the Bank's calendar to communicate with shareholders and encourage their active participation. In this regard, all shareholders of the Bank receive the Notice of Meeting within the statutory due dates. | | |
| Use of Proxy Votes | C.1.1 | Complied with. The Bank has in place an effective mechanism to count all proxy votes to indicate to the Chairman the level of proxies lodged on each resolution and the number of votes for and against such resolution. |
| Separate Resolutions for substantially separate issues and adoption of Annual Report and Accounts | C.1.2 | Complied with. Separate resolutions are proposed for all substantially separate issues to provide shareholders with the opportunity to deal with each significant matter separately. This mechanism promotes better stewardship while assuring the transparency in all activities of the Bank. Further, adoption of the Annual Report of the Board of Directors on the Affairs of the Company, Statement of Compliance and the Financial Statements together with the Report of the Auditors thereon are considered as a separate resolution. |
| Availability of Chairmen of Board Committees | C.1.3 | Complied with. The Chairman of the Bank ensures that Chairmen of all Board appointed Sub-Committees namely, Audit, Human Resources and Remuneration, Nomination, Integrated Risk Management, Related Party Transactions Review, Credit, Investment and Technology are present at the AGM to answer the questions under their purview. |
| Adequate Notice of AGM to Shareholders together with the summary of the procedure | C.1.4 & C.1.5 | Complied with. A Form of Proxy and a copy of the Annual Report are dispatched to each shareholder of the Bank together with the Notice of Meeting detailing the summary of procedure as per legal requirements giving 15 working days notice as per the Companies Act to shareholders, together with a summary of the procedures governing voting at General Meetings. This provides opportunity to all shareholders to attend the AGM irrespective of their voting status and obtain clarifications for the matters of interest to them. |

| Corporate Governance Principle | Reference to Code | Degree of Compliance |
|--|-------------------|---|
| C.2 Communication with Shareholders | | |
| The Board should Implement Effective Communication with Shareholders | | |
| A channel to disseminate timely communication to the shareholders | C.2.1 | Complied with. The primary modes of communication with shareholders are the Annual Report and AGM. Refer pages 75 to 78 on 'Stakeholder Engagement' in the Sustainability Report for a complete list of the communication channels available at the Bank to disseminate timely communication to shareholders. |
| Disclosure of the Policy and Methodology of communication and Implementation | C.2.2 & C.2.3 | Complied with. Bank's Communication Policy which is available in the Intranet discloses the Policy and Methodology of Communication and Implementation. |
| Disclosure of the contact person of communication | C.2.4 | Complied with. Contact persons for the different stakeholders at the Bank are specified in the Communication Policy of the Bank via the Company Secretary. |
| Process to make Directors aware of the issues and concerns of Shareholders and disclosing same | C.2.5 | Complied with. All major issues and concerns of shareholders are recorded and referred to the Board of Directors with the views of the management. |
| Person of contact for shareholder matters | C.2.6 | Complied with. Persons to contact in relation to shareholders is the Company Secretary and in the absence of her, the Managing Director. |
| Disclosure process for responding to shareholder matters | C.2.7 | Complied with. Disclosure process of responding to shareholders are specified in the Communication Policy of the Bank. |
| C.3 Major and Material Transactions | | |
| The Code requires the Directors to disclose to shareholders all proposed material transactions which would materially alter the net asset position of the Bank and Group, if entered into. | | |
| Disclosures on proposed Major Transactions | C.3.1 | There were no major transactions involving acquisition or disposal of greater than half of the net value of the Bank or its subsidiaries entered into by the Bank during the year. Transactions which materially affect the net assets base of the Bank are/will be disclosed in the Quarterly/Annual Financial Statements, if any. |
| D Accountability and Audit | | |
| D.1 Financial Reporting | | |
| The Code requires the Board of Directors to present a balanced and understandable assessment of the Bank's financial position, performance and prospects. | | |

| Corporate Governance Principle | Reference to Code | Degree of Compliance |
|--|-------------------|---|
| Board's responsibility for Statutory and Regulatory Reporting | D.1.1 | <p>Complied with.</p> <p>The Board is well aware of its responsibility to present regulatory and statutory reporting in a balanced and understandable manner and a statement to this effect is given on pages 206 and 207 confirming this position.</p> <p>The Bank has strictly complied with the requirements of the Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 and amendments thereto, in the preparation of Interim and Annual Financial Statements, which are prepared and presented in conformity with Sri Lanka Accounting Standards. In addition, the Bank has also complied with the reporting requirements prescribed by the regulatory authorities such as CBSL, SEC, CSE.</p> |
| Declarations by Directors in the Directors' Report | D.1.2 | <p>Complied with.</p> <p>The Directors have made all required declarations in the 'Annual Report of the Board of Directors'.</p> <p>Refer the 'Annual Report of the Board of Directors' on pages 194 to 204 for the required declarations.</p> |
| Statements by Directors and Auditors on Responsibility for Financial Reporting | D.1.3 | <p>Complied with.</p> <p>The 'Statement of Directors' Responsibility' is given on pages 206 and 207.</p> <p>Refer 'Independent Auditors' Report' on page 266 for the reporting responsibility of Auditors.</p> |
| Management Discussion and Analysis | D.1.4 | <p>Complied with.</p> <p>Refer 'Management Discussion and Analysis' on pages 15 to 68.</p> |
| Declaration by Board on the Going Concern of the Business | D.1.5 | <p>Complied with.</p> <p>Refer item 25 of the 'Annual Report of the Board of Directors' on page 203 and the 'Statement of Directors' Responsibility' on pages 206 and 207 for the required declarations.</p> |
| Requirement to summon an Extraordinary General Meeting (EGM) to notify serious loss in Net Assets (capital) | D.1.6 | <p>Likelihood of such occurrence is remote. However, should the situation arise, an EGM will be called for and shareholders will be notified.</p> |
| Disclosure of Related Party Transactions adequately and accurately | D.1.7 | <p>Complied with.</p> <p>Refer response to requirement 3 (7) (i) of the Banking Act Direction No. 11 of 2007 on page 165 for details.</p> |
| D.2 Internal Control | | |
| <p>The Code requires the Bank's Board to ensure a process of effective risk management and a sound system of internal controls, which safeguards the shareholders' investments and Bank's assets. Broadly, risk management and internal control is a process, affected by a Company's Board of Directors and management, designed to provide reasonable assurance regarding the achievement of Company's objectives.</p> | | |
| Directors to conduct an annual review of the Risks faced by the Bank and the effectiveness of Internal Controls | D.2.1 | <p>Complied with.</p> <p>The Bank obtained the External Auditors' Certification on the effectiveness of the internal control mechanism over financial reporting.</p> |

| Corporate Governance Principle | Reference to Code | Degree of Compliance |
|---|-------------------|---|
| Need for an Internal Audit function for Companies with no such function | D.2.2 | This is not applicable as the Bank already has its own in-house Internal Audit Department, which is responsible for internal audit function. |
| Audit Committee to carryout reviews of the process and effectiveness of risk management and Internal Controls and document to the Board | D 2.3 | <p>Complied with.</p> <p>The Board Audit Committee of the Bank reviews internal control issues and risk management measures identified by the Internal Audit Division and evaluate the adequacy and effectiveness of the risk management and internal control systems.</p> <p>The minutes of the Board Audit Committee meetings are tabled at the meetings of the Board of Directors of the Bank on a periodic basis.</p> <p>Refer pages 208 and 209 for 'Directors' Statement on Internal Controls' for further details.</p> |
| <p>D.3 Audit Committee</p> <p>The Code requires the Board to have formal and transparent arrangements in selecting and applying the accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Bank's External Auditor.</p> | | |
| Composition of the Committee | D.3.1 | <p>Complied with.</p> <p>All members of the Board Audit Committee, including the Chairman are Non-Executive Directors and two of the members are Independent Directors.</p> <p>Details of the members, invitees and the Secretary of the Committee are found on pages 188 to 190 of the 'Board Audit Committee Report' under the heading 'Composition of the Committee'.</p> |
| Duties of the Committee | D.3.2 | <p>Complied with.</p> <p>As stated in the Report of the Board Audit Committee of the Bank, it regularly reviews scope, results and effectiveness of the audit. It also ensures the balance among objectivity, independence and value for money of the services provided by the Bank's Auditors, with special attention to provision of non-audit services by the Auditors.</p> |
| Terms of Reference of the Committee | D.3.3 | <p>Complied with.</p> <p>Terms of Reference of the Board Audit Committee are clearly defined in the Charter of the Audit Committee approved by the Board of Directors, which was last revised in 2014. This clearly explains the purpose of the Committee, its duties and responsibilities together with the scope and functions of the Committee. The Committee mainly deals with the matters pertaining to statutory and regulatory compliance in financial reporting, matters with regard to the External Auditors, Internal Audit and Risk Management procedures of the Bank.</p> |
| Disclosure of Names of the Members of the Committee | D.3.4 | <p>Complied with.</p> <p>Names of the members of the Audit Committee are given on page 188 under the heading on 'The Composition of the Committee' and disclosure on the independence of the Auditors is found on pages 189 and 190 under the Section on 'External Audit' in the 'Board Audit Committee Report'.</p> |
| <p>D.4 Code of Business Conduct and Ethics</p> <p>The Code requires the Bank to adopt an Internal Code of Conduct and Ethics to be adhered to by all Directors and Key Management Personnel and must promptly disclose any waivers of the Code for Directors or others.</p> | | |

| Corporate Governance Principle | Reference to Code | Degree of Compliance |
|--|-------------------|---|
| Disclosures on presence of Code of Business Conduct and Ethics | D.4.1 | Complied with, for Executive Directors and Key Management Personnel. The Bank has an internally developed Code of Conduct for its employees including Key Management Personnel and the two Executive Directors. This Code addresses conflicts of interest, bribery and corruption, entertainment and gifts, accurate accounting and record-keeping and corporate opportunities, confidentiality of information, fair dealing, protecting and proper use of the Company's assets, compliance with laws and regulations and encouraging the reporting of any illegal or unethical behaviour, etc. Details of the Banks' Code of Ethics, including Governing Principles are found on pages 150 and 151. |
| Affirmative Statement by the Chairman | D.4.2 | Complied with. Refer the 'Letter from the Chairman' on pages 9 to 11 for required details. |
| D.5 Corporate Governance Disclosures Directors of the Bank disclose annually the Bank's adherence to the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and the Banking Act Direction No. 11 of 2007 of the Central Bank of Sri Lanka on Corporate Governance for Licensed Commercial Banks in Sri Lanka and subsequent amendments thereto, in the 'Corporate Governance Report'. | | |
| Annual Corporate Governance Report in the Annual Report | D.5.1 | Complied with. This Report from pages 142 to 182 serves this requirement. |

Section 2: Shareholders

| Corporate Governance Principle | Reference to Code | Degree of Compliance |
|---|-------------------|--|
| E Institutional Investors E.1 Shareholder Voting The Code requires the institutional shareholders to make considered use of their votes and encourage to ensure that their voting intentions are translated into practice | | |
| Communication with Shareholders | E.1.1 | Complied with. In order to avoid conflicts of interest by nurturing mutual understanding, the Board carries out dialogues with its shareholders at general meetings. In this regard, the AGM of the Bank plays a critical role. Voting of the shareholders is crucial in carrying a resolution at the AGM. The Chairman, who plays the role of the agent, communicates the views and queries of the shareholders to the Board and the senior management, in order to ensure that the views are properly communicated to the Bank. |
| E.2 Evaluation of Governance Disclosures The Code requires the Bank to encourage institutional investors to give due weight to all relevant factors drawn to their attention. | | |
| Due weight by Institutional Investors | E.2.1 | Complied with. The Institutional Investors are at liberty to give due weight on matters relating to the Board structure and composition, when they consider resolutions relating to Board structure and composition. |

| Corporate Governance Principle | Reference to Code | Degree of Compliance |
|--|-------------------|--|
| F Other Investors | | |
| F.1 Investing/Divesting Decisions | | |
| Seek Independent Advice | F.1.1 | Complied with. Individual shareholders are at liberty to carry out adequate analysis or seek independent advice (not at the cost of the Bank) before making investing or divesting decisions. |
| F.2 Shareholder Voting | | |
| Encourage Voting by Individual Investors | F.2.1 | Complied with. Individual shareholders are encouraged to participate in general meetings of the Bank and exercise their voting rights. The Bank adequately communicates with all shareholders by ensuring that they are informed of this position by dispatching necessary Notices on time. |
| G Sustainability Reporting | | |
| G.1 Principles of Sustainability Reporting | | |
| The Code requires the Bank to adopt the following principles in Sustainability Reporting to ensure the maintenance of policies and procedures to develop a sustainable business environment and to make disclosures on sustainability. | | |
| Principle 1 - Reporting of Economic Sustainability | G.1.1 | Complied with. Refer pages 79 to 82 of the 'Sustainability Report' for this requirement. |
| Principle 2 - Reporting on the Environment | G.1.2 | Complied with. Refer pages 111 and 112 of the 'Sustainability Report' for this requirement. |
| Principle 3 - Reporting on Labour Practices | G.1.3 | Complied with. Refer pages 90 to 101 of the 'Sustainability Report' for this requirement. |
| Principle 4 - Reporting on Society | G.1.4 | Complied with. Refer pages 101 to 110 of the 'Sustainability Report' for this requirement. |
| Principle 5 - Reporting on Product Responsibility | G.1.5 | Complied with. Refer pages 84 to 89 of the 'Sustainability Report' for this requirement. |
| Principle 6 - Reporting on Stakeholder identification, engagement and effective communication | G.1.6 | Complied with. Refer pages 75 to 78 of the 'Sustainability Report' for this requirement. |
| Principle 7 - Sustainable reporting to be formalised as part of the reporting process and to take place regularly | G.1.7 | Complied with. The 'Sustainability Report' pages 69 to 126 serves this requirement. |

Sustainability Governance and Compliance

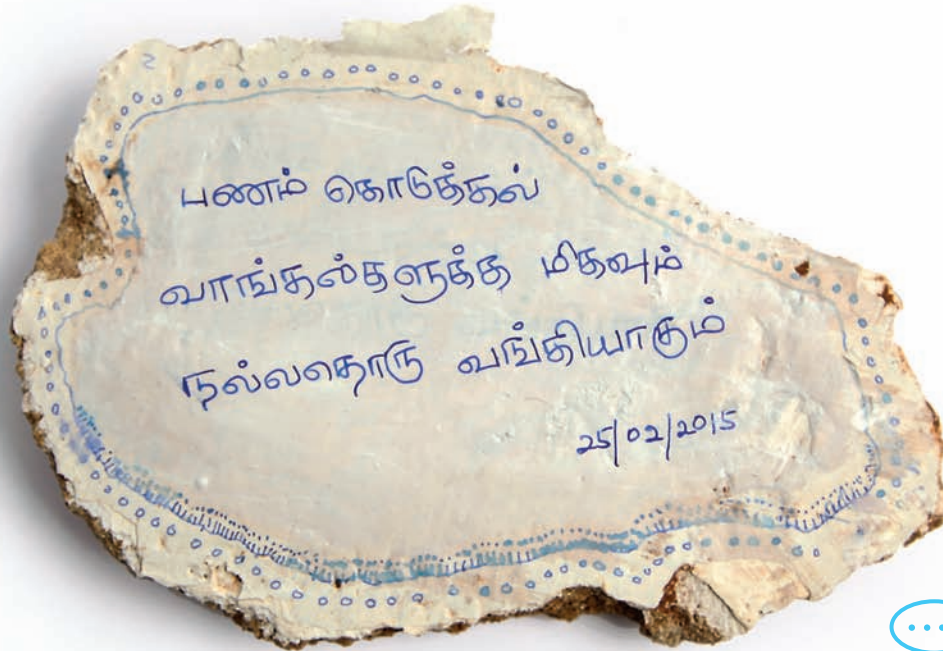
The Board of Directors of the Bank manages its economic, social and environmental impacts by delegating authority and responsibility through the relevant divisions, which directly engage with the specific stakeholders and by holding relevant divisional heads accountable for managing them. Moreover, the Board has mandated several committees such as Assets & Liability Committee, Management Committee, Credit Policy Committee, Human Resource Steering Committee, Procurement Committee, etc., to effectively manage different aspects with more focus on relevant topics of sustainability. These Committees comprise a cross section of members of the corporate management enabling the Committees to make sound judgements by evaluating associated risks.

As a responsible corporate citizen we demonstrate an equal commitment to conduct our business activities in a manner that sustains our license to operate. Operating in conformity with the national as well as international laws, regulations and treaties is a

norm with Commercial Bank and is a key aspect of our culture. Being recognised as the most respected entity and an employer of choice in Sri Lanka from time to time endorses our commitment to sustainable existence.

We take a step further and make an effort to engage with suppliers who display similar conformity and also ensure our customers who we provide financing to, also operate in compliance to applicable laws and regulations.

The process of managing the Bank's sustainability impacts is supported through the laid down policies, procedures and controls. The Board of Directors reviews the performance of key areas such as economic performance, compliance, risk management and audit regularly. The Integrated Risk Management Department, the Inspection Department and the Compliance Officer provide support and report regularly to the Board of Directors on the performance and compliance by the functional heads.



GRI-G4 Compliance Indicators

| | |
|--|-----|
| Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations | Nil |
| Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations | Nil |
| Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling. | Nil |
| Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communication, including advertising, promotions and sponsorships. | Nil |
| Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data | Nil |
| Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services | Nil |

Note 1

The following table lists out the composition of the Board, by category of Directors for the year ended December 31, 2014.

| Name of the Director | Independence/ Non-Independence Status |
|--|--|
| Chairman Mr. D.S. Weerakkody (Non-Executive Director) relinquished the office on July 28, 2014 | Independent |
| Mr. K.G.D.D. Dheerasinghe was appointed as the Chairman w.e.f. July 29, 2014 | Independent |
| Executive Directors: | |
| Mr. W.M.R.S. Dias retired on July 16, 2014 | |
| Mr. J. Durairatnam appointed to the Board on July 17, 2014 | Executive and Non-Independent |
| Mr. S. Renganathan appointed to the Board on July 17, 2014 | Executive and Non-Independent |
| Other Non-Executive Directors: | |
| Mr. M.P. Jayawardena was appointed as the Deputy Chairman on July 29, 2014 | Independent |
| Prof. U.P. Liyanage | Independent |
| Mr. L. Hulugalle | Independent |
| Mr. S. Swarnajothi | Independent |
| Mr. H.J. Wilson appointed to the Board on July 03, 2014 | Independent |
| Mr. K.M.M. Siriwardana (*) was appointed to the Board on August 28, 2014 | Independent |

* Mr. K.M.M. Siriwardana ceased to hold office w.e.f. February 23, 2015.

Note 2

Disclosure under Section 3 (5) (iii) of the Direction No. 11 of 2007 by the Board of Directors of Commercial Bank of Ceylon PLC.

| | |
|---|---------------------------|
| 1. Name of Chairman | Mr. K.G.D.D. Dheerasinghe |
| 2. Name of Chief Executive Officer | Mr. J. Durairatnam |
| 3. Any relationship including financial/business, family or other material/relevant relationship between the Chairman and the Chief Executive Officer | Nil |
| 4. Any relationship including financial/business, family or other material/relevant relationship between members of the Board, including Chairman and Chief Executive Officer | Nil |

Board Human Resources and Remuneration Committee Report

Composition of the Committee

The Board appointed Human Resources and Remuneration Committee comprises of three Non-Executive Directors. The Managing Director of the Bank will be present on invitation.

Mr. D.S. Weerakkody (*Chairman*) - until July 28, 2014

Mr. K.G.D.D. Dheerasinghe (*Deputy Chairman and Chairman*) - since July 29, 2014

Prof. U.P. Liyanage (*Director*)

Mr. M.P. Jayawardena (*Director*)

Mr. W.M.R.S. Dias (*Managing Director/CEO*) - until July 16, 2014 - By invitation

Mr. J. Durairatnam (*Managing Director/CEO*) - from July 17, 2014 - By invitation

Brief profiles of each member are given on pages 129 to 131.

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

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 Resources 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 Key Management Personnel 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 Key Management Personnel 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 the Key Management Personnel, 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 fulfillment 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 Key Management Personnel 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 to 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 adhere 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 of the provisions of such Act.
- Providing guidance and policy direction for relevant matters connected to general areas of Human Resources 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 support 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.
- To develop a robust pipeline of raising talent capable and available to fill key positions in the Bank.

Board Human Resources and Remuneration Committee Report

Committee Meetings

The Committee held seven meetings during the year under review. The attendance of Committee members at meetings is stated in the table on page 153. 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 two (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 meeting.

The proceedings of the Committee meetings were regularly reported to the Board of Directors.

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 Key Management Personnel 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 Bank and pre-agreed individual targets, 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. Moreover, the Committee also ascertains the engagement levels of staff through Staff Engagement Surveys.

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, signifies the importance of and the attention paid to the talent management process of the Bank. It is in this context that the Bank rolled out the Leadership Competencies with the behavioural indicators for the senior officers of Chief Manager grade and above, covering the members of the Corporate Management as well under the guidance of the Committee. In all promotions to the Corporate Management grade, the Committee applied these competencies to judge the suitability of the candidates.

The year under review also saw the smooth transition of a new Managing Director/Chief Executive Officer and a new Chief Operating Officer assumed duties as planned under the succession plan of the Bank.

With the Collective Agreement due for renewal in 2015, the Management was advised to proceed with the conduct of a Compensation & Benefits Survey through an external agency. The current market position of all grades as per the findings of the survey were noted by the Committee in considering the proposed salary and other related benefits by the Management, consequent to the negotiations. Under the guidance of the Committee and with approval of the Board Collective Agreement was signed with the Ceylon Bank Employees Union in December 2014 covering a period of three years i.e. 2015 to 2017.



K.G.D.D. Dheerasinghe

Chairman - Board Human Resources and Remuneration Committee

Colombo
February 23, 2015

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*)

Prof. U.P. Liyanage* (*Director*)

Mr. L. Hulugalle* (*Director*)

Mr. S. Swarnajothi* (*Director*)

Mr K.M.M. Siriwardana* (*Director*) -

(Ceased to hold office w.e.f. February 23, 2015)

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

Mr. S.K.K. Hettihamu (*Chief Manager - Risk*)

**Independent Non-Executive Director*

Refer pages 129 to 131 for the profiles of the Board members.

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 Central Bank of Sri Lanka 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 is in conformity with the provisions of the Section 3 (6) (v) of the aforesaid Direction.

The Charter of the BIRMC was reviewed by the Board of Directors in December 2014. The BIRMC Charter clearly sets out the membership, source of authority, duties and responsibilities of the BIRMC. Functions of the BIRMC in the Bank's overall Risk management framework have been discussed in detail under 'Managing Risk at Commercial Bank' from pages 218 to 245 of this Annual Report.

Committee Meetings and Methodology

The Committee held four Meetings on a quarterly basis, during the year under review. The attendance of Committee Members at Meetings is stated in the table on page 153. The BIRMC assists 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 of 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.

The Committee assess all key risks such as Credit, Operational, Market, Liquidity etc., on a monthly basis through a set of risk indicators.

The Committee continued to work very closely with the Key Management Personnel and the Board in fulfilling its statutory, fiduciary and regulatory responsibilities for Risk Management.

Activities of the Committee

In order to discharge the above duties and responsibilities, the Committee undertakes to carryout the following:

- Reviewing the terms of reference of all Management Committees dealing with specific risks or some aspect of risk, such as the Executive Integrated Risk Management Committee, The Executive Committee on Monitoring NPAs, the Credit Policy Committee and the Assets and Liabilities Committee.
- Monitoring the actions initiated by Senior Management to test the effectiveness of the measures taken by the respective Committees referred to above.
- Reviewing the annual work plan, related strategies, policies and framework of the above Committees, to ensure that the Committees have a good understanding of their mandate and adequate mechanism to identify, measure, avoid, mitigate, transfer or manage the risks within the qualitative and quantitative parameters set by the BIRMC.
- Maintaining a continuous dialogue with the Management Committees directly or indirectly dealing with specific risks, so that the 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 reviewing and approving the Internal Capital Adequacy Assessment Process (ICAAP) framework and ensure that ICAAP is subject to comprehensive internal audit oversight.
- Reviewing and improving the effectiveness of the risk related policy framework of the Bank.
- Reviewing risk profiles of subsidiaries of the Bank.
- Taking appropriate actions to implement software solutions to support the risk management function of the Bank in order to migrate into advance approaches in Basel II/Basel III in the future.
- Reviewing 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.
- Reviewing 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.

**Board Integrated Risk Management
Committee Report**

- Reviewing and approving 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.
- Taking appropriate actions against the failures of the officers responsible for risk management functionality to improve the overall effectiveness of risk management at the Bank.
- Monitoring the effectiveness and the independence of the risk management function within the Bank and ensure that adequate resources are deployed for this purpose.
- Reviewing 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.
- Reviewing the updated Business continuity and Disaster Recovery Plan annually.

During the year 2014, the BIRMC supported execution of the overall business strategy within a set of prudent risk parameters that are reinforced by an effective risk management framework.

**M.P. Jayawardena**

Chairman - Board Integrated Risk Management Committee

Colombo
February 23, 2015

Board Nomination Committee Report

Composition of the Committee

The Board Nomination Committee 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 (*Director*)

Prof. U.P. Liyanage (*Director*)

Mr. J. Durairatnam, Managing Director/CEO attended meetings of the Committee by invitation. Ms. J.R. Gamage, the Company Secretary of the Bank, functioned as the Secretary of the Committee.

Brief profiles of the members of the Committee are given on pages 129 to 131.

Terms of Reference of the Committee**(a) Purpose of Establishing the Committee**

Nomination Committee was established by the Board in compliance with sub-direction 3 (6) of the Direction No. 11 of 2007 (subsequently amended) on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Monetary Board of the Central Bank 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, Chief Executive Officer and Key Management Personnel'.

Matters relating to Key Management Personnel may be dealt with by the Board Human Resources and Remuneration Sub-Committee.

(b) Composition of the 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.
- Chief Executive Officer may be present at meetings by invitation.

(c) Authority of the 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 on invitation.

(d) Meetings of Committee

- There shall be a quorum of two thirds 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, Chief Executive Officer and Key Management Personnel.
- 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 Chief Executive Officer and key management positions.
- To ensure that Directors, Chief Executive Officer and Key Management Personnel are fit and proper persons to hold office as per the criteria set out in the Direction issued by the Central Bank of Sri Lanka 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 Key Management Personnel.
- To make recommendations on any other matter/s referred to it by the Board of Directors.


Matters relating to Key Management Personnel may be dealt with by the Human Resources Sub-Committee.

Committee Meetings

Five Committee meetings were held during the year under review. Attendance of the Committee members at the meeting is given on page 153 Proceedings of the Committee meetings are regularly reported to the Board of Directors.

Methodology Adopted by the Committee

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 23, 2015

Board Audit Committee Report

Composition of the Committee

The Committee is appointed by the Board and as at the end of the year comprised of the following Non-Executive Directors of the Bank:

Mr. S. Swarnajothi (*Chairman*)
 Mr. L. Hulugalle (*Director*)
 Mr. K.M.M. Siriwardana (*Director*)*

*(Ceased to hold office w.e.f. February 23, 2015)

The Chairman of the Committee, Mr. S. Swarnajothi, an Independent Non-Executive Director, is a former Auditor General of Sri Lanka and possesses considerable experience in the field of Auditing and Finance. He is a Fellow of The Institute of Chartered Accountants of Sri Lanka (FCA) and a Fellow of the Institute of Certified Management Accountants of Sri Lanka (FCMA).

Other members of the Committee, namely, Messrs. L. Hulugalle and K.M.M. Siriwardana are also Independent Non-Executive Directors.

The profiles of the members are given on pages 129 to 131.

Mr. Manil Jayasinghe 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.

Assistant General Manager of the Bank, in charge of Management Audit, functions as the Secretary of the Committee.

Charter of the Committee

The Audit Committee Charter is periodically reviewed and revised with the concurrence of the Board of Directors. The Terms of Reference of the Committee are clearly defined in the Charter of the Audit Committee. This process ensures that new developments and concerns are adequately addressed. The Committee is responsible to the Board of Directors and reports on its activities regularly. The functions of the Committee are geared to assist the Board of Directors in its general oversight on 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 Colombo Stock Exchange' and 'Code of Best Practice on Corporate Governance' issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka further regulate the composition, roles and functions of the Board Audit Committee.

Conduct of Meetings

The Committee held eight meetings during the financial year ended December 31, 2014. The proceedings of these meetings, with adequate details of matters discussed, are regularly reported to the Board of Directors. 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. Representatives of the Bank's External Auditors M/s. KPMG also participated in five 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 appearing on page 153.

The Objective and Role

The Audit Committee assists the Board of Directors to effectively carry out its supervisory oversight responsibilities on accounting and financial reporting processes and the audit of the Financial Statements of the Bank. The Committee is empowered to -

- Examine any matter relating to the financial and other connected affairs of the Bank.
- Ensure that efficient and sound financial reporting systems are in place and are 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 quality and the appropriateness of accounting policies and their adherence to statutory and regulatory compliance requirements and applicable Accounting Standards.
- Ensure that the Bank has adopted and adhere to policies which firmly commits the Bank to achieve the highest standards of good Corporate Governance practices so that its operations conform to the highest ethical standards, good industry practices and in the best interest 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 internal and external audit and inspection programmes, review internal and external audit/inspection reports and follow up 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 disclosure, prior to submission to the Board of Directors.

The Bank has complied with the requirements specified in the Section 3(6)(ii) of the aforesaid Direction. The Committee's functions in discharging the above responsibilities have more fully been described below:

Reporting of Financial Position and Performance

The Board Audit Committee supports the Board of Directors in its oversight on the preparation of Financial Statements that evidence a true and fair view on financial position and performance, based on the Bank's accounting records and in accordance with the stipulated requirements of the Sri Lanka Accounting Standards. In accordance with the mandate mentioned above, the Committee reviews the following:

- Adequacy and effectiveness of the Internal Controls, Systems and Procedures to provide reasonable assurance that all transactions are accurately and completely recorded in the books of account.
- Effectiveness of the Financial Reporting Systems in place to ensure reliability of the information provided to the stakeholders.
- Selection of most appropriate Accounting Policies after considering the alternatives available.
- Processes by which compliance with Sri Lanka Accounting Standards (SLFRS/LKAS) and other regulatory provisions relating to financial reporting and disclosures are ensured.
- Financial Statements in Annual Report and Interim Financial Statements prepared for publication, prior to submission to the Board.

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

Oversight on Regulatory Compliance

The Committee closely scrutinises compliance with mandatory banking and other statutory requirements and the systems and procedures 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 operational risks identified during inspections. The Committee seeks and obtains the required assurances from the Business Units on the remedial action in respect of the identified risks in order to maintain the effectiveness of internal control procedures in place.

Internal Audit and Inspection

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

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

The Committee regularly reviews the programme of inspection formulated for the purpose and its implementation and closely monitors the internal audit and the inspection functions. 616 inspection reports on Branches, other Business Units and Departments received the attention of the Committee and the operational deficiencies, lapses highlighted and the recommendations were given due attention. Members of the Committee visited some of the branches to get a better understanding of the branch operations. 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.

External Audit

In regard to the external audit function of the Bank, the role played by the Committee is as follows:

- Assisting the Board of Directors to implement the processes of 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.
- Monitor and assess the independence of the External Auditor.

Board Audit Committee Report

- 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 with the Auditors their audit plan, scope and the methodology proposed to be adopted in conducting the audit 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 the Key Management Personnel.
- Reviewing the External Auditor's Management Letter and the management's response thereto.

The Auditors were also provided with the opportunities of meeting the 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 and also for the Committee to have the assurance 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 Auditor's Management Letter before it is submitted to the Board of Directors and to the Central Bank of Sri Lanka.

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 Auditors 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 nonperforming loans and provisioning requirements specified by the Central Bank of Sri Lanka. The Committee also reviewed 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 emphasised 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. Highest standards of Corporate Governance and adherence to the Bank's Code of Ethics are ensured. All appropriate procedures are 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

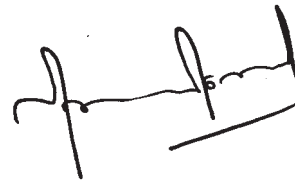
The Committee continued to monitor the progress of the mandatory implementation of Sri Lanka Accounting Standards (SLFRS/LKAS) which converged with International Financial Reporting Standards (IFRS) effective from January 1, 2012.

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.



S. Swarnajothi
Chairman - Board Audit Committee

Colombo
February 23, 2015

Composition of the Committee

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

- Mr. K.G.D.D. Dheerasinghe (*Chairman*)
- Mr. J. Durairatnam (*Managing Director/CEO*)
- Mr. S. Renganathan (*Executive Director/Chief Operating Officer*)
- Mr. W.M.R.S. Dias who was a member of the Committee relinquished duties as Director of the Bank with effect from July 16, 2014.
- Mr. M.P. Jayawardena was a member of the Committee up to August 29, 2014.
- Mr. K.M.M. Siriwardana was a member of the Committee from August 29, 2014 to November 25, 2014.
- Mr. R.A.P. Rajapaksha, 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 129 to 131.

Mandate and Role of the Committee

The Board Credit Committee 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 the lending areas, the 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 boarder exposures.
- Monitor Non-Performing Advances and recommend provision cover as required.
- Monitor and evaluate special reports called for by the Board of Directors.
- Set lending directions based on the current economic climate.

Committee Meetings

Twelve BCC meetings were held during the year under review. Attendance of the Committee members at meetings of BCC is given on page 153. Proceedings of the Committee meetings are regularly reported to the Board of Directors.

Methodology used by the Committee

The Committee will meet on a monthly basis and approve credit proposals above a predetermined limit.

Credit proposals and other credit reports intended for approval/perusal by the Board of Directors are scrutinised and/or recommended as required.

Credit proposals are evaluated in the perspective of the Bank's lending policies and appetite.

Close monitoring is exercised on exposures which are considered to generate a high quantum of potential credit risk to the Bank.

The BCC operates in consultation with the scope of the Bank's Credit Risk Management to ensure that the lending portfolios are managed in line with the stipulated credit risk parameters.



K.G.D.D. Dheerasinghe

Chairman - Board Credit Committee

Colombo
February 23, 2015

Board Technology Committee Report

Composition of the Committee

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

Prof. U.P. Liyanage (*Chairman*)
 Mr. J. Durairatnam (*Managing Director/CEO*)
 Mr. S. Renganathan (*Executive Director/Chief Operating Officer*)
 Mr. A.R.M. Muttiah (*Chief Information Officer*)
 Mr. L.H. Munasinghe (*Deputy General Manager - Marketing*)
 Mr. D.B. Sapramadu (*Consultant*)

Refer pages 129 to 131 for profiles of the Board Members.

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.

Committee Meetings

There were four Committee meetings during the year with attendance of members listed on page 153.

Periodic updates are given to the Board of Directors on the progress of Board Technology Committee objectives.

Methodology Adopted by the Committee

The Committee endeavours to meet every quarter, and review progress of strategic objectives. The Committee also reviews significant items for procurement and recommends them for approval by the Board of Directors.



Prof. U.P. Liyanage

Chairman - Board Technology Committee

Colombo
 February 23, 2015

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/Chief Executive Officer*)
 Mr. S. Renganathan (*Executive Director/Chief Operating Officer*)
 Mr. H.J. Wilson (*Director*)
 Mr. K.D.N. Buddhipala (*Chief Financial Officer*)
 Mr. K.A.P. Perera (*Head of Global Markets*)
 Mr. A.N.P. Sooriyaarachchi (*Assistant General Manager - Corporate and Investment Banking*)
 Mr. A. Wijesiriwardane (*Head of Global Treasury/ Secretary of the Committee*)
 Mr. S.K.K. Hettihamu (*Chief Manager - Risk*)

Refer pages 129 to 131 for profiles of the Board Members.

Charter of the Committee

The Committee oversees the investment activities of the Bank by providing assistance and guidance to the management in accordance with the investment policies of the Bank. In particular the Committee monitors the Bank's investments in Government Securities, corporate debt and equities, while evaluating the new business proposals in these areas and offering guidance where required.

The Committee is expected to -

- Have a broad discussion on economic and market environment before arriving at any investment decisions.
- Evaluate important investment proposals of the Bank, in detail before being submitted to the Board for approval.
- Discuss the impact of investment decisions on the Statement of Financial Position of the Bank.
- Review overall performance of the Bank particularly that of Treasury operations.

Committee Meetings

The Committee held ten meetings during the year with attendance of members listed on page 153.

Methodology Adopted by the Committee

The Committee endeavours to meet monthly and review progress of strategic investments, liquidity situation of the Bank and 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.



K.G.D.D. Dheerasinghe

Chairman - Board Investment Committee

Colombo
 February 23, 2015

Board Related Party Transactions Review Committee Report

Composition of the Committee

The Bank established the Board Related Party Transactions Review Committee (BRPTRC) and as at the end of the year the BRPTRC comprised of the following Directors of the Bank:

Mr. K.G.D.D. Dheerasinghe (*Chairman*)
 Mr. S. Swarnajothi (*Director*)
 Mr. J. Durairatnam (*Managing Director/CEO*)
 Mr. S. Renganathan (*Executive Director/Chief Operating Officer*)

Mr. K.G.D.D. Dheerasinghe, the Chairman of the Bank and Mr. S. Swarnajothi, the Chairman of the Board Audit Committee 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 129 to 131.

Terms of Reference of the Committee

The BRPTRC was formed by the Board to assist the Board in reviewing all related party transactions carried out by the Bank and its listed companies in the Group by early adopting of the Code of Best Practice on Related Party Transactions as issued by the Securities and Exchange Commission of Sri Lanka (SEC).

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 Related Party Transaction Policy consistent with that proposed by the SEC.
- Updating the Board of Directors on the related party transactions of each of the listed companies of the Group on a quarterly basis.

- Making immediate market disclosures on applicable related party transactions as required by Section 9 of the Continuing Listing Requirements of the Colombo Stock Exchange (CSE).
- Making appropriate disclosures on related party transactions in the Annual Report as required by Section 9 of the Continuing Listing Requirements of the CSE.

Committee Meetings

A Committee meeting was held during the year under review. Attendance of the Committee members at the meeting is given on page 153. Proceedings of the Committee meetings are regularly reported to the Board of Directors.

Methodology Adopted by the Committee

The Committee endeavours to meet at least quarterly, review and report to the Board on matters involving related party transactions falling under its Terms of Reference.



K.G.D.D. Dheerasinghe

Chairman - Board Related Party Transactions Review Committee

Colombo
 February 23, 2015

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 46th Annual Report of your Company together with the Audited Financial Statements and the Audited Consolidated Financial Statements for the year ended December 31, 2014 of the Bank and the Group 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 and the recommended best practices.

This Report was approved by the Board of Directors on February 23, 2015. The appropriate number of copies of the Annual Report will be submitted to the Colombo Stock Exchange 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 Company Registration No. PQ 116. The registered office of the Bank is at No. 21, 'Commercial House', Sir Razik Fareed Mawatha, Colombo 01, 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 Colombo Stock Exchange since March 1970. The unsecured subordinated redeemable debentures issued by the Bank are also listed on the Colombo Stock Exchange. Fitch Ratings Lanka has once again affirmed Bank's National long term rating at 'AA(lka)' with a stable outlook and subordinated debentures at 'AA-(lka)'. Lanka Rating Agency Limited (formerly known as RAM Ratings Lanka Ltd.) upgraded Bank's long term financial institution ratings, from AA+ to AAA with a stable outlook while the short-term rating was reaffirmed as P1.

As required by the Section 168 of the Companies Act No. 07 of 2007, the following information is disclosed in this Annual Report prepared for the year ended December 31, 2014:

| Information required to be disclosed as per the Companies Act No. 07 of 2007 | Reference to the Companies Act | Extent of Compliance by the Bank |
|--|--------------------------------|----------------------------------|
| (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 Item 2.2.1 on page 195 |
| (ii) Signed Financial Statements of the Group and the Bank for the accounting period completed | Section 168 (1) (b) | Refer Item 2.3 on page 195 |
| (iii) Auditors' Report on Financial Statements of the Group and the Bank | Section 168 (1) (c) | Refer Item 2.5 on page 195 |
| (iv) Accounting Policies and any changes therein (Group also included) | Section 168 (1) (d) | Refer Item 2.6 on page 195 |
| (v) Particulars of the entries made in the Interests Registers of the Bank and its Subsidiaries during the accounting period | Section 168 (1) (e) | Refer Item 2.7 on page 195 |
| (vi) Remuneration and other benefits paid to Directors of the Bank and its Subsidiaries during the accounting period | Section 168 (1) (f) | Refer Item 2.8 on page 196 |
| (vii) Total amount of donations made by the Bank and its Subsidiaries during the accounting period | Section 168 (1) (g) | Refer Item 2.9 on page 196 |
| (viii) Information on Directorate of the Bank and its Subsidiaries during and at the end of the accounting period | Section 168 (1) (h) | Refer Item 11.1 on page 199 |
| (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 Item 21 on page 203 |
| (x) Auditors' relationship or any interest with the Bank and its Subsidiaries | Section 168 (1) (j) | Refer Item 21 on page 203 |
| (xi) Acknowledgement of the Contents of this Report/Signatures on behalf of the Board | Section 168 (1) (k) | Refer Item 31 on page 204 |

2. Review of Business

2.1 Vision, Mission and Corporate Conduct

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's Vision and Mission Statements are exhibited on page 3.

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 on Operations of the Group and the Bank

The 'Letter from the Chairman' on pages 8 to 11 the 'Managing Director's Review' on pages 12 to 14, and the 'Management Discussion and Analysis' on pages 15 to 68, together with Audited Financial Statements provide an overall assessment on the financial performance and financial position of the Group and the Bank and the state of affairs 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. These sections form an integral part of the Annual Report.

Segment wise contribution to Group revenue, results, assets and liabilities is disclosed in Note 59 to the Financial Statements, on page 372.

2.2.1 Principal Business Activities of the Group and the Bank

The Companies within the Group and the nature of the principal business activities of each entity are disclosed as required by the Section 168 (1) (a) of the Companies Act No. 07 of 2007 in Note 1.3 to the Financial Statements and are found on page 277. On September 01, 2014, the Bank acquired 100% ownership of Indra Finance Ltd. (IFL), a Licensed Finance Company registered under the Finance Business Act No. 42 of 2011 at a total purchase consideration of Rs. 916.046 Mn. The carrying value of the net assets of IFL as at the date of acquisition was Rs. 516.001 Mn. Except for the above transactions, there were no significant changes in the nature of the principal business activities of the Group and the Bank during the financial year under review.

2.3 Financial Statements of the Group and the Bank

In compliance with the requirements of the Sections 151, 152 and 168 (1) (b) of the Companies Act No. 07 of 2007, the Financial Statements of the Group and the Bank have been duly certified by the Chief Financial Officer and approved by the Board of Directors and signed by three members of the Board of Directors including the Chairman and the Deputy Chairman, together with the Company Secretary are appearing on pages 269 to 276.

2.4 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 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 Flow, Significant Accounting Policies and Notes thereto appearing on pages 269 to 405 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards (SLFRS/LKAS) 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 206 and 207 forms an integral part of this Report.

2.5 Auditors' Report

The Group's Auditors, Messrs KPMG performed the audit on the Separate and Consolidated Financial Statements for the year ended December 31, 2014, and the Auditors' Report issued thereon is appearing on page 266 as required by the Section 168 (1) (c) of the Companies Act No. 07 of 2007.

2.6 Accounting Policies and Changes during the Year

For all periods up to and including the year ended December 31, 2014, the Group prepared its Financial Statements in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) which have materially converged with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). As required by the Section 168 (1) (d) of the Companies Act No. 07 of 2007, the Board of Directors wish to confirm that there were no changes to the Accounting Policies used by the Group and the Bank during the year. Significant Accounting Policies adopted in the preparation of the Financial Statements of the Group and the Bank are given on pages 285 to 303.

2.7 Entries in the Interests Register

As required by the Section 168 (1) (e) of the Companies Act No. 07 of 2007, the Bank and all its Subsidiaries maintain Interests Registers. We wish to confirm that 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 Register during the year under review. The share ownership of Directors is disclosed on page 201. The Interests Register is 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.

2.8 Directors’ Remuneration and Other Benefits

As required by the Section 168 (1) (f) of the Companies Act No. 07 of 2007, the Directors’ remuneration and other benefits in respect of the Group and the Bank for the financial year ended December 31, 2014, are disclosed in Note 20 to the Financial Statements on page 309.

2.9 Corporate Donations by the Bank

During the year, the Bank made donations amounting to Rs. 54,582,772/- (Rs. 51,319,012/- in 2013) in terms of the Resolution passed at the last Annual General Meeting. The information given above on donations forms an integral part of the Report of the Board of Directors as required by the Section 168 (1) (g) of the Companies Act No. 07 of 2007.

The Commercial Bank’s Corporate Social Responsibility Trust formed in 2004, handles most of the Bank’s CSR initiatives and activities. The Trust manages a range of programmes that underpin its key principle of acting responsibly in all areas of business to bring about sustainable development. The CSR initiatives, including completed and ongoing projects, are detailed in the section on ‘Sustainability Report’ on pages 69 to 126. In quantifying the Bank’s contribution to charities, no account has been taken of ‘in-house’ costs or management time.

3. Future Developments and Current Standing

The Bank has already established delivery points in all districts of the country. During the year, 04 new delivery points were added (08 in 2013), bringing the total number of delivery points in Sri Lanka to 239 at the end of 2014 (235 at the end of 2013). In addition, the Bank installed 21 new ATMs (30 in 2013) bringing the total number of ATMs in Sri Lanka to 606 by the end of 2014 (585 at the end of 2013). The Bank’s ATM network is the single largest ATM network in the country. The Bank also has 18 delivery points (18 in 2013) and 19 ATMs (19 in 2013) at the end of 2014, in Bangladesh.

The Bank continuously promotes the use of Online Internet Banking, Mobile Banking and Online Bill payment features to enable customers’ easy access to most banking services 24/7. This is reflected by customer accounts of 200,000 and 150,000 respectively for Mobile Banking and Online Banking at the end of the year.

The Bank intends to expand its network of delivery channels both in Sri Lanka and in Bangladesh 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. Refer sections on ‘Letter from the Chairman’ on pages 8 to 11, ‘Managing Director’s Review’ on pages 12 to 14 and ‘Management Discussion and Analysis’ on pages 15 to 68 for initiatives taken in this regard.

4. Gross Income

The gross income of the Group for 2014 was Rs. 74.538 Bn. (Rs. 73.705 Bn. in 2013) while the Bank’s gross income was Rs. 74.442 Bn. (Rs. 73.736 Bn. in 2013).

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 59 to the Financial Statements on page 372.

5. Results and Appropriations

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

The net profit before tax of the Group and the Bank amounted to Rs. 15.860 Bn. and Rs. 15.736 Bn. respectively in 2014 (Rs. 14.691 Bn. and Rs. 14.511 Bn. in 2013) and this was an increase of 7.96% and 8.45%, (2.65% and 1.51% in 2013). Further, the net profit after tax of the Group and the Bank amounted to Rs. 11.243 Bn. and Rs. 11.180 Bn. respectively in 2014 (Rs. 10.573 Bn. and Rs. 10.446 Bn.) and this was an increase of 6.33% and 7.03%, (4.88% and 3.44% in 2013).



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

| | 2014 Rs' 000 | 2013 Rs' 000 |
|---|-----------------|-----------------|
| Profit for the year after payment of all expenses of management and providing for depreciation, impairment on loans and advances, VAT on Financial Services and contingencies | 15,736,216 | 14,510,519 |
| Less: provision for taxation | (4,556,035) | (4,065,008) |
| Net profit after taxation | 11,180,181 | 10,445,511 |
| Balance brought forward from previous year | 5,053 | 6,822 |
| Profit available for appropriation | 11,185,234 | 10,452,333 |
| Less: Appropriations | | |
| Transfer to the Statutory Reserve Fund | (559,009) | (522,276) |
| Transfer to Special Risk Reserve of Primary Dealer Unit | - | (78,943) |
| Transfer to the Special Reserve of Primary Dealer Unit | - | (236,830) |
| Transfer to the Investment Fund Account | (388,446) | (1,991,758) |
| Transfer to General Reserve | (4,600,000) | (2,095,000) |
| Dividends on Ordinary Shares | | |
| 1st Interim Dividend paid - Rs. 1.50 per share in cash (Rs. 1.50 in 2013) | (1,298,154) | (1,273,491) |
| 2nd Interim Dividend paid - Rs. 1.00 per share in cash (Rs. 1.00 in 2013) | (865,943) | (849,148) |
| Proposed Final Dividend - Rs. 2.00 per share in cash (Rs. 2.00 in 2013) | (1,731,886) | (1,699,917) |
| - Rs. 2.00 per share in shares (Rs. 2.00 in 2013) | (1,731,886) | (1,699,917) |
| Balance carried forward | 9,910 | 5,053 |

On this basis, the cash dividend payout ratio amounts to 34.85% of the profit after tax of 2014, compared to 36.60% for 2013, while total dividend payout ratio amounts to 50.34% for 2014 compared to 52.87% for 2013. This is well above the minimum dividend payout ratio of 10%, (10% in 2013) stipulated in the Deemed Dividend Tax Rule.

5.2 Dividends on Ordinary Shares

The Directors recommend a dividend of Rs. 4.00 per share as the final dividend for the year 2014 which consists of a cash dividend of Rs. 2.00 per share and the balance entitlement of Rs. 2.00 per share satisfied in the form of issue and allotment of new shares. (The Bank paid a final dividend of Rs. 4.00 per share in 2013 and this was satisfied by way of Rs. 2.00 per share in the form of cash and the balance entitlement of Rs 2.00 per share in the form of issue and allotment of new shares.) The Bank paid two interim dividends i.e., Rs. 1.50 per share and Rs. 1.00 per share each in cash on November 21, 2014 and on February 05, 2015, respectively (two interim dividends of Rs. 1.50 and Rs. 1.00 per share each in cash were paid on November 19, 2013 and on January 27, 2014). Details of Information on dividends are given in Note 23 to the Financial Statements on page 312.

The interim dividends were paid out of the profits of the Bank, hence, subjected to a 10% withholding tax.

The Directors recommend to pay a final dividend of Rs. 4.00 per share of which Rs. 2.00 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. 2.00 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 2015.

Annual Report of the Board of Directors

5.3 Reserves

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

| | 2014 Rs' 000 | 2013 Rs' 000 |
|---|-------------------|-------------------|
| Statutory Reserve Fund | 4,327,103 | 3,768,094 |
| Special Risk Reserve of Primary Dealer Unit | - | 266,520 |
| Special Reserve of Primary Dealer Unit | - | 1,082,513 |
| Revaluation Reserve | 6,246,960 | 4,615,947 |
| General Reserve | 32,474,478 | 21,298,306 |
| Foreign Currency Translation Reserve | (454,188) | (393,758) |
| Available-for-Sale Reserve | 2,735,569 | 2,023,468 |
| Investment Fund Reserve | - | 4,838,693 |
| Retained Earnings | 4,418,412 | 4,359,632 |
| Total | 49,748,334 | 41,859,415 |

Information on the movement of reserves is given in the Statement of Changes in Equity on pages 272 to 275 and in Notes 51 to 53 respectively to the Financial Statements on pages 363 to 366.

5.4 Provision for Taxation

The Income Tax rate applicable on the profits earned in Sri Lanka (i.e., the profits of both Domestic Banking Operation and the profits of the Off-Shore Banking Centre) is 28% (28% in 2013). The profit of the Bank's Bangladesh Operation is taxed at 42.5% (42.5% in 2013). The profit of the Sri Lankan Operation of the Bank is also liable for Value Added Tax on Financial Services at the rate of 12% (12% in 2013), Crop Insurance Levy of 1% and Nation Building Tax on 2% which was introduced from January 2014.

The Group has also provided deferred tax on all known temporary differences under the liability method, as permitted by the Sri Lanka Accounting Standard - LKAS 12 on 'Income Taxes'.

Information on Income Tax Expense and Deferred Taxes of the Group and the Bank are given in Notes 21 and 45 to the Financial Statements on pages 310 and 352, respectively.

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

The total value of Property, Plant and Equipment, Intangible Assets and Leasehold Property of the Bank as at Reporting Date amounted to Rs. 15,493.095 Mn., Rs. 1,668.461 Mn. and Rs. 84.840 Mn. respectively (Rs. 13,499.527 Mn., Rs. 1,524.096 Mn., and Rs. 84.840 Mn., respectively in 2013). Capital expenditure incurred during 2014 on Property, Plant and Equipment (including Capital Work-in-Progress), Intangible Assets and Leasehold Property of the Bank amounted to Rs. 1,020.312 Mn., Rs. 144.417 Mn., and Rs. Nil, respectively (Rs. 958.204 Mn., Rs. 119.449 Mn., and Rs. Nil., in 2013), details of which are given in Notes 36, 37 and 38 to the Financial Statements on pages 336, 347 and 349 respectively.

Specific information on extent, location, valuations of the land and buildings held by the Bank are given in Note 36.5 (a) and (b) to the Financial Statements on pages 340 to 346.

The details of capital expenditure approved and contracted for are given in Note 55.3 to the Financial Statements on page 368.

7. Market Value of Properties

7.1 Property, Plant and Equipment

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. The last revaluation exercise on the freehold land and buildings of the Bank was carried out as at December 31, 2011.

Details of freehold properties of the Bank are given in Note 36.5 (a) to the Financial Statements on page 340.

7.2 Investment Property

Investment properties of any Group companies when significantly occupied by the other companies in the Group are classified under Property, Plant and Equipment in the Consolidated Financial Statements in accordance with LKAS 40 on 'Investment Property'.

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:

| Reason for the Issue | Details of the Share Issue | 2014 | | 2013 | |
|---|-----------------------------------|------------------------|----------------------------|------------------------|----------------------------|
| | | Voting Ordinary Shares | Non-Voting Ordinary Shares | Voting Ordinary Shares | Non-Voting Ordinary Shares |
| Part of final dividend amounting to Rs. 2.00 per share satisfied in the form of issue and allotment of new shares | Number of Shares Issued | 12,504,344 | 1,036,724 | 13,076,189 | 1,069,474 |
| | Consideration (Rs. '000) | 1,431,747 | 98,178 | 1,405,690 | 96,253 |
| Exercise of options by employees under the Employee Share Option Plans | Number of Shares Issued | 3,237,566 | N/A | 1,445,398 | N/A |
| | Consideration Received (Rs. '000) | 340,763 | N/A | 76,074 | N/A |

The Bank did not issue any debentures during the year 2014 or in 2013.

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 Stated Capital as at December 31, 2014 was Rs. 21,457.501 Mn., comprising of 810,277,729 ordinary voting shares and 55,579,946 ordinary non-voting shares (Rs. 19,586.813 Mn. as at December 31, 2013 comprising of 794,535,819 ordinary voting shares and 54,543,222 ordinary non-voting shares). The details of the Stated Capital are given in Note 50 to the Financial Statements on page 361.

The Bank had in issue 972,660 unsecured, subordinated, redeemable debentures of Rs. 1,000/- each to the value of Rs. 972.660 Mn., as at December 31, 2014 (972,660 debentures to the value of Rs. 972.660 Mn., as at December 31, 2013). The details of debentures redeemed during the year 2014 and those outstanding as at December 31, 2014 are given in Note 49 to the Financial Statements on page 360.

The debenture issues addressed the needs in relation to long term funds required for bridging the maturity gaps and to strengthen the supplementary capital base of the Bank at the time of issue.

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 246 and 262.

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 pages 246 to 262.

10. 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 246 and 262.

11. Directors

11.1 Information on Directors of the Group and the Bank

11.1.1 List of Directors

The Board of Directors of the Bank as at December 31, 2014 consisted of nine Directors (eight Directors as at December 31, 2013) with wide financial and commercial knowledge and experience. The qualifications and experience of the Directors are given in the 'Board of Directors - Profiles' on pages 129 and 131.

Annual Report of the Board of Directors

Names of the Directors of the Bank as at the end of 2014, 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 (<i>Chairman</i>) | Non-Executive | Independent |
| Mr. M.P. Jayawardena (<i>Deputy Chairman</i>) | Non-Executive | Independent |
| Mr. J. Durairatnam (<i>Managing Director/Chief Executive Officer</i>) | Executive | Non-Independent |
| Prof. U.P. Liyanage | Non-Executive | Independent |
| Mr. L. Hulugalle | Non-Executive | Independent |
| Mr. S. Swarnajothi | Non-Executive | Independent |
| Mr. H.J. Wilson | Non-Executive | Independent |
| Mr. S. Renganathan | Executive | Non-Independent |
| Mr. K.M.M. Siriwardana (Ceased to hold office w.e.f. February 23, 2015) | Non-Executive | Independent |

11.1.2 New Appointments and Resignations

The information on new appointments and resignations to and from the Board of Directors of the Bank given below forms an integral part of this 'Annual Report of the Board of Directors' in terms of the Section 168 (1) (h) of the Companies Act No. 07 of 2007.

New Appointments during 2014 -

- Mr. H.J. Wilson (*Appointed w.e.f. July 3, 2014*)
- Mr. J. Durairatnam as the Managing Director/Chief Executive Officer (*Appointed w.e.f. July 17, 2014*).
- Mr. S. Renganathan as an Executive Director/Chief Operating Officer (*Appointed w.e.f. July 17, 2014*).
- Mr. K.G.D.D. Dheerasinghe, as the Chairman of the Board (*Appointed w.e.f. July 29, 2014*).
- Mr. M.P. Jayawardena, as the Deputy Chairman of the Board (*Appointed w.e.f. July 29, 2014*).
- Mr. K.M.M. Siriwardana (*Appointed w.e.f. August 28, 2014*).

Resignations/Relinquishments/Cessations during 2014 -

- Mr. W.M.R.S. Dias - *Former Managing Director/CEO (Retired w.e.f. July 16, 2014)*
- Mr. D.S. Weerakkody - *Former Chairman-(Relinquished w.e.f. July 28, 2014)*

11.1.3 List of Directors of Subsidiaries and Associates of the Bank

Names of the Directors of all Subsidiaries and Associates of the Bank are given in the section on 'Group Structure' on page 408.

11.1.4 Recommendations for Re-election

Directors who were Appointed to fill Casual Vacancies

- Mr. H.J. Wilson (*Appointed w.e.f. July 3, 2014*)
- Mr. S. Renganathan (*Appointed w.e.f. July 17, 2014*)
- Mr. K.M.M. Siriwardana (*Appointed w.e.f. August 28, 2014*)

Directors to Retire by Rotation

- (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 re-election 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. L. Hulugalle
Prof. U.P. Liyanage

(b) Directors Appointed to fill Casual Vacancies

- Mr. H.J. Wilson
Mr. S. Renganathan

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.

11.1.5 Directors' Meetings

Details of Directors' meetings which comprised Board meetings and all Board Sub-Committee meetings are presented on page 153.

11.1.6 Board Sub-Committees

The Board of Directors of the Bank formed four mandatory Board Sub-Committees as required by the Banking Act Direction No. 11 of 2007 issued by the Monetary Board on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka'. The Board of Directors also has formed four other 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.

During the year the Board of Directors formed a new Board Sub-Committee, namely, Board Related Party Transactions Review Committee, to assist the Board in reviewing all related party

transactions carried out by the Bank and its listed companies in the Group by early adopting of the Code of Best Practice on Related Party Transactions as issued by the Securities and Exchange Commission of Sri Lanka (SEC).

The composition of the four mandatory Sub-Committees (Nomination Committee, Remuneration Committee, Integrated Risk Management Committee and Audit Committee) and five other Board Sub-Committees, as at December 31, 2014 and the details of the attendance by Directors at meetings are found on page 153 while the Reports of these Sub-Committees are found on pages 183 to 193.

12. Disclosure of Directors' Dealing in Shares and Debentures

12.1 Directors' Interests in Ordinary 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:

| As at December 31, | Ordinary Voting Shares | | Ordinary Non-Voting Shares | |
|---|------------------------|---------|----------------------------|--------|
| | 2014 | 2013 | 2014 | 2013 |
| Mr. K.G.D.D. Dheerasinghe (<i>Chairman</i>) | 20,653 | 20,334 | Nil | Nil |
| Mr. M.P. Jayawardena (<i>Deputy Chairman</i>) | Nil | Nil | Nil | Nil |
| Mr. J. Durairatnam (<i>Managing Director/CEO</i>) | 379,087 | 344,336 | Nil | Nil |
| Prof. U.P. Liyanage | Nil | Nil | Nil | Nil |
| Mr. L. Hulugalle | Nil | Nil | Nil | Nil |
| Mr. S. Swarnajothi | Nil | Nil | 8,490 | 8,332 |
| Mr. H.J. Wilson (<i>Appointed w.e.f. July 3, 2014</i>) | Nil | N/A | Nil | N/A |
| Mr. S. Renganathan (<i>Appointed w.e.f. July 17, 2014</i>) | 190,034 | 197,093 | 10,190 | N/A |
| Mr. K.M.M. Siriwardana (<i>Appointed w.e.f. August 28, 2014</i>) | Nil | N/A | Nil | N/A |
| Mr. D.S. Weerakkody (<i>Former Chairman - Relinquished Office w.e.f. July 28, 2014</i>) | N/A | 26,452 | N/A | 12,220 |
| Mr. W.M.R.S. Dias (<i>Former Managing Director - Retired w.e.f. July 16, 2014</i>) | N/A | 696,594 | N/A | Nil |

Note: Mr. K.M.M. Siriwardana ceased to hold office w.e.f. February 23, 2015.

Annual Report of the Board of Directors

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 9, 2015, 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 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 details of the existing Employee Share Option Plan is given in Note 50.2 to the Financial Statements on page 362.

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 212. 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 Employee Share Option Plan of the Bank:

| | 2014 | | 2013 | |
|--|--------------------|--------------------|--------------------|--------------------|
| | Mr. J. Durairatnam | Mr. S. Renganathan | Mr. J. Durairatnam | Mr. S. Renganathan |
| Total Options available to exercise as at January 01, | 138,645 | 69,669 | 113,043 | 86,995 |
| Options vested during the year | 54,486 | 46,721 | 54,486 | 46,721 |
| Options exercised during the year | (28,884) | Nil | (28,884) | (64,047) |
| Options expired during the year | Nil | Nil | Nil | Nil |
| Total options available to exercise as at December 31, | 164,247 | 116,390 | 138,645 | 69,669 |

Directors' remuneration and other benefits, in respect of the Group and the Bank for the financial year ended December 31, 2014 are given in Note 20 to the Financial Statements on page 309.

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.

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 in the section on 'Environmental Responsibility' in the 'Sustainability Report' on pages 111 and 112.

17. Statutory Payments

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments due to the Government, other regulatory institutions and related to the employees have been made on time.

18. Events After the date of the Statement of Financial Position

No event of material significance that require adjustments to the Financial Statements, has occurred subsequent to the date of the Statement of Financial Position, other than those disclosed in Note 66 to the Financial Statements on page 405.

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

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 appointed as Auditors of the Bank at the Annual General Meetings held in March 2013 and 2014 to carry out the audits of the Bank for the years ended December 31, 2013 and 2014.

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

A resolution to re-appoint KPMG as Auditors and granting authority to the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

21. Auditors' Remuneration and Interest in Contracts with the Bank

The Auditors, Messrs KPMG were paid Rs. 9,032 Mn. for the year ended December 31, 2014 (Rs. 8,596 Mn. in 2013) as audit fees by the Bank. In addition, they were paid Rs. 12,493 Mn., (Rs. 11,294 Mn. in 2013) by the Bank, for permitted non-audit-related services including tax consultancy services as disclosed in Note 20 to the Financial Statements on page 309. This information is disclosed as required by the Section 168 (1) (i) of the Companies Act No. 07 of 2007.

As far as the Directors are aware, the 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 Bank's Subsidiaries and Associates. This information is disclosed as required by the Section 168 (1) (j) of the Companies Act No. 07 of 2007.

22. Lead Auditor's Independence Declaration

Independence Confirmation has been provided by Messrs KPMG as required by Section 163 (3) of the Companies Act No. 07 of 2007, in connection with the audit for the year ended December 31, 2014 confirming that KPMG is not aware of any relationship with or interest in the Bank or any subsidiaries audited by KPMG that in their judgment, may reasonably be thought to have a bearing on our 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 Reporting Date.

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

Information that require disclosures as per Rule 7.6 (xi) of the Listing Rules of the Colombo Stock Exchange are given in the Section on 'Investor Relations Supplement' on pages 246 to 262.

24. 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 218 to 245, in the 'Board Integrated Risk Management Committee Report' that appears on pages 185 and 186 and in Note 65 to the Financial Statements on 'Financial Risk Review' on pages 380 to 405.

25. 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 concept; 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 Colombo Stock Exchange and the Central Bank of Sri Lanka are given in the section on 'Corporate Governance' on pages 142 to 182.

Annual Report of the Board of Directors

26. Human Resources

The Bank continues to invest in Human Capital Development and implement effective Human Resource Practices and Policies to improve work force 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 183 to 184.

The Human Resources and Remuneration Committee ensures that employees are fairly rewarded for their contributions to the performance of the Bank. The provision of performance bonuses is the sole discretion of the Board.

27. Technology

Our Bank's 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 192.

28. 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.

29. Outstanding Litigation

In the opinion of the Directors and in consultation with the Bank's lawyers, litigation currently pending against the Bank will not have a material impact on the reported financial results or future operations of the Bank. Details of litigations pending against the Bank are given in Note 57 to the Financial Statements on pages 368 and 369.

30. The Annual General Meeting and the Notice of Meeting

The 46th Annual General Meeting of the Bank will be held at Galadari Hotel, 'Grand Ballroom', No. 64, Lotus Road, Colombo 01, on Tuesday, March 31, 2015 at 2.00 p.m.

Notice relating to the 46th Annual General Meeting of the Bank is enclosed at the end of this Annual Report.

31. 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.



K.G.D.D. Dheerasinghe
Chairman



M.P. Jayawardena
Deputy Chairman



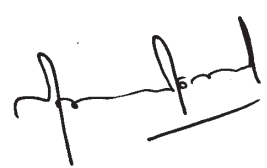
J. Durairatnam
Managing Director/CEO



Prof. U.P. Liyanage
Director



L. Hulugalle
Director



S. Swarnajothi
Director



H.J. Wilson
Director



S. Renganathan
Director



K.M.M. Siriwardana
Director (Absent)



Ms. J.R. Gamage
Company Secretary

Colombo
February 23, 2015



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 266.

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 Group and the Bank 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, 2014, the Statement of 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 -

- (a) the financial position of the Bank and the Group as at December 31, 2014; and
- (b) the financial performance of the Bank and the Group 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 285 to 303 based on the latest financial reporting framework on a consistent basis, while reasonable and prudent judgments 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 2014, prepared and presented in this Annual Report have been prepared based on Sri Lanka Accounting Standards (SLFRS/LKAS) are in agreement with the underlying books of account and are in conformity with the requirements of the 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, the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (ICASL) 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 Bank and the Group 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 188 to 190. 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 Bank and the Group 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 208 and 209 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 57 to the Financial Statements on 'Litigation against the Bank' on page 368.
- (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 Colombo Stock Exchange;

- (k) that all shareholders in each category have been treated equitably in accordance with the original terms of issue;
- (l) that the Bank and its quoted Subsidiary have met all the requirements under the Section 7 on Continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange, 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 ICASL 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 Bank and the Group have been certified by the Bank's Chief Financial Officer, 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 23, 2015 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 210.

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 23, 2015

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. 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 and 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 Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The internal audit division of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, in accordance with the annual audit plan approved by the Board Audit Committee. 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 Board Audit Committee. Findings of the internal audit are submitted to the Board Audit Committee for review at their periodic meetings.
- The Board Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Division, 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 Board Audit Committee 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 Board Audit Committee of the Bank are set out in the 'Board Audit Committee Report' which appears on pages 188 to 190.
- 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 SLFRS and LKAS 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 quarter 2013 and continued to do so in 2014 as well. The Board is evaluating the need to automate the processes referred to above within a suitable time plan. The Board will also take into consideration the requirements of the Accounting Standard SLFRS 9 on 'Financial Instruments' that has been issued in 2014 but not yet effective, as it could 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 External Auditors in connection with the internal control system during the financial year 2013 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 210.

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, 2014 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,



K.G.D.D. Dheerasinghe

Chairman



M.P. Jayawardena

Deputy Chairman



J. Durairatnam

Managing Director/CEO

Colombo

February 23, 2015

Assurance Report on Internal Control



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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 (“the Company”) to provide assurance on the Directors’ Statement on Internal Control (“Statement”) for the year ended December 31, 2014, as set out on pages 208 to 209 of 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 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 of the Directors to obtain an understanding of the process defined by the Board of Directors for their review of design and effectiveness of internal control and compared their understanding to the 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) Attended meetings of the audit committee at which the annual report, 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 that causes us to believe that the Statement included in this Annual Report on pages 208 to 209 is inconsistent with our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Company.

Chartered Accountants

Colombo
 February 23, 2015

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, 2014 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,
- 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,
- Listing Rules of the Colombo Stock Exchange and
- Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

The formats used in the preparation of the Financial Statements and disclosures made comply with the specified formats prescribed by the Central Bank of Sri Lanka. 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 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 266 The Board Audit Committee 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 Central Bank of Sri Lanka on permitted non-audit services or impair KPMG's independence and objectivity.

The Bank's Board Audit Committee, *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 188 to 190 The Board Audit Committee regularly examined the major decisions taken by the Assets and Liabilities Committee (ALCO) and Credit Policy Committee of the Bank, during the year. The Bank engaged the services of five firms of Chartered Accountants, approved by the Central Bank of Sri Lanka, to strengthen the audit and inspection functions. The continuous inspection and audit functions, engagement of firms of Chartered Accountants and effective functioning of Board Audit Committee, 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 members of the Board Audit Committee 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.

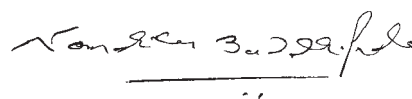
It is also declared and confirmed that the Bank and the group have complied with and ensured compliance with the guidelines for the audit of listed companies where mandatory compliance is required.

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 57 on page 368 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, 2014 have been paid, or where relevant provided for.



J. Durairatnam
Managing Director/CEO



K.D.N. Buddhhipala
Chief Financial Officer

Colombo
February 23, 2015

Directors' Interest in Contracts with the Bank

Related party disclosures as per Sri Lanka Accounting Standard - LKRS 24 on 'Related party Disclosures' is disclosed in Note 60 to the Financial Statements on pages 374 to 378 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/Outstanding | |
|--|----------------------------------|-----------------------|-----------------------|----------------------|
| | | 31.12.2014 Rs '000 | 31.12.2014 Rs '000 | 31.12.2013 Rs'000 |
| (a) Prof. U.P. Liyanage | | | | |
| Diesel & Motor Engineering Company PLC | Loans & Advances | 4,877,567 | 1,857,251 | 1,674,652 |
| | Off-Balance Sheet Accommodations | | 1,291,687 | 1,547,380 |
| | Deposits | | 130,036 | 72,668 |
| Chemanex PLC | Loans & Advances | 310,000 | 67,287 | 298,587 |
| | Off-Balance Sheet Accommodations | 105,000 | 8,384 | 10,298 |
| | Deposits | | 38 | 17 |
| Ceylon Cold Stores PLC | Loans & Advances | 10,000 | | |
| | Deposits | | 2,076 | 115 |
| Talawakelle Tea Estates PLC | Loans & Advances | 165,000 | 27,000 | 8,180 |
| | Off-Balance Sheet Accommodations | 10,000 | | |
| | Deposits | | 11,430 | 3,476 |
| RPC Polymers (Pvt) Ltd. | Deposits | | 3,797 | 4,499 |
| Arpitech (Pvt) Ltd. | Deposits | | 1,733 | 5,766 |
| Singer (Sri Lanka) PLC | Loans & Advances | 2,324,623 | 874,623 | 1,640,253 |
| | Off-Balance Sheet Accommodations | 620,087 | 397,976 | 722,066 |
| | Deposits | | 70,144 | 20,890 |
| (b) Mr. L. Hulugalle | | | | |
| Waters Edge Hotel PLC | Loans & Advances | 200,000 | 140,970 | 193,750 |
| | Deposits | | 240,298 | 68,501 |
| Satnet (Pvt) Ltd. | Deposits | | 52,370 | 394,072 |
| (c) Mr. K.M.M. Siriwardana* | | | | |
| Hotel Developers (Lanka) PLC | Deposits | | 61 | 418 |
| (d) Mr. M.P. Jayawardena | | | | |
| Cal Exports Lanka (Pvt) Ltd. | Loans & Advances | 8,590 | 235 | - |
| | Off-Balance Sheet Accommodations | 79,290 | 5,374 | 12,688 |
| | Deposits | | 9,022 | 7,346 |
| Yasui Lanka (Pvt) Ltd. | Loans & Advances | 2,643 | - | 4,428 |
| | Off-Balance Sheet Accommodations | 52,860 | 4,365 | 6,321 |
| | Deposits | | 926 | 5,161 |
| Chemanex Exports (Pvt) Ltd. | Loans & Advances | 10,000 | - | - |
| | Off-Balance Sheet Accommodations | 29,000 | 8,206 | 10,000 |
| | Deposits | | 4,044 | 2,361 |
| CIC Holdings PLC | Loans & Advances | 990,450 | 682,450 | 1,069,574 |
| | Off-Balance Sheet Accommodations | 250,000 | 161,408 | 53,760 |
| | Deposits | | 1,901 | 3,908 |
| CIC Vetcare (Pvt) Ltd. | Loans & Advances | 100,000 | 78,650 | 80,220 |
| | Off-Balance Sheet Accommodations | 150,000 | 27,825 | 33,612 |
| | Deposits | | 50 | 93 |
| CIC Poultry Farms Ltd. | Loans & Advances | 1,098,128 | 972,658 | 341,380 |
| | Off-Balance Sheet Accommodations | 50,000 | 35,072 | 221,295 |
| | Deposits | | 24 | 24 |
| EAP Films & Theatres (Pvt) Ltd. | Deposits | | 11,490 | 9,148 |
| EAP Broadcasting Co. Ltd. | Deposits | | 126,727 | 53,016 |

*Mr. K.M.M. Siriwardana, ceased to hold office w.e.f. February 23, 2015.

Comparative figures for 2013 are disclosed only if outstandings are available as at 31.12.2014.

**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 Requirements | Description | Page No. |
|--|---|------------|
| 1. Information about the Significance of Financial Instruments for Financial Position and Performance | | |
| 1.1 Statement of Financial Position | | |
| 1.1.1 Disclosures on categories of financial assets and financial liabilities. | <i>Notes to the Financial Statements:</i> Note 24 - Classification of Financial Assets and Financial Liabilities | 313-315 |
| 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 values attributable to these risks and the methods of measurement. | <i>Significant Accounting Policies:</i> Note 5.3.3.1.2 - Financial Assets Designated at Fair Value through Profit or Loss Note 5.3.4.1.2 - Financial Liabilities at Designated at Fair Value through Profit or Loss | 288 290 |
| (ii) Reclassifications of financial instruments from one category to another. | <i>Significant Accounting Policies:</i> Note 5.3.5 - Reclassification of Financial Assets and Liabilities | 290 & 291 |
| (iii) Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral. | <i>Notes to the Financial Statements:</i> Note 65.1.3 - Collateral Held and Other Credit Enhancements | 388 |
| (iv) Reconciliation of the allowance account for credit losses by class of financial assets. | <i>Notes to the Financial Statements:</i> Note 32.2 - Movement in Provision for Individual and Collective Impairment during the year. | 325 |
| (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. | <i>Notes to the Financial Statements:</i> Notes 11 - 21 to the Financial Statements | 304-311 |
| 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. | <i>Notes to the Financial Statements:</i> Note 12 - Net Interest Income | 304 & 305 |
| (ii) Fee income and expense. | <i>Note to the Financial Statements:</i> Note 13 - Net Fees and Commission Income | 306 |
| (iii) Amount of impairment losses by class of financial assets. | <i>Notes to the Financial Statements:</i> Note 17 - Impairment Charges for Loans and Other Losses | 308 |
| (iv) Interest income on impaired financial assets. | <i>Notes to the Financial Statements:</i> Note 12.1 - Interest Income from Impaired Loans and Receivables to Other Customers | 304 |

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 Requirements | Description | Page No. |
|---|--|-----------------------------|
| 1.3 Other Disclosures | | |
| 1.3.1 Accounting Policies for financial instruments. | <i>Significant Accounting Policies:</i> Note 5.3 - Financial Instruments – Initial Recognition, Classification and Subsequent Measurement | 287-293 |
| 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 financial asset and financial liability, along with: | | |
| (i) Comparable carrying amounts. | <i>Notes to the Financial Statements:</i> Note 25 - Assets and Liabilities Measured at Fair Value and Fair Value Hierarchy | 315-318 |
| (ii) Description of how fair value was determined. | <i>Significant Accounting Policies:</i> Note 4 - Fair Value Measurement | 283 & 284 |
| (iii) The level of inputs used in determining fair value. | <i>Notes to the Financial Statements:</i> Note 25.2 - Financial Instruments Not Measured at Fair Value - Fair Value Hierarchy Note 25.5 - Valuation Techniques and Inputs Used in Measuring the Fair Values of Assets and Liabilities in the Level 2 Note 36.5 (b) - Information on Valuations of Freehold Land and Buildings of the Bank | 317 & 318 318 341-346 |
| (iv) (a) Reconciliations of movements between levels of fair value measurement hierarchy. (b) Additional disclosures for financial instruments that fair value is determined using level 3 inputs. | There were no movements between levels of fair value hierarchy during the period under review. <i>Notes to the Financial Statements:</i> Note 25.3 - Significant Unobservable Inputs Used as at December 31, 2014 in measuring fair value of land and buildings categorised as Level 3 | – 317 |
| (v) Information if fair value cannot be reliably measured. | <i>Notes to the Financial Statements:</i> Note 33 - Financial Investments – Available-for-Sale | 329-332 |
| 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. | <i>Significant Accounting Policies:</i> Note 3 - Financial Risk Management <i>Notes to the Financial Statements:</i> Note 65 - Financial Risk Review | 281-283 280-405 |
| 2.1.2 Management's objectives, policies and processes for managing those risks. | <i>Significant Accounting Policies:</i> Note 3 - Financial Risk Management Refer the section relating to 'Managing Risk at Commercial Bank' for comprehensive disclosure of management's objectives, policies and processes. | 281-283 218-245 |

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 Requirements | Description | Page No. |
|---|---|------------------------|
| 2.1.3 Changes from the prior period. | There were no major policy changes during the period under review. | – |
| 2.2 Quantitative Disclosures | | |
| 2.2.1 Summary of quantitative data about exposure to each risk at the Reporting date. | <i>Notes to the Financial Statements:</i> Note 65 - Financial Risk Review | 380-405 |
| 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. | <i>Notes to the Financial Statements:</i> Note 65.1.1 - Credit Quality Analysis Note 65.1.3 - Collateral Held and Other Credit Enhancements | 381-387 388 |
| (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. | <i>Notes to the Financial Statements:</i> Note 65.1.1 (b) - Age Analysis by Class of Financial Assets <i>Significant Accounting Policies:</i> Note 5.3.10 - Identification and Measurement of Impairment of Financial Assets for Factors Considered in Determining the Financial Assets as Impaired and for Description of Collaterals | 383 291-293 |
| (c) Information about collateral or other credit enhancements obtained or called. | <i>Notes to the Financial Statements:</i> Note 65.1.3 - Collateral Held and Other Credit Enhancements | 388 |
| (d) Other 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 relating to 'Managing Risk at Commercial Bank'. | 218-245 |
| (ii) Liquidity Risk | | |
| (a) A maturity analysis of financial liabilities. | <i>Notes to the Financial Statements:</i> Note 58 - Maturity Analysis - Group Note 65.2.2 - Maturity Analysis of Financial Assets and Liabilities - Bank | 369-371 394-397 |
| (b) Description of approach to risk management. | <i>Significant Accounting Policies:</i> Note 3 - Financial Risk Management Refer the section relating to 'Managing Risk at Commercial Bank'. | 281-283 218-245 |
| (c) Other disclosures (As per Section H of the Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks). | Refer the section relating to 'Managing Risk at Commercial Bank'. | 218-245 |

Other Disclosure Requirements Under the Prescribed Format
Issued by the Central Bank of Sri Lanka for Preparation of
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| Disclosure Requirements | Description | Page No. |
|--|---|-----------|
| (iii) Market Risk | | |
| (a) A sensitivity analysis of each type of market risk to which the Bank is exposed. | <i>Notes to the Financial Statements:</i> Note 65.3.2 - Sensitivity analysis | 399-401 |
| (b) Additional information, if the sensitivity analysis is not representative of the entity's risk exposure. | None | – |
| (c) Other disclosures (As required by the Section H of the Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks). | <i>Notes to the Financial Statements:</i> Note 65.4 - Operational Risk. | 403 |
| | Refer the section relating to 'Managing Risk at Commercial Bank'. | 218-245 |
| (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 relating to 'Managing Risk at Commercial Bank'. | 218-245 |
| (v) Equity Risk in the Banking Book | | |
| (a) Qualitative Disclosures | | |
| Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons. | <i>Significant Accounting Policies:</i> Note 5.3.3.1.1 - Financial Assets – Held-for-Trading | 287 & 288 |
| | <i>Notes to the Financial Statements:</i> Note 5.3.3.4 - Financial Investments – Available-for-Sale | 289 |
| Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. | <i>Notes to the Financial Statements:</i> Note 4 - Fair Value Measurement | 283 & 284 |
| (b) Quantitative Disclosures | | |
| Value disclosed in the Statement of Financial Position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value. The types and nature of investments. The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period. | <i>Notes to the Financial Statements:</i> Note 30.2 - Equity Securities – Group and Bank | 319-321 |
| | Note 33 - Financial Investments – Available-for-Sale | 329-332 |
| | Note 34 - Investments in Subsidiaries | 333 & 334 |
| | Note 35 - Investments in Associates | 335 |
| | Note 14 - Net Gains/(Losses) from Trading | 307 |
| Note 15 - Net Gains/(Losses) from Financial Investments | 307 | |
| (vi) Interest Rate Risk in the Banking Book | | |
| (a) Qualitative Disclosures | | |
| Nature of interest rate risk in the banking book (IRRBB) and key assumptions. | <i>Notes to the Financial Statements:</i> Note 65.3.1 - Exposure to Market Risk – Trading and Non-Trading Portfolios | 398 & 399 |
| | Refer the section relating to 'Managing Risk at Commercial Bank'. | 218-245 |

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 Requirements | Description | Page No. |
|---|--|-----------|
| (b) Quantitative Disclosures | | |
| The increase/(decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant). | <i>Notes to the Financial Statements:</i> Note 65.3.2 - Exposure to Interest Rate Risk – Sensitivity Analysis | 399-401 |
| | Refer the section relating to 'Managing Risk at Commercial Bank'. | 219-245 |
| 2.2.3 Information on concentrations of risk. | <i>Notes to the Financial Statements:</i> Note 65.1.4 - Concentrations of Credit Risk | 389-392 |
| 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. | <i>Notes to the Financial Statements:</i> Note 65.5 - Capital Management | 404 & 405 |
| (ii) Quantitative Disclosure | | |
| (a) The amount of Tier I capital, with separate disclosure of: - Paid-up share capital/common stock - Reserves - Non-controlling interests in the equity of subsidiaries - Innovative instruments - Other capital instruments - Deductions from Tier I capital (b) The total amount of Tier II and Tier III capital (c) Other deductions from capital (d) Total eligible capital | <i>Notes to the Financial Statements:</i> Note 65.5 - Capital Management | 404 & 405 |
| 3.1.2 Capital Adequacy | | |
| (i) Qualitative Disclosures | | |
| A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities. | <i>Notes to the Financial Statements:</i> Note 65.5 - Capital Management | 404 & 405 |
| | Refer the section relating to 'Managing Risk at Commercial Bank' | 218-245 |
| (ii) Quantitative Disclosures | | |
| (a) Capital requirements for credit risk, market risk and operational risk (b) Total and Tier I capital ratio | Refer the section relating to 'Managing Risk at Commercial Bank' | 218-245 |

Managing Risk at Commercial Bank

Scope of Risk and the Risk Management Framework

At Commercial Bank, the management of risk plays a pivotal part in all its business activities. The identification, evaluation, measurement, mitigation, monitoring and reporting of risks associated with products, processes, systems and services of the Bank is an integral part that forms the scope of risk management when fulfilling requirements of its customers and counterparties.

The risk management function of the Bank comes under the direct supervision of the Board Integrated Risk Management Committee (BIRMC) where its independence from the business lines is ensured. In the course of its business activities, the Bank is constantly exposed to risks that include but are not limited to Credit Risk, Market Risk,

Liquidity Risk and Operational Risk. The Bank is aware of a wide spectrum of risks that it is exposed to and provides attention to each and every risk factor that could hinder the achievement of Bank's overall objectives. The risk management function strives therefore to manage the enterprise-wide risks optimized through risk adjusted returns within the risk appetite of the Bank.

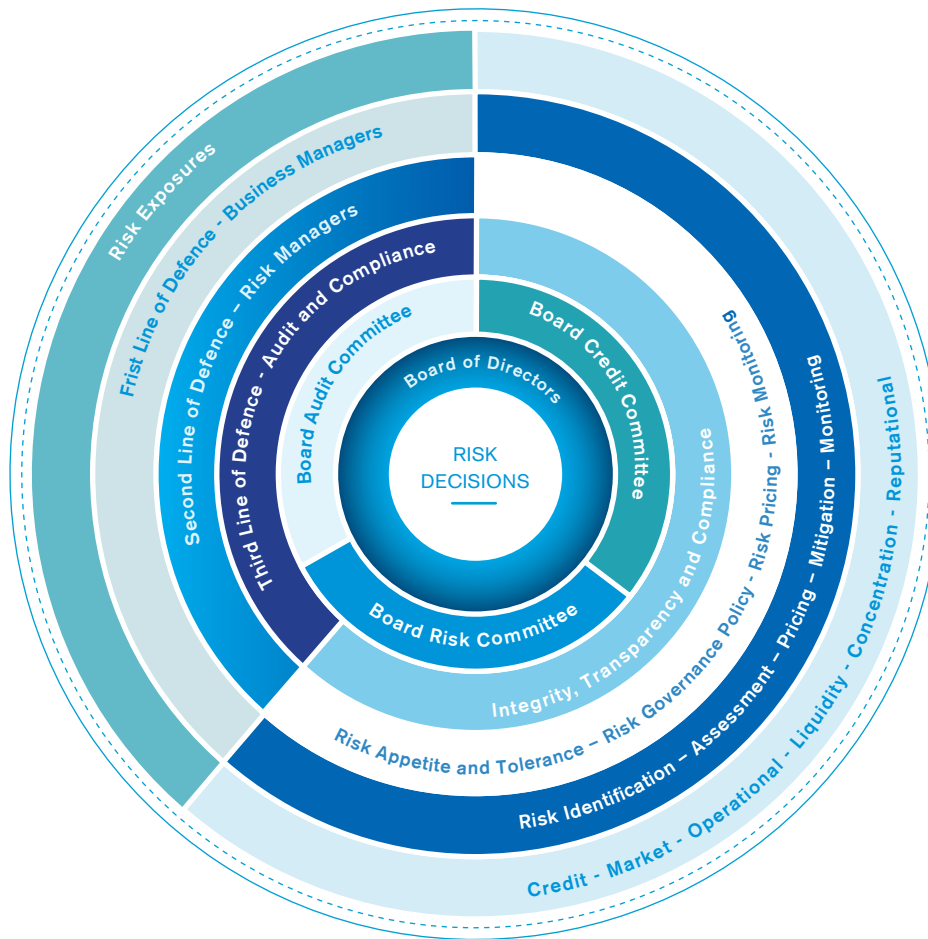
The Bank has put in place structures and processes to address these risks which are vested in different sections, officers and risk-related committees of the Bank.

Risk related committees of the Bank are listed below;

| Committees | Key Objectives | Represented by |
|---|---|--|
| Board Integrated Risk Management Committee (BIRMC) | To ensure that the Bank-wide risks are managed within the risk strategy and appetite established by the Board of Directors. | Refer pages 185 and 186. |
| Board Credit Committee(BCC) | To assist the Board to analyse and review the credit risk control measures in the lending area, evaluate and recommend high value credit proposals and comply with CBSL regulations. | Refer page 191. |
| Executive Integrated Risk Management Committee (EIRMC) | To monitor and review all the risk exposures and risk-related policies and procedures affecting credit, market and operational areas in line with the directives from BIRMC. | Risk Management, Personal Banking, Corporate Banking, Treasury, Inspection/ Audit, Compliance and Finance. |
| Assets and Liabilities Committee (ALCO) | To optimise the Bank's financial goals, while maintaining market and liquidity risks within the Bank's risk appetite. | Treasury, Corporate Banking, Personal Banking, Risk Management and Finance |
| Credit Policy Committee | To review and approve credit policies and procedures to ensure that all credit portfolios are properly managed within the lending strategies of the Bank. | Corporate Banking, Personal Banking, Risk Management, Inspection, Recoveries and Branch Credit Monitoring. |
| Executive Committee on Monitoring NPAs | To review and monitor the Bank's Non-performing Advances (NPAs) above Rs. 5.0 Mn. to initiate timely corrective actions to prevent and reduce credit losses. | Corporate Banking, Personal Banking, Recoveries and Risk Management. |
| Business Continuity Management Steering Committee (BCMSC) | To direct, guide and oversee the activities of the Business Continuity Plan (BCP) of the Bank which aligns with the strategic direction provided by the Board with regard to BCP development and maintenance. | Key members in the Bank's Corporate Management covering all business lines that come under their purview. |
| Information Security Council (ISC) | To support in continuously meeting the information security objectives and requirements of the Bank. | IT, Operations, Risk Management and Inspection/Audit. |

Managing Director is a member of all above Committees except for BCMSC and ISC, while Chief Operating Officer is a member of all above committees except for ISC.

These committees carry out independent risk evaluations both qualitative and quantitative and the results are shared with Line Managers, Senior Management and Board of Directors in order to initiate mitigatory measures.



Three Lines of Defence

In achieving its goals, the Bank deploys risk management and internal control structure referred to as the ‘three lines of defence’, wherein roles between Line Management, Risk Management and Inspection/Audit are segregated.

| | |
|------------------|--|
| Line Management | Cultivates a culture of risk awareness and embed it as a part of role description for all employees. |
| Risk Management | Reviews and challenges the self-assessment of risks and controls developed by the business units and independently oversees the implementation and adherence to the policies by the Line Management. |
| Inspection/Audit | Conducts periodic and independent review of all material risks and assess the appropriateness of the internal controls. |

Managing Risk at Commercial Bank

Risk Profile Dashboard

The Bank has established policy parameters on tolerance limits on a number of identified key risk indicators. These encompass compliance with CBSL and other regulatory frameworks as well as Bank-wide focus on targets such as capital adequacy, overall external rating, profitability and growth from a strategic perspective. Credit Risk aspects are evaluated through numerous types of concentrations and asset quality levels whereas Market Risk aspects focus on liquidity, interest rate, Foreign Exchange and concentration of products and markets. Operational Risk aspects focus on major risk types under Basel II guidelines as well as IT Risk parameters in arriving at the overall risk profile.

Aggregation and monitoring of risk tolerances ensure that the Bank operates in line with its desired overall risk profile. The overall risk appetite of the Bank will be monitored through a high-level risk appetite and tolerance dashboard for the Senior Management and the Board of Directors as well as individual dashboards for major business units.

The desired level under each indicator is being monitored against achievement on a regular basis to provide a clear perspective of the risk profile of the Bank to support taking proactive measures in achieving strategic objectives of the Bank.

Basel II Framework

The Basel II framework is built on three Pillars and the progress made by the Bank in achieving these standards are discussed below;

| | First Pillar | Second Pillar | Third Pillar |
|---------------------------|---|--|---|
| Concept | Maintenance of minimum regulatory capital for credit risk, market risk and operational risk | Supervisory review process to evaluate the activities and risk profile of the Bank to determine whether the Bank should hold higher level of capital than the minimum requirement in Pillar I. This mechanism is commonly known as ICAAP (Internal Capital Adequacy Assessment Process). | Complements the minimum capital requirement and the supervisory review process (i.e. the first and second Pillars) by developing a set of disclosure requirements to facilitate market participants to assess the risk exposures of banks and the way in which the risks are managed. |
| Progress Made by the Bank | Computation of capital adequacy as per regulatory requirements (Refer page 223) | The Bank has implemented a comprehensive ICAAP framework since December, 2013 with the assistance of an overseas risk consultancy firm. | The Bank started providing a comprehensive set of Risk Management disclosures from 2012 in line with the regulatory requirements to enhance market discipline. |

In addition to meeting the requirements stated in the Risk Management Framework prescribed by the regulator, the Bank has progressed well in implementing the International Best Practices of Risk Management by acquiring risk management software systems for credit, market and operational risks.

Basel III and Beyond

In compliance with the regulatory requirements, the Bank has initiated establishing one of the standards prescribed under Basel III Framework - Liquidity Coverage Ratio (LCR). Accordingly, test calculations are being shared with the Central Bank of Sri Lanka on a monthly basis and the Bank is confident of falling in line with the Basel III Road Map of the Regulator. In addition, the Bank is getting itself geared to embrace other salient features of Basel III requirements as and when they are to be implemented in Sri Lanka.

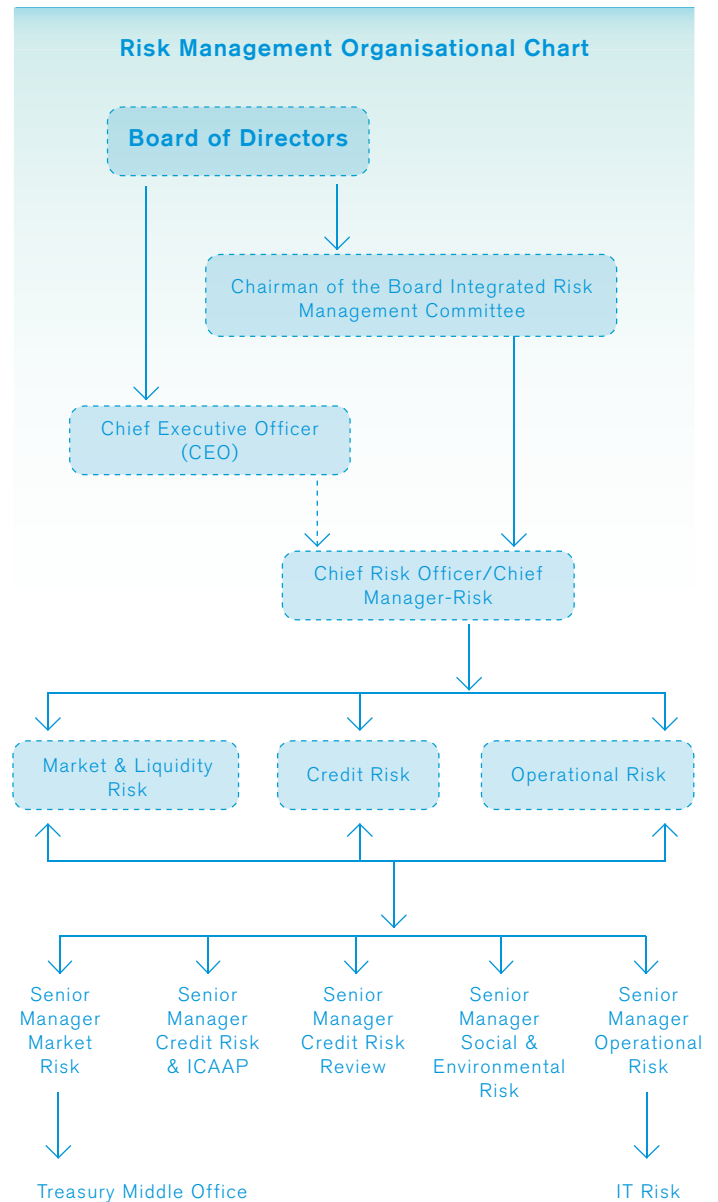
Bank's Risk Appetite Framework

In volatile financial markets, it is important to understand the accurate risk profile of the Bank and compare that with the desired risk profile on an ongoing basis. The Bank therefore, has implemented a comprehensive risk appetite framework that helps to better understand and manage the risks by translating risk matrix and methods into strategic decisions, reporting and day-to-day business decisions.

Risk appetite defines the aggregate quantum of risk the Bank is willing to assume in different areas of business in achieving its strategic objectives while maintaining the desired risk profile. Tolerance limits for various types of risks such as credit risk, market risk and operational risk including IT risk has been established by the Bank and these limits are periodically reviewed to capture factors such as:

- Evolving business and strategic objectives of the Bank.
- Changing local and global economic conditions.
- Changes in regulatory requirements.
- Dynamic and competitive business environment.
- Internal budgets and forecasts.
- Behaviour of historical loss data.
- Adequacy of existing systems and controls.

A comprehensive limit system is adopted to translate the risk appetite of the Bank so that it is understandable and practical to implement, while catering to current sophisticated level of the operations.



Managing Risk at Commercial Bank

| Risk Type | Approaches Prescribed by Basel II | Approaches Adopted by CBC | Future Plan |
|------------------|---|--|--|
| Credit Risk | <p>Basel Accord prescribes three approaches of increasing sophistication:</p> <ol style="list-style-type: none"> 1. Standardised Approach 2. Internal Rating Based (Foundation) Approach (F-IRB) 3. Internal Rating Based (Advanced) Approach (A-IRB) | <p>Presently the Bank follows the Standardised Approach in calculating the capital requirement for Credit Risk.</p> | <p>The Bank is in the process of migrating to Basel II advanced approaches in measuring Credit Risk for capital calculations.</p> |
| Market Risk | <p>Basel II allows two approaches for determining capital requirement for Market Risk</p> <ol style="list-style-type: none"> 1. Standardised Measurement Method 2. Internal Models Approach - Value at Risk (VaR) Models | <p>The Bank currently follows the Standardised Approach in estimating the minimum capital requirement for its Market Risk exposures.</p> | <p>The Bank commenced calculating Market Risk VaR at portfolio level. This will pave the path for the Bank to progress towards Internal Models Approach in calculating the capital requirement for Market Risk</p> |
| Operational Risk | <p>The Operational Risk capital could be calculated under three approaches;</p> <ol style="list-style-type: none"> 1. Basic Indicator Approach (BIA) 2. a. The Standardised Approach (TSA) b. Alternative Standardised Approach (ASA) 3. Advanced Measurement Approach (AMA) | <p>The Bank currently adopts the Basic Indicator Approach in estimating the Operational Risk capital requirements.</p> | <p>The Bank is in the process of migrating to TSA while due consideration is being given to ASA. Further, the Bank also commenced collecting data and fulfilling other requirements for AMA, with the implementation of Operational Risk Management software system.</p> |

Pillar I Capital Calculation

Capital Adequacy Computation – Group

| As at December 31, | 2014 Rs. '000 | 2013 Rs. '000 |
|--------------------|------------------|------------------|
|--------------------|------------------|------------------|

1. Capital Adequacy Ratios

1.1 Core Capital Ratio

| | | |
|---|-------------|-------------|
| Total Eligible Core Capital (Tier I Capital) (Refer Note 2.1) | 58,662,124 | 51,649,064 |
| Total Risk-Weighted Assets (Refer Note 3) | 448,906,025 | 388,384,247 |
| Total Eligible Core Capital (Tier I Capital) (Minimum Requirement 5%) (%) | 13.07 | 13.30 |

1.2 Total Capital Ratio

| | | |
|---|-------------|-------------|
| Total Capital Base (Refer Note 2.2) | 72,832,325 | 65,747,955 |
| Total Risk-Weighted Assets (Refer Note 3) | 448,906,025 | 388,384,247 |
| Total Capital Ratio (Minimum Requirement 10%) (%) | 16.22 | 16.93 |

2. Computation of Capital

2.1 Computation of Eligible Core Capital (Tier I Capital)

| | | |
|---|-------------------|-------------------|
| Paid-up Ordinary Shares/Common Stock/Assigned Capital | 21,457,501 | 19,586,813 |
| Statutory Reserve Fund | 4,327,103 | 3,768,094 |
| Published Retained Profits/(Accumulated Losses) | 1,667,087 | 1,642,360 |
| General and Other Reserves | 32,020,287 | 27,092,271 |
| Minority Interests (consistent with the above capital constituents) | 47,564 | 38,778 |
| Less: Deductions/Adjustments | | |
| Goodwill | 400,045 | – |
| Other intangible assets | 456,185 | 477,728 |
| Advances granted to employees of the Bank for the purchase of shares of the Bank (ESOP) | 786 | 1,122 |
| 50% of Investments in Unconsolidated Banking and Financial Subsidiary Companies | – | – |
| 50% Investments in the Capital of Other Banks and Financial Institutions | 402 | 402 |
| Total Eligible Core Capital (Tier I Capital) | 58,662,124 | 51,649,064 |

2.2 Computation of Total Capital Base (Regulatory Capital)

| | | |
|---|-------------------|-------------------|
| Total Eligible Core Capital (Tier I Capital) (Refer Note 2.1 above) | 58,662,124 | 51,649,064 |
| Supplementary Capital | | |
| Revaluation Reserves (as approved by Central Bank of Sri Lanka) | 2,034,231 | 2,034,231 |
| General Provisions | 1,836,058 | 1,656,465 |
| Approved Subordinated Term Debt | 10,300,314 | 10,408,596 |
| Less: Deductions/Adjustments | | |
| 50% of Investments in Unconsolidated Banking and Financial Subsidiary Companies | – | – |
| 50% Investments in the Capital of Other Banks and Financial Institutions | 402 | 402 |
| Total Capital Base | 72,832,325 | 65,747,955 |

Managing Risk at Commercial Bank

| As at December 31, | 2014 Rs. '000 | 2013 Rs. '000 |
|--|--------------------|--------------------|
| 3. Computation of Risk-Weighted Assets - RWA | | |
| Credit Risk | | |
| RWA of On-balance sheet assets (Refer Note 4.1) | 357,895,337 | 312,948,832 |
| RWA of Off-balance sheet assets (Refer Note 4.2) | 36,624,440 | 29,150,668 |
| Total RWA for Credit Risk (a) | 394,519,777 | 342,099,500 |
| Market Risk | | |
| Capital Charge for Interest Rate Risk | 525,669 | 290,331 |
| Capital Charge for Equity | 70,347 | 63,000 |
| Capital Charge for Foreign Exchange & Gold | 123,188 | 177,955 |
| Total Capital Charge for Market Risk | 719,204 | 531,286 |
| Total RWA for Market Risk (Total Capital Charge for Market Risk x 10) (b) | 7,192,045 | 5,312,861 |
| Operational Risk | | |
| Gross Income | | |
| Year 1 | 32,989,114 | 23,166,112 |
| Year 2 | 24,964,114 | 25,763,771 |
| Year 3 | 36,435,177 | 33,013,888 |
| Average Gross Income | 31,462,802 | 27,314,590 |
| Total Capital Charge for Operational Risk - (Average Gross Income x 15%) | 4,719,420 | 4,097,189 |
| Total RWA for Operational Risk - (Total Capital Charge for Operational Risk x 10) (c) | 47,194,203 | 40,971,886 |
| Total Risk-Weighted Assets (a+b+c) | 448,906,025 | 388,384,247 |

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, | Risk-weight Factor % | 2014 | | 2013 | |
|--|----------------------------|--|-------------------------------------|--|-------------------------------------|
| | | 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 | 296,402,175 | - | 186,224,330 | - |
| Claims on Foreign sovereigns and their Central Banks | 0-150 | 14,474,568 | 14,474,568 | 13,013,457 | 13,013,457 |
| Claims on Public Sector Entities (PSEs) | 20-150 | 2,001,386 | 2,001,386 | 1,106,695 | 1,106,695 |
| Claims on Banks | 0-150 | 22,000,718 | 9,123,717 | 7,431,018 | 3,171,564 |
| Claims on Financial Institutions | 20-150 | 6,717,256 | 2,595,421 | 3,483,253 | 1,421,616 |
| Claims on Corporates | 20-150 | 180,382,044 | 163,169,705 | 201,017,165 | 189,954,336 |
| Retail claims | 75-100 | 128,387,920 | 106,252,471 | 63,087,735 | 47,321,629 |
| Claims Secured by Residential Property | 50-100 | 34,128,075 | 27,615,834 | 31,696,981 | 26,829,841 |
| Non-performing Assets (NPAs) | 50-150 | 7,673,647 | 10,687,124 | 7,731,921 | 10,914,776 |
| Cash Items | 0-20 | 13,678,575 | 950 | 11,514,318 | 854 |
| Property, Plant & Equipment | 100 | 11,243,805 | 11,243,805 | 9,285,554 | 9,285,554 |
| Other Assets | 100 | 10,730,355 | 10,730,355 | 9,928,510 | 9,928,510 |
| Total | | 727,820,525 | 357,895,337 | 545,520,938 | 312,948,832 |

4.2. Computation of RWA of Off-Balance Sheet Assets

| As at December 31, | Risk-weight Factor | 2014 | | 2013 | |
|--|--------------------|--|--------------------------|--|--------------------------|
| | | Principal Amount of Off-Balance Sheet Assets | Risk-Weighted Assets (*) | Principal Amount of Off-Balance Sheet Assets | Risk-Weighted Assets (*) |
| | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| | % | | | | |
| Claims on Banks | 0-150 | | | | |
| (a) Foreign Exchange Contracts | | 110,163,778 | 1,478,510 | 104,154,205 | 1,505,166 |
| i. Original Maturity-less than one year | | 110,163,778 | 1,478,510 | 104,154,205 | 1,505,166 |
| Claims on Corporates | 20-150 | | | | |
| (a) Direct Credit Substitutes | | 19,339,591 | 18,094,265 | 16,529,443 | 13,981,424 |
| i. General Guarantees of Indebtedness | | 19,339,591 | 18,094,265 | 16,529,443 | 13,981,424 |
| (b) Transaction-related Contingencies | | 9,655,456 | 4,825,310 | 9,678,648 | 4,529,379 |
| i. Performance Bonds, Bid Bonds & Warranties | | 9,650,119 | 4,822,641 | 9,678,648 | 4,529,379 |
| ii. Others | | 5,337 | 2,669 | - | - |
| (c) Short-Term Self-Liquidating Trade-Related Contingencies | | 44,215,017 | 8,725,516 | 39,474,904 | 7,409,905 |
| i. Shipping Guarantees | | 2,042,463 | 386,509 | 1,621,825 | 192,981 |
| ii. Documentary Letters of Credit | | 19,629,284 | 3,830,353 | 20,059,254 | 3,658,159 |
| iii. Trade related acceptances | | 1,663,030 | 332,606 | - | - |
| iv. Others | | 20,880,240 | 4,176,048 | 17,793,825 | 3,558,765 |
| (d) Foreign Exchange Contracts | | 19,457,853 | 374,013 | 30,850,547 | 479,518 |
| i. Original Maturity-less than one year | | 19,259,628 | 364,102 | 30,850,547 | 479,518 |
| ii. Original Maturity-More than one year and less than Two years | | 198,225 | 9,911 | - | - |
| Retail claims | 75-100 | | | | |
| (a) Direct Credit Substitutes | | 5,220,140 | 1,840,022 | 2,604,851 | 902,476 |
| i. General Guarantees of Indebtedness | | 5,220,140 | 1,840,022 | 2,604,851 | 902,476 |
| (b) Transaction-related Contingencies | | 2,387,898 | 454,785 | 1,157,244 | 221,400 |
| i. Performance Bonds, Bid Bonds & Warranties | | 2,387,898 | 454,785 | 1,157,244 | 221,400 |
| (c) Short-Term Self-Liquidating Trade-Related Contingencies | | 5,785,464 | 832,019 | 1,084,871 | 121,400 |
| i. Shipping Guarantees | | 128,185 | 17,394 | 131,287 | 11,391 |
| ii. Documentary Letters of Credit | | 5,657,279 | 814,625 | 953,584 | 110,009 |
| Other Commitments with an Original maturity of up to one year or which can be unconditionally cancelled at any time | 0 | 97,266,455 | - | 68,984,511 | - |
| Undrawn Term Loans | | 15,766,856 | - | 7,840,263 | - |
| Undrawn Overdraft Facilities/Unused Credit Card Lines | | 56,599,992 | - | 46,409,303 | - |
| Others | | 24,899,607 | - | 14,734,945 | - |
| Total | | 313,491,652 | 36,624,440 | 274,519,224 | 29,150,668 |

(*) Risk weighted figures of Off Balance Sheet assets are arrived at after using Credit Conversion Factors (CCF) prescribed under Basel II guidelines issued by the Central Bank of Sri Lanka and net of cash securities.

The Bank has used the following External Credit Assessment Institutions (ECAI) in the standardised approach for credit risk.

1. Fitch Ratings Lanka Ltd.
2. Lanka Rating Agency Ltd.
3. Moody's
4. Standard & Poor's
5. ICRA Lanka Ltd.

There have been no changes in the ECAIs used during the Reporting period. The Bank has used the standard mapping published by the Regulator.

Managing Risk at Commercial Bank

CREDIT RISK**1. Overview**

Credit Risk is the potential loss that could arise when a counterparty or borrower fails to meet its obligations under a contract. Though a credit risk arises mainly from direct lending reflected as 'On-Balance Sheet' transactions, it could also arise from 'Off-Balance Sheet' transactions such as Letters of Credit, Guarantees, Documents Against Acceptance etc. A deterioration of counterparty credit quality and/or market volatility can lead to potential credit risk related losses for the Bank. This will not only affect the profitability of the Bank but also could deteriorate the overall credit risk profile of the Bank.

2. Management Process

The Bank has a well-structured credit risk management process that involves assessing, quantifying, monitoring, pricing and mitigating credit risk exposures in line with the established policy framework which has been approved by the Board of Directors.

The Credit Risk Management Framework includes comprehensive policies, procedures including well-defined approval hierarchy and different committees to address various aspects of the credit risk management process in order to maintain the quality of the credit portfolio of the Bank.

The policies ensure quality, consistency and transparency in the credit risk approvals at all times. They also promote a disciplined credit culture in the Bank firmly embedded into high ethical standards.

The Bank considers the credit risk management as a value enhancing activity that goes beyond regulatory compliance. Therefore risk optimisation, a sound credit approval process based on highest ethical standards, an appropriate credit administration, measurement and monitoring process and adequate controls over credit risk on a continuous basis are made essential components of same.

The Board of Directors has approved the hierarchy for granting credit approvals. The exposures beyond certain predetermined levels require independent risk evaluation and final risk sign off before sanctioning. The Bank also has a robust post approval monitoring function of its credit portfolio.

3. Credit Risk Appetite

The Board of Directors set the credit risk appetite of the Bank in order to manage the credit risk, where limits on maximum exposures to industry sectors, products and geographies are defined after a thorough qualitative and quantitative assessment. The Credit Policy and the Lending Guidelines of the Bank have documented the credit risk appetite. The Bank has classified the sectors which are of limited appeal or of no credit appetite into two main categories; i.e. 'High Risk' and 'Prohibited Appetite'. While proposals coming under 'High Risk' category are approved only under exceptional circumstances with a strong business rationale and with adequate risk mitigants, the proposals falling under 'Prohibited Appetite' category are not entertained at all.

Bank has introduced a comprehensive and robust risk rating system compliant with Basel II guidelines. It is capable of representing diverse risk factors through a single point of indicator and predicting the 'Probability of Default' (PD) based on borrower and transaction specific criteria. These indicators complement Lending Officers to measure the risk profile of the credit portfolios in an objective manner, while supporting the Bank's endeavours in the direction of progressing from the present Basel II Standardised Approach towards more advanced Internal Rating Based (IRB) approach.

Bank's general policy is to assume credit exposures with short to medium term maturities. This reduces the overall credit risk in the portfolios, to a great extent. The overall credit risk exposure on certain risk categories (i.e. single borrower, industry sectors, products etc.) are monitored and controlled through a set of prudential exposure limits established by the Board of Directors.

4. Functionalities of Credit Risk Management

Credit risk management comprises of three main functional components namely, Credit Risk Management, Credit Risk Review and the Environmental Risk Review. While the Credit Risk Management evaluates proposals at the pre-sanction stage, the Credit Risk Review Function assesses the proposals at post-sanction stage.

Environmental Risk Review Function plays a role at both pre- and post-sanction stages to ensure that the Bank's lending activities are in conformity with the Bank's 'Social and Environmental Management System (SEMS)' Policy. Bank's social and environmental risks arise from its customers due to the inherent nature of operations of those customers. These risks are not static but rather dynamic and subject to change over time. SEMS framework ensures that all projects financed by the Bank are designed, built, operated and maintained in a manner consistent with the requirements of SEMS and the borrowing firms understand, agree and are able to comply with same. It also ensures that transparency is maintained in all social and environmental related activities. The integration of SEMS into the credit evaluation process ensures the due consideration is given for environmental and social aspects which not only enriches the credit culture of the Bank but also contributes in preserving the social and environmental aspects of the society at large.

5. Credit Risk Mitigation and Monitoring

Lending Officers are primarily entrusted with timely recovery of the advances granted. Advances with potential vulnerabilities which require close monitoring or improved risk mitigants are duly identified with the assistance of the Branch Credit Monitoring Unit. Meanwhile, the 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. are prepared on a monthly basis. Credit Risk Management Function analyzes the risks of the overall credit portfolio of the Bank in an objective manner, comparing same against established policy parameters to ensure an effective credit risk monitoring mechanism.

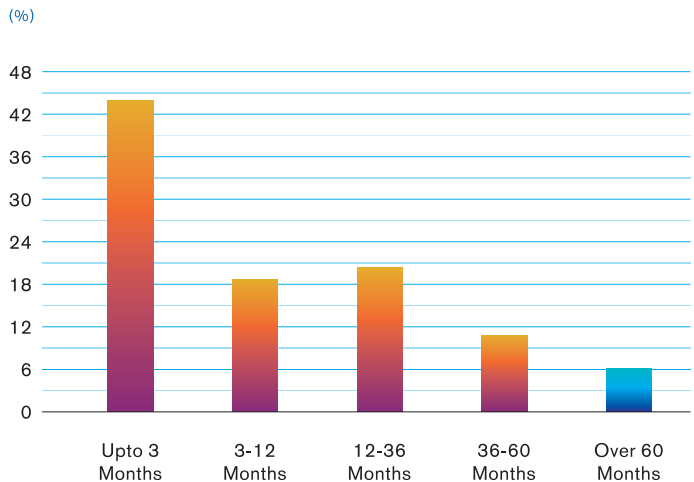
At portfolio level, the Bank monitors the advances at the highest possible granularity to effectively capture portfolio characteristics and possible correlations between portfolios and environmental factors. Further, the Bank tracks the quality of the loan book on a regular basis by analysing the trends in different lending portfolios. This process also enables the Bank to identify any emerging risks in the individual credit portfolios and to take suitable, timely corrective actions. Another main focus of credit portfolio management process is to derive the maximum benefit associated with the diversification of the Bank's advances portfolio into thriving economic segments, whilst reducing the overall credit concentration and optimising returns.

Credit Risk Management Unit (CRMU) of the Integrated Risk Management Department (IRMD) makes recommendations for suitable amendments if required, after reviewing the existing credit policy framework. CRMU 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.

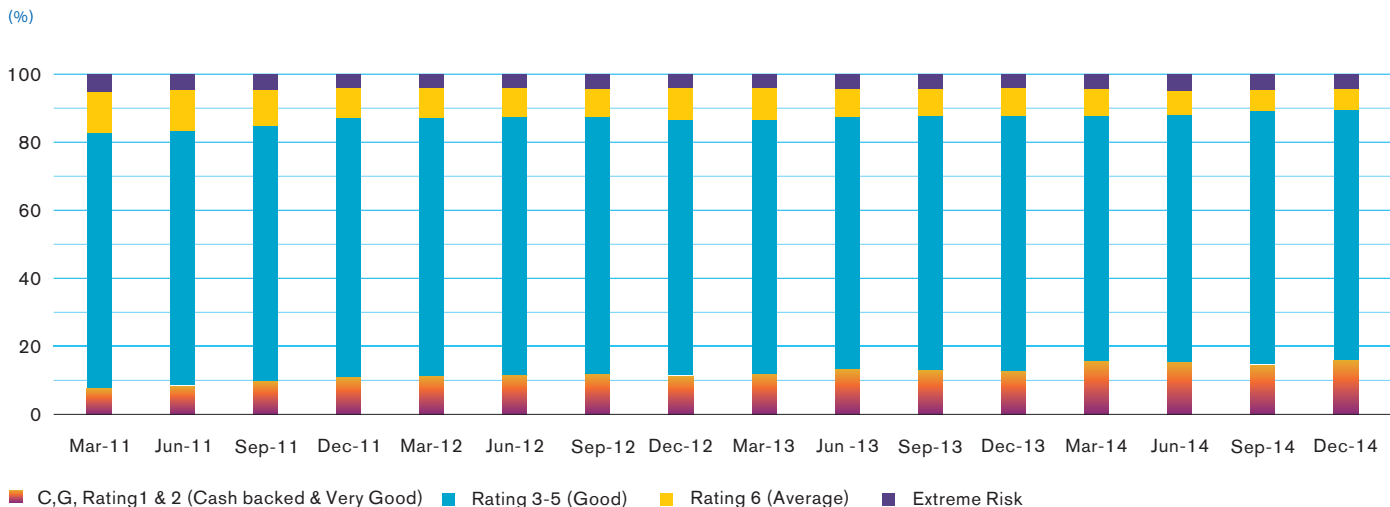
Internal Audit Function ensures that the Credit Risk Management Function is properly carried out through an independent review.

Quantitative Disclosures in relation to Credit Risk Monitoring

Tenor-wise Breakdown of Loans and Receivables Portfolio (Net of Individual Impairment) as at December 31, 2014 (Sri Lanka and Bangladesh Operations)



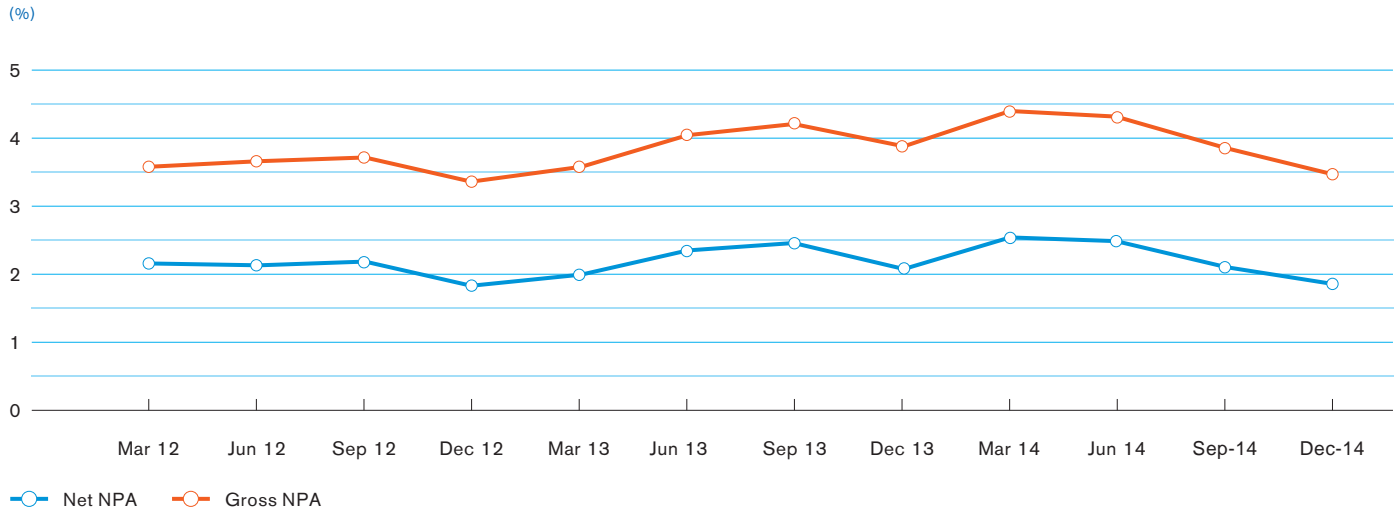
Risk Migration of Loans and Overdrafts Portfolio 2011 to 2014 (Sri Lanka and Bangladesh Operations)



Approximately 90% of the advances portfolio is above Risk Rating 5 (i.e. Better than average).

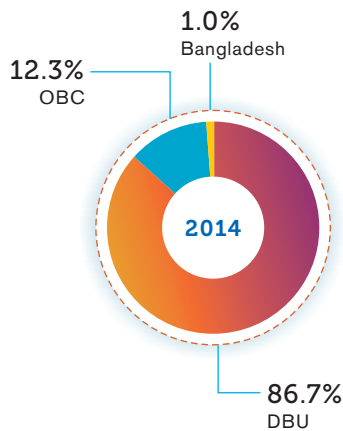
Managing Risk at Commercial Bank

Movement of NPA (Ratio) For The Last Three Years



Both Gross and Net NPA have recorded a downward trend from the second quarter of the year and have ended on an improved position compared to the 4th quarter of 2013.

Distribution of Specific Provisions as at December 31, 2014



Bulk of the specific provisions have been made on account of borrowers of Sri Lankan Domestic Banking Unit operation corresponding to the active size of the portfolio.

As a prudent measure, the Bank adopts internal policies which are at times more stringent than the regulatory requirements where the Non-Performing Advances portfolio is concerned.

On identified exposures the Bank takes a more stringent approach than the Regulator on Specific Provisions, Haircut Provisions and Special Provisions.

Segmentation of NPA Portfolios as at December 31, 2014 by Industry Sector (Sri Lanka Operation).

| Industry Sector | Outstanding Rs. Mn. | Specific Provision Rs. Mn. | Amount Written-Off Rs. Mn. |
|------------------------------------|------------------------|-------------------------------|-------------------------------|
| Exports | 977.33 | 325.39 | 19.69 |
| Imports | 2,298.06 | 700.82 | 51.09 |
| Wholesale and Retail Trading | 985.52 | 396.49 | 10.37 |
| Construction Industry | 1,750.85 | 284.47 | 2.11 |
| Industrial | 2,091.08 | 732.80 | 47.53 |
| Agriculture | 928.43 | 536.71 | 21.73 |
| Housing | 444.29 | 209.51 | 0.44 |
| Tourism and allied | 1,083.95 | 849.55 | 0.69 |
| Personal | 3,239.29 | 1,797.09 | 50.19 |
| Services | 1,150.51 | 431.24 | 17.18 |
| Holding companies | 5.44 | 3.08 | - |
| Non-Banking financial institutions | 47.75 | 28.07 | - |
| State institutions | 0.02 | - | - |
| Any other commercial activity | 575.22 | 220.92 | 4.99 |
| Miscellaneous | 265.13 | 85.08 | 1.11 |
| Total | 15,842.89 | 6,601.23 | 227.11 |

Note: The above figures have been prepared based on SLAS and may differ from SLFRS figures.

Segmentation of NPA Portfolio as at December 31, 2014 by Geographic Area (Sri Lanka and Bangladesh Operations).

| Province | Total NPA Rs. Mn. | Specific Provisions for Bad Debts Rs. Mn. | General Provision Rs. Mn. |
|---------------------------|----------------------|---|---------------------------------|
| Central Province | 615.17 | 280.08 | 75.69 |
| Eastern Province | 220.34 | 118.43 | 12.16 |
| North Central Province | 481.20 | 195.50 | 22.81 |
| Northern Province | 829.60 | 443.69 | 18.39 |
| North Western Province | 1,294.08 | 528.27 | 75.70 |
| Sabaragamuwa Province | 446.27 | 182.44 | 37.81 |
| Southern Province | 1,647.97 | 701.49 | 87.11 |
| Uva Province | 190.24 | 68.64 | 22.72 |
| Western Province | 10,118.01 | 4,082.70 | 1,397.29 |
| Bangladesh | 652.36 | 65.23 | 86.39 |
| Maldives | - | - | - |
| Other Foreign Geographies | - | - | - |
| Total | 16,495.25 | 6,666.47 | 1,836.07 |

Note: The above figures have been prepared based on SLAS and may differ from SLFRS figures.

Managing Risk at Commercial Bank

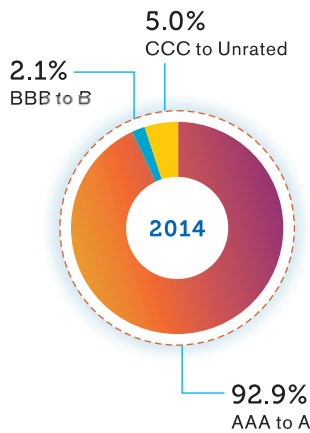
Concentration Risk

Counterparty Exposures

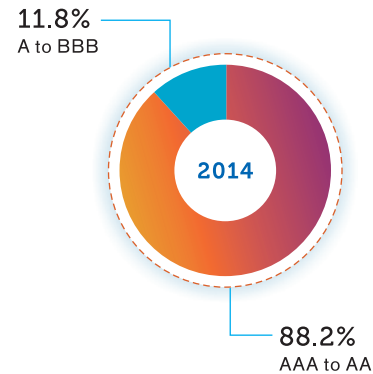
The Bank has laid down policies and procedures to manage the credit risk on local and foreign counterparty banks including a comprehensive set of limits. These exposures to counterparty banks are monitored at frequent intervals against the established prudent limits as well as market information on the financial and/or economic

performance of these counterparties. The concentration levels on the said limits are closely monitored by the Credit Risk Management Unit and the exposures are reported to the Senior Management and Board Committees on a regular basis. Exposure limits are reduced, suspended or cancelled upon adverse market information that might hamper performance of a counterparty bank.

The Concentration of Counterparty Exposures in Sri Lanka, Fitch Rating-Wise as at December 31, 2014



The Concentration of Counterparty Exposures in Bangladesh, CRAB * Rating-Wise as at December 31, 2014



* Equal CRISL ratings are given where CRAB ratings are unavailable.

The Bank in its normal course of business strives to deal with other local banks (counterparties) with high International credit ratings in order to minimise risk on its exposures.

A similar approach is adopted in managing the counterparty risk in Bangladesh as well.

The Bank had not encountered any counterparty bank default locally or overseas during 2014.

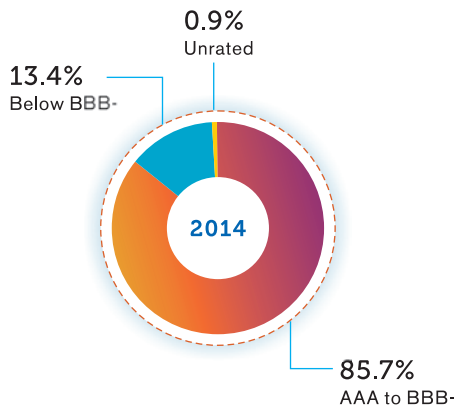
Cross-Border Exposures

In addition to counterparty exposures, the Bank is also exposed to cross-border risks - the risk that Bank will be unable to obtain payment from its customers or third parties on their contractual obligations as a result of certain actions taken by foreign governments, mainly relating to convertibility and transferability of foreign currency.

Cross-border assets comprise of loans and advances, interest-bearing deposits with other banks, trade and other bills and acceptances which predominantly relate to short-term money market activities.

Cross-border exposures are subjected to a limit structure to minimise risk arising from over concentration and possible settlement risk. Selection of counterparties has been carried out using stringent evaluation and imposing different threshold levels to facilitate monitoring and timely action to suspend limits to countries due to global economic and/or political developments when necessary.

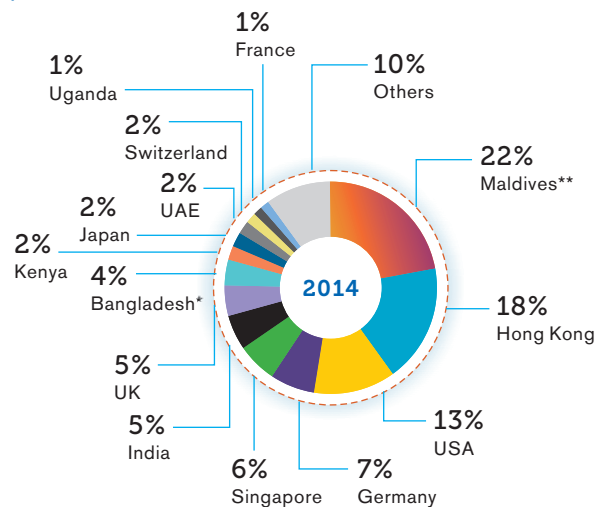
Concentration of Cross-border Exposure* (Sri Lanka and Bangladesh Operations) S & P Rating-wise as at December 31, 2014



*Excluding the Investment in Bangladesh Operations and Direct Lending in Maldives.

The Bank has exposure to country risk through a spread of counterparties based across the globe. The Bank keeps a vigilant watch on the developments that might have an impact on settlement of its exposures and relies on independent risk ratings as a criterion for evaluating cross-border risk.

Concentration of Cross-border Exposure* Country-wise (Sri Lanka and Bangladesh Operations) as at December 31, 2014



*Excluding the Investment in Bangladesh Operations and Direct Lending in Maldives.

**Maldives exposure comprises of Direct Lending which account for a major part.

The high level of cross-border exposures to Hong Kong, USA, Germany and Singapore reflects the intensity in our transactions with counterparties in these countries.

Managing Risk at Commercial Bank

Collateral Management and Valuation

The primary source of repayment of credit exposures is the cash flows while the collaterals obtained by the Bank act as a possible secondary recourse. Collateral generally include 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 for 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 obtained as collaterals against credit exposures.

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 credit-worthy 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.

MARKET RISK

1. Overview

Market risk is the potential of an adverse impact on Bank's earnings or capital due to changes in interest rates, foreign exchange rates, commodity prices or equity and debt prices. During the normal course of its business, Bank deals in financial products such as loans, deposits, securities, short-term borrowings, long-term debt etc., to facilitate both customer-driven and proprietary transactions which expose the Bank to market risk in varying degrees.

2. Management Process

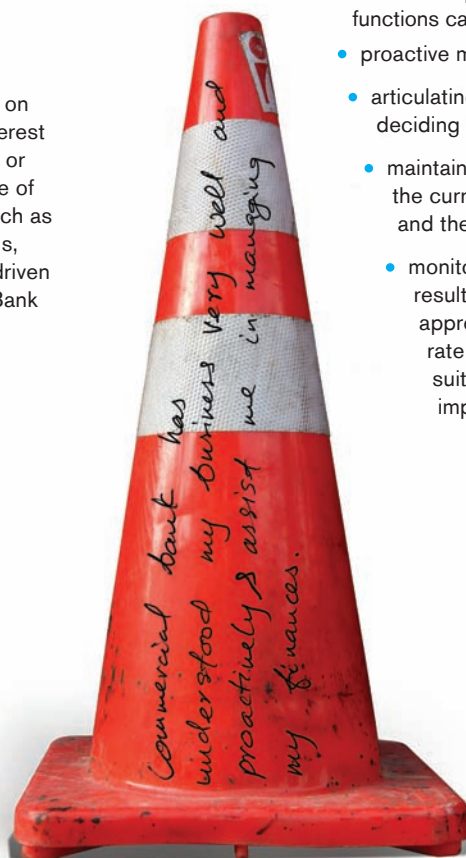
Risk Management Framework of the Bank ensures the appropriate management of the market risks within the overall risk appetite so that adverse changes in market risk parameters, do not materially impact the Bank's profitability, capital or the risk profile.

Upon recognising various sources of risks, their characteristics and possible outcomes resulting from transactions undertaken by the Bank, Market Risk Management process functions in compliance with the Board approved Market Risk Management Policy.

In addition, policies such as Asset and Liability Management (ALM) Policy, Foreign Exchange (FX) Risk Management Policy, Derivative Policy, Treasury Policy and Stress Testing Policy also define exposure limits and procedures within which such transactions are required to be undertaken. Market risk limits set out in the above policies are regularly reviewed by Asset and Liability Management Committee (ALCO) and Executive Integrated Risk Management Committee (EIRMC). In addition to limits, Management Actions Triggers (MATs) are also in place either at portfolio level or at risk factor level. 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.

ALCO is the core management committee that regularly monitors market risk exposures and initiates appropriate action to optimise overall market risk exposures within the overall risk appetite of the Bank. In this regard, the major functions carried out by ALCO include:

- proactive managing of liquidity risk profile of the Bank,
- articulating interest rate review of the Bank and deciding on future business strategies and pricing,
- maintaining an appropriate Balance Sheet mix to suit the current market and potential trends, competition and the Bank's strategies,
- monitoring asset and liability gaps, and rate shock results on Net Interest Income (NII) to initiate appropriate measures such as changing interest rate structure of the Balance Sheet, launching suitable long-term and short term products and improving funding policies.



3. Functionalities of Market Risk Management

The Market Risk Management governance structure is based on the understanding that each Business Head is responsible for the detection and verification of market risk sources, i.e. events, causes and consequences in relation to their business line. Market Risk Management Unit (MRMU) of the IRMD is responsible for coordinating and performing daily Market Risk Management activities including measuring, monitoring and reporting of market risk exposures, and reviewing 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.

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 market risk exposures as per the comprehensive limit framework pertaining to Treasury transactions. Further it reports on MATs, which alert of imminent limit breaches and recurring loss events, to initiate preventive measures to mitigate potential losses.

In addition the Bank conducts stress testing on market risk factors monthly, quarterly or on need basis to estimate potentially significant future losses that might arise from extreme market moves or scenarios. Such results provide Senior Management with a clear perspective of how resilient the Bank is to sudden plausible market changes.

4. Market Risk Mitigation and Monitoring

During the year 2014, the Bank did not have any exposure to commodity related price risk and only a negligible exposure on equity and debt price risk which was less than 1.6% of the total risk weighted exposure for market risk. Therefore, market risk exposure was measured mainly in terms of Interest Rate Risk (IRR) and Foreign Exchange (FX) Risk.

INTEREST RATE RISK (IRR)

IRR is the exposure of the Bank's financial condition against movements in interest rates. Extreme down side 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 to are re-pricing risk, yield curve risk and basis risk.

Re-pricing risk occurs due to differences in amounts of assets and 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. 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 portfolios.

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.

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's Balance Sheet. The Bank assesses IRR exposure based on both the Earnings at Risk (EAR) approach focusing on the impact of interest rate changes on its near-term earnings and the Economic Value of Equity (EVE) approach, focusing on the value of the Bank's net cash flows.

Managing Risk at Commercial Bank

Market Risk Portfolio Analysis

Interest Rate Sensitivity Gap Analysis of Assets and Liabilities [Sri Lanka and Bangladesh Operations]

| | 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 | - | - | - | - | - | - | - | 13,266 | 13,266 |
| Deposits with Central Banks | 167 | - | - | - | - | - | - | 19,467 | 19,634 |
| Balances due from Head Office, Affiliates and Own Branches | - | - | - | - | - | - | - | - | - |
| Balances due from Other Banks | 21,123 | 198 | 1,057 | - | - | - | - | - | 22,378 |
| Investments | 51,577 | 11,660 | 21,082 | 22,740 | 34,469 | 73,045 | 51,277 | 2,435 | 268,285 |
| Bills of Exchange | 7,342 | - | - | - | - | - | - | - | 7,342 |
| Overdrafts | 44,753 | 10,144 | 3,325 | 7,641 | 3 | - | - | - | 65,866 |
| Loans and Advances | 154,285 | 28,293 | 26,203 | 55,909 | 39,692 | 19,706 | 7,193 | - | 331,281 |
| NPLs | - | - | - | - | - | - | - | 1,391 | 1,391 |
| Fixed Assets | - | - | - | - | - | - | - | 10,392 | 10,392 |
| Net Inter-Branch Transactions | - | - | - | - | - | - | - | - | - |
| Accrued Interest | - | - | - | - | - | - | - | - | - |
| Other Assets | - | - | - | - | - | - | - | 10,788 | 10,788 |
| Reverse Repos | 32,502 | 7,521 | 1,175 | - | - | - | - | - | 41,198 |
| FRAs | - | - | - | - | - | - | - | - | - |
| SWAPs | - | - | - | - | - | - | - | - | - |
| Futures | - | - | - | - | - | - | - | - | - |
| Options | - | - | - | - | - | - | - | - | - |
| Others | - | - | - | - | - | - | - | - | - |
| Total | 311,749 | 57,816 | 52,842 | 86,290 | 74,164 | 92,751 | 58,470 | 57,739 | 791,821 |
| Demand Deposits | - | - | - | - | - | - | - | 48,960 | 48,960 |
| Savings Deposits | 198,607 | - | - | - | - | - | - | - | 198,607 |
| Time Deposits | 47,471 | 68,285 | 50,383 | 80,832 | 11,311 | 6,261 | 8,578 | - | 273,121 |
| Other Deposits | - | - | - | - | - | - | - | - | - |
| Balances due to Head Office, Affiliates and Own Branches | - | - | - | - | - | - | - | - | - |
| Balances due to Other Banks | 18,071 | 89 | 3,304 | 1,322 | - | - | - | - | 22,786 |
| Certificate of Deposits | 326 | 24 | 23 | 101 | 247 | 53 | - | - | 774 |
| Other Borrowings | 2,660 | 6,921 | 584 | 376 | 674 | - | 310 | - | 11,525 |
| Net Inter-Branch Transactions | - | - | - | - | - | - | - | - | - |
| Bills Payable | - | - | - | - | - | - | - | - | - |
| Interest Payable | - | - | - | - | - | - | - | 16,107 | 16,107 |
| Provisions (Others) | - | - | - | - | - | - | - | - | - |
| Capital | - | - | - | - | - | - | - | 21,458 | 21,458 |
| Reserves | - | - | - | - | - | - | - | 31,827 | 31,827 |
| Retained Earnings | - | - | - | - | - | - | - | 15,239 | 15,239 |

| | 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. |
|-------------------|-----------------------------|--------------------------|--------------------------|---------------------------|-------------------------|-------------------------|----------------------------|------------------------------|------------------|
| Subordinated Debt | 9,911 | – | – | – | 972 | – | – | – | 10,883 |
| Other Liabilities | – | – | – | – | – | – | – | 13,612 | 13,612 |
| Repos | 68,592 | 17,547 | 22,349 | 16,564 | 1,870 | – | – | – | 126,922 |
| FRA's | – | – | – | – | – | – | – | – | – |
| Futures | – | – | – | – | – | – | – | – | – |
| SWAPs | – | – | – | – | – | – | – | – | – |
| Options | – | – | – | – | – | – | – | – | – |
| Total | 345,638 | 92,866 | 76,643 | 99,195 | 15,074 | 6,314 | 8,888 | 147,203 | 791,821 |
| Period Gap | (33,889) | (35,050) | (23,801) | (12,905) | 59,090 | 86,437 | 49,582 | – | – |
| Cumulative Gap | (33,889) | (68,939) | (92,740) | (105,645) | (46,555) | 39,882 | 89,464 | – | – |
| RSA/RSL | 0.90 | 0.62 | 0.69 | 0.87 | 4.92 | 14.69 | 6.58 | – | – |

The above gap report 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 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 65.3.2). Following table depicts the sensitivity of projected NII to interest rate changes for 2013 and 2014.

Sensitivity to projected NII

| | 2014 | | 2013 | |
|----------------------|--------------------------------------|--|--------------------------------------|--|
| | 100 bp Parallel Up Rs. '000 | 100 bp Parallel Down Rs. '000 | 100 bp Parallel Up Rs. '000 | 100 bp Parallel Down Rs. '000 |
| As at December 31st | 494,488 | (495,461) | 936,178 | (875,597) |
| Average for the Year | 751,326 | (753,968) | 821,239 | (805,472) |
| Maximum for the Year | 893,537 | (901,327) | 936,178 | (894,456) |
| Minimum for the Year | 494,488 | (495,461) | 677,595 | (676,712) |

Bank conducts regular stress tests on Interest Rate Risk in Banking Book (IRRBB) encompassing changing positions and new economic variables together with systemic and 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 analyzed 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 minimized and maintained within the Bank's risk appetite.

USD/LKR exchange rate fluctuated between a low of Rs.130.17 and a high of Rs.131.30 (source: Bloomberg) during the period under review and the annual Rupee depreciation was recorded at approximately 0.90%. Although the movement in the exchange rate was marginal in 2014, the Bank continued to monitor the sensitivity of the Net Open Position (NOP) to changes in USD/LKR exchange rates by applying appropriate exchange rate shocks (Refer Note 65.3.3).

In addition, stress testing is conducted on NOP by applying rate shocks ranging from 6% to 15% in order to estimate the impact on profitability and capital adequacy of the Bank (Refer Note 65.3.3).

Managing Risk at Commercial Bank

EQUITY RISK

Equity and Debt price risks result from being exposed 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 due to changes in equity prices. The Bank has also commenced VaR calculations on equity portfolio.

COMMODITY RISK

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.

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 in general 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 fulfill those needs at the appropriate time, both under normal and stressed conditions.

In this regard, the Bank continuously analyses and monitors its liquidity profile, 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. The Bank thereby ensures availability of adequate liquidity to fund its existing asset base and grow its business whilst maintaining sufficient liquidity buffers to operate smoothly under varying market conditions including any short-term, medium or long-term market disruptions.

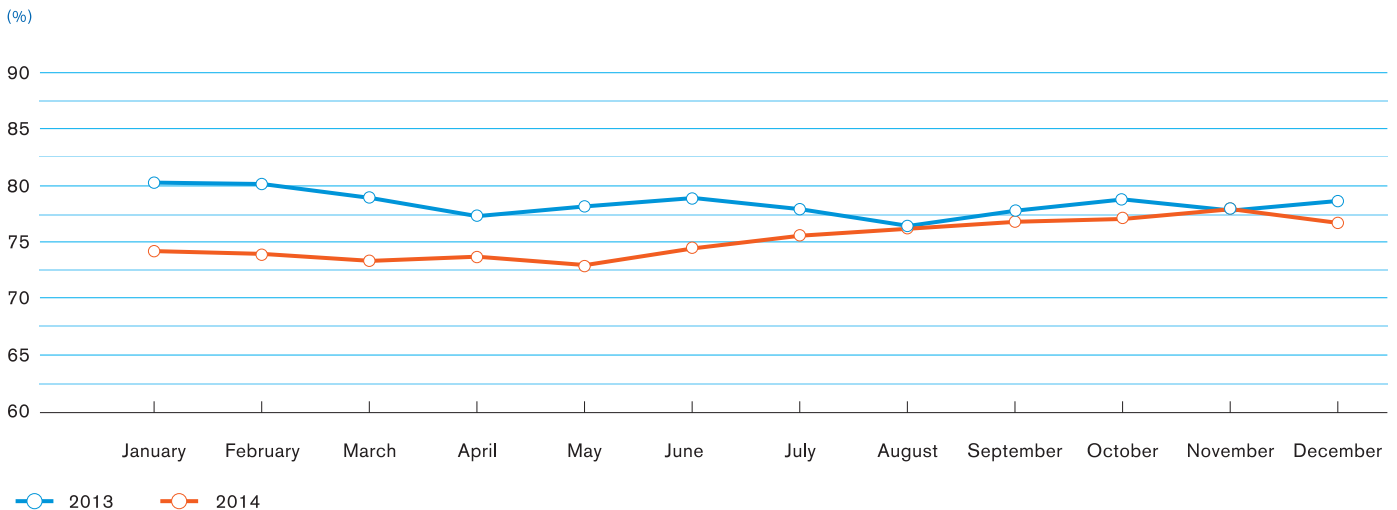
ALCO, being the main stakeholder meets at least fortnightly and plays an important role in the Bank's liquidity management function. ALCO's main responsibilities include establishing and monitoring liquidity targets together with strategies and tactics to meet those targets, ensuring availability of 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.

Exposures against tolerance limits and liquidity ratios are regularly monitored by ALCO to take informed decisions with regard to the Bank's liquidity position and potential funding requirements.

In monitoring its liquidity profile, the Bank uses numerous methods 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 (SLAR), 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 statutory requirement of 20% of total liabilities excluding contingent liabilities.

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. The following graph depicts the movement in Net Advances to Deposits Ratio during the years 2013 and 2014.

Movement in Net Advances to Deposits Ratio



Maturity Gap Analysis as at December 31, 2014 [Sri Lanka and Bangladesh Operations]

| <i>As at December 31, 2014</i> | 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. | Total Rs. Mn. |
|---|-----------------------------|--------------------------|--------------------------|---------------------------|-------------------------|-------------------------|----------------------------|------------------|
| Cash on Hand | 13,266 | – | – | – | – | – | – | 13,266 |
| Deposits with Central Banks | 1,990 | 2,573 | 2,015 | 2,309 | 2,098 | 1,801 | 6,848 | 19,634 |
| Balances due from Head Office, Affiliates and own branches | – | – | – | – | – | – | – | – |
| Balances due from other banks | 21,123 | 198 | 1,057 | – | – | – | – | 22,378 |
| Investments | 12,453 | 13,804 | 32,771 | 25,605 | 53,210 | 77,701 | 52,741 | 268,285 |
| Bills of Exchange | 7,342 | – | – | – | – | – | – | 7,342 |
| Overdrafts | 4,940 | 4,940 | 4,940 | 9,880 | 13,667 | 13,667 | 13,832 | 65,866 |
| Loans and Advances | 32,907 | 47,394 | 37,464 | 39,014 | 93,391 | 50,366 | 30,745 | 331,281 |
| NPLs | – | – | – | 348 | – | – | 1,043 | 1,391 |
| Net Inter-Branch Transactions | – | – | – | – | – | – | – | – |
| Other Assets | 9,529 | 24 | 34 | 59 | 186 | 674 | 10,674 | 21,180 |
| Lines of Credit committed from institutions | 1,000 | – | – | – | – | – | – | 1,000 |
| Others (Reverse Repos) | 32,502 | 7,521 | 1,175 | – | – | – | – | 41,198 |
| Total | 137,052 | 76,454 | 79,456 | 77,215 | 162,552 | 144,209 | 115,883 | 792,821 |
| Demand Deposits | 9,792 | 9,792 | 7,344 | 9,792 | – | – | 12,240 | 48,960 |
| Savings Deposits | 9,930 | 9,930 | 9,930 | 19,861 | 49,652 | 49,652 | 49,652 | 198,607 |
| Balances due to Head Office, Affiliates and own branches | – | – | – | – | – | – | – | – |
| Balances due to other banks | 18,071 | 89 | 3,304 | 1,322 | – | – | – | 22,786 |
| Time Deposits | 33,230 | 47,799 | 35,268 | 32,333 | 7,918 | 4,383 | 112,190 | 273,121 |
| Certificate of Deposits, Borrowings and Bonds | 353 | 533 | 1,212 | 1,540 | 6,259 | 2,297 | 10,988 | 23,182 |
| Net Inter-Branch Transactions | – | – | – | – | – | – | – | – |
| Bills payable | – | – | – | – | – | – | – | – |
| Interest payable | 9,607 | 1,705 | 1,507 | 1,652 | 1,297 | 314 | 25 | 16,107 |
| Provisions other than NPLs and Depreciation of Investments | – | – | – | – | – | – | – | – |
| Other Liabilities | 8,012 | 1,362 | 1,702 | – | 110 | 1,944 | 482 | 13,612 |
| Lines of Credit committed to institutions | 1,000 | – | – | – | – | – | – | 1,000 |
| Unutilised portion of Overdrafts and Advances | 22,211 | 3,857 | 3,857 | 7,714 | 10,671 | 10,671 | 13,387 | 72,368 |
| Letters of Credit/Guarantees/ Acceptance | 24,134 | 26,737 | 16,809 | 13,107 | 6,493 | 1,953 | 2 | 89,235 |
| Repos/Bills Rediscounted/SWAPs/ Forward contracts | 113,702 | 52,381 | 44,358 | 44,179 | 2,068 | – | – | 256,688 |
| Others | – | – | – | – | – | – | 68,522 | 68,522 |
| Total | 250,042 | 154,185 | 125,291 | 131,500 | 84,468 | 71,214 | 267,488 | 1,084,188 |
| Period Gap | (112,990) | (77,731) | (45,835) | (54,285) | 78,084 | 72,995 | (151,605) | – |
| Cumulative Gap | (112,990) | (190,721) | (236,556) | (290,841) | (212,757) | (139,762) | (291,367) | – |
| Cumulative Liabilities | 250,042 | 404,227 | 529,518 | 661,018 | 745,486 | 816,700 | 1,084,188 | – |
| Cumulative Gap as a percentage (%) of Cumulative Liabilities | (45) | (47) | (45) | (44) | (29) | (17) | (27) | – |

Managing Risk at Commercial Bank

Maturity analysis of financial assets and financial liabilities of the Bank does not indicate any adverse situation giving due cognizance to the fact that cash out flows in the overnight tenor include savings deposits which can be considered as a quasi stable source of funds based on historical behavioural patterns of such depositors.

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.

In addition to above the mentioned measures in monitoring its liquidity position, the Bank also monitors regulatory liquidity ratios on a quarterly basis (Refer Note 65.2).

Funding concentration for both LKR and FCY is measured against the appropriate deposit base to ascertain whether potential risks are within the threshold limits. Potential liquidity commitments resulting from loan disbursements and undrawn overdrafts were well below available funding sources during the year under review. This indicates a very remote possibility of potential liquidity risk from undrawn commitments as the Bank generally does not have any credit limits having irrevocable commitments.

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.

The Contingency Funding Plan of the Bank provides guidance in managing liquidity crisis. It outlines various ways in which the Bank monitors assets and liabilities of the Bank, while emphasising ways to avoid any major crisis in liquidity. It also details out the procedure to address 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, 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 with 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 in detail are among other things covered under this document.

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 solution 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 Interval' and a 10-trading-days 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.

OPERATIONAL RISK

1. Overview

The Bank, in its normal conduct of business activities is exposed to Operational Risk, which 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 Reputational Risk.

Failure to manage Operational Risk effectively often results in significant financial losses, as well as reputational damage which could aggravate such adverse impact leading to brand erosion and could give rise to regulatory penalties, all of which directly impact shareholder value.

By its nature, Operational Risk cannot be totally eliminated. However, the Bank has established a robust methodology in managing Operational Risk in the form of an 'Operational Risk Management Framework' which 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 Bank manages its Operational Risk based on an organization-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.

The Operational Risk Management Framework approved by the Board of Directors is implemented by an independent Operational Risk Management Unit under the supervision of Executive Integrated Risk Management Committee (EIRMC), in co-ordination with other essential elements of the Bank's control framework such as Internal Audit, Information Security and Business Continuity.

During the year under review the Bank continued to enhance its Operational Risk Management Framework including organisational structures, risk identification process and systems in support of effective mitigation and control of Operational Risk.

2. Management Process

Operational Risk Management in the Bank is governed by the well-defined Operational Risk Management Policy that is clearly communicated across the Bank. The Risk Management responsibilities and obligations of the Board of Directors, Corporate Management, Operational Risk Management Unit (ORMU) and all other Risk Owners are clearly specified in the policy which is reviewed annually.

3. Identification and Assessment of Operational Risk

Risk and Control Self-Assessment (RCSA) is a key component of the Bank's Operational Risk Management Framework. It involves each business function within the Bank proactively identifying and assessing its significant Operational Risks and the controls in place to manage those risks, on a half-yearly basis. The 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 is in the process of enhancing this exercise with the assistance of the newly implemented Operational Risk Management System, where the identified risks and the mitigating actions can be effectively tracked.

The Operational Risk Management Unit (ORMU) also reviews and ensures that risks associated with the introduction of new products, processes, systems and services are identified, analysed and addressed prior to launch and/or implementation.

4. Mitigation of Operational Risk

The Bank operates within a robust system of internal controls that seeks to ensure business is transacted and risks assumed without exposure to unacceptable potential losses or reputational damage.

Once Operational Risks are identified, mitigation is planned following 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 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. Accordingly, the Bank has transferred insurable risks by obtaining insurance policies from reputed insurance providers, which are periodically reviewed comprehensively by the ORMU for adequacy.

The policy 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 Central Bank of Sri Lanka annually. Due diligence



Managing Risk at Commercial Bank

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. This plan is continuously updated and tested to ensure ongoing readiness. Further, BCP and DRP are subject to annual independent reviews of ORMU and Internal Audit.

Continuous emphasis through training programmes and creating risk awareness across the Bank, together with high standards of ethics and integrity also boost Bank’s risk mitigatory measures.

5. Monitoring and Reporting of Operational Risk

Monitoring and reporting under the Bank’s Operational Risk Management Framework centers around the functions relating to monitoring of Key Operational Risk Indicators (KORIs) against the corresponding tolerance levels and reporting same to designated committees as appropriate. Further, the key functions of Operational Risk Management includes 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.

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. The indicators are related to both financial and non-financial events. A database of Operational Risk events and losses, including losses without any financial impact and 'near misses' has been established to facilitate the analysis of loss trends and root causes.

The Bank has collected loss data and has recorded the same according to the different risk event types under each business line as prescribed in the Basel II. Bank has successfully collected loss data over a period which is one of the major components in moving towards advanced approaches in Operational Risk capital calculations in future.

The Bank has a low appetite for Operational Risks for which it is exposed to. Accordingly, the Bank 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.

The Bank has established following thresholds for monitoring purposes, considering audited financials:

- Alert Level - 03% of the average gross income for the last three years.
- Maximum Level - 05% 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.

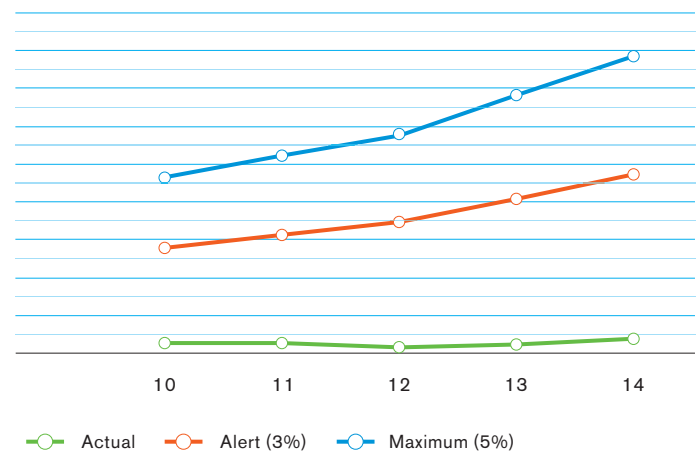
ORMU of the Bank closely monitors and reports the actual operational losses against the above tolerance levels on a monthly basis to the EIRMC and BIRMC. The unit initiates necessary actions to review the existing controls relating to all unusual operational loss events including 'near misses' and events with possible losses even though they are within alert levels, and proposes additional controls if the existing controls are deemed to be inadequate.

Analysis of Operational Risk Loss Events

As illustrated in the following graph, actual operational losses for the current year (2014) is mere 0.24% (of average audited gross income for last three years), which is well within the internal Alert Level of 03%. Further, Bank’s consistency in maintaining losses at minimal levels over the period of the last five years is evident from the graph.

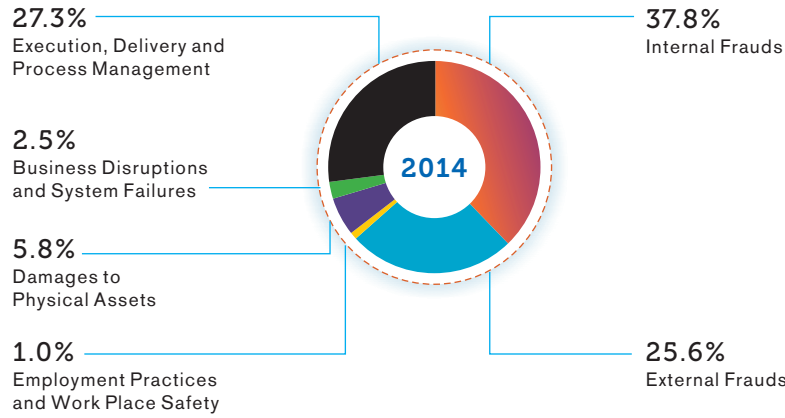
Actual Operational Losses Against Internal Alert Levels For Years 2010-2014

(Loss Value as a % of Gross Income)

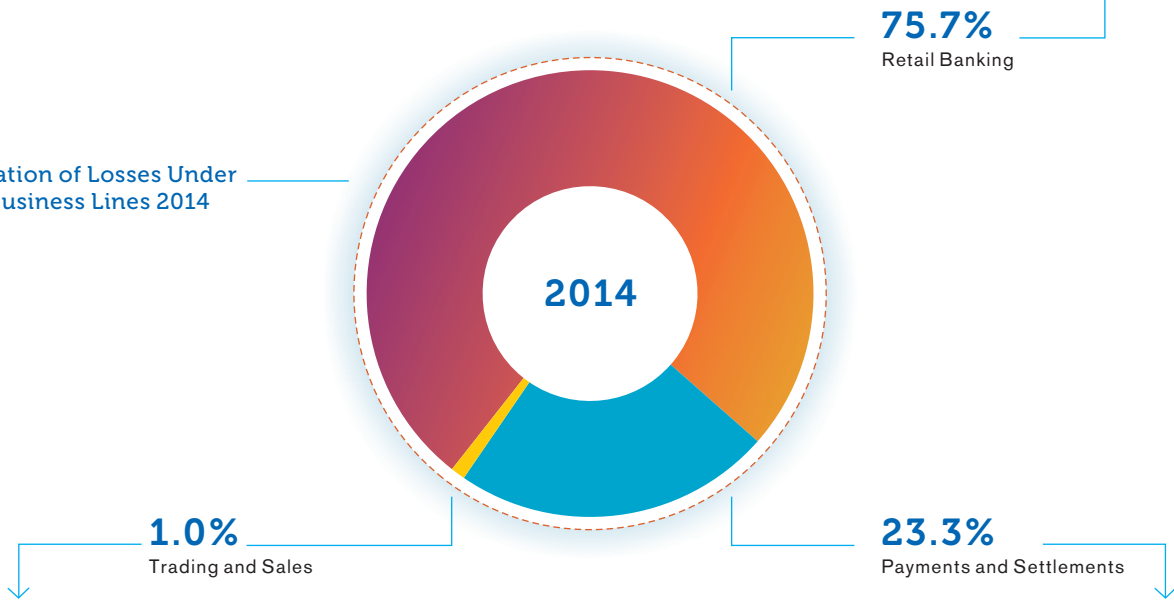


Following charts drill-down on the Operational Risk losses incurred by the Bank under each business line/category during the year 2014.

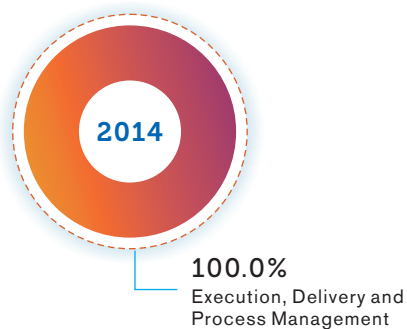
Composition of Losses - Retail Banking



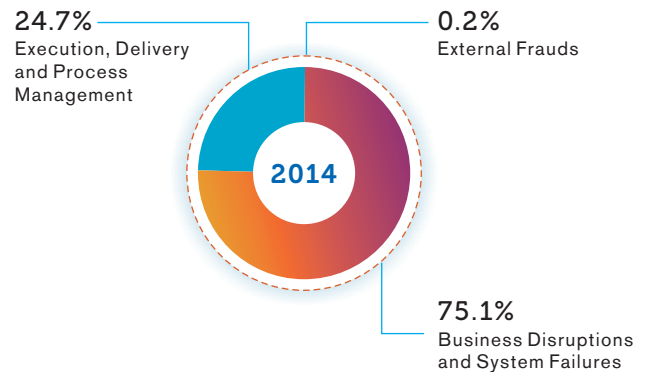
Classification of Losses Under Basel II Business Lines 2014



Composition of Losses - Trading and Sales



Composition of Losses - Payments and Settlements



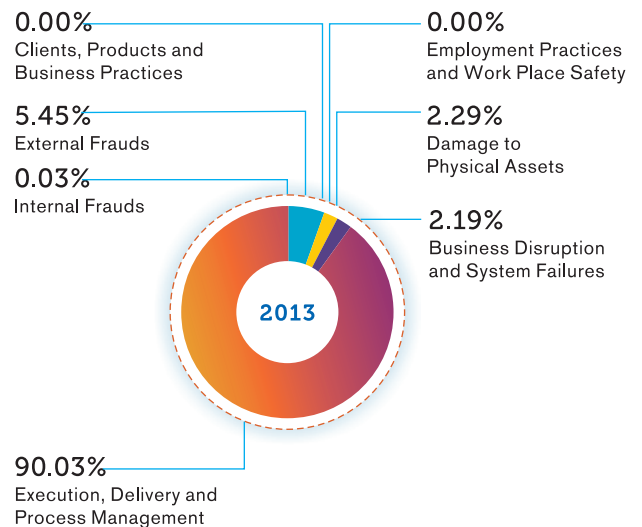
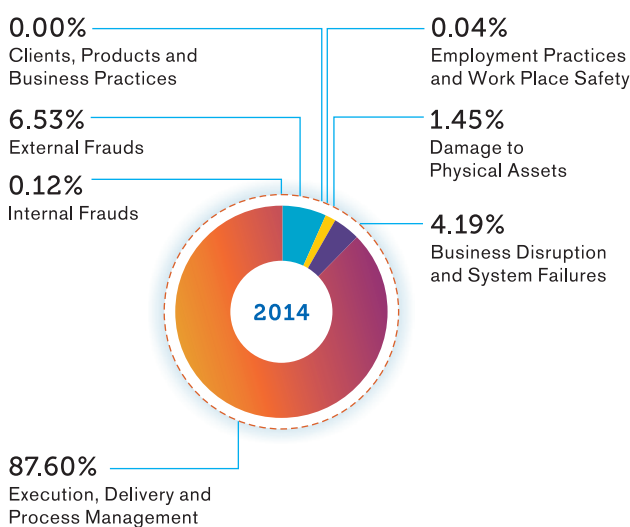
Managing Risk at Commercial Bank

When analysing the losses incurred during 2014 under the Basel II defined business lines, it is evident that the composition remains consistent with the previous years where the majority (76%) of losses 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.

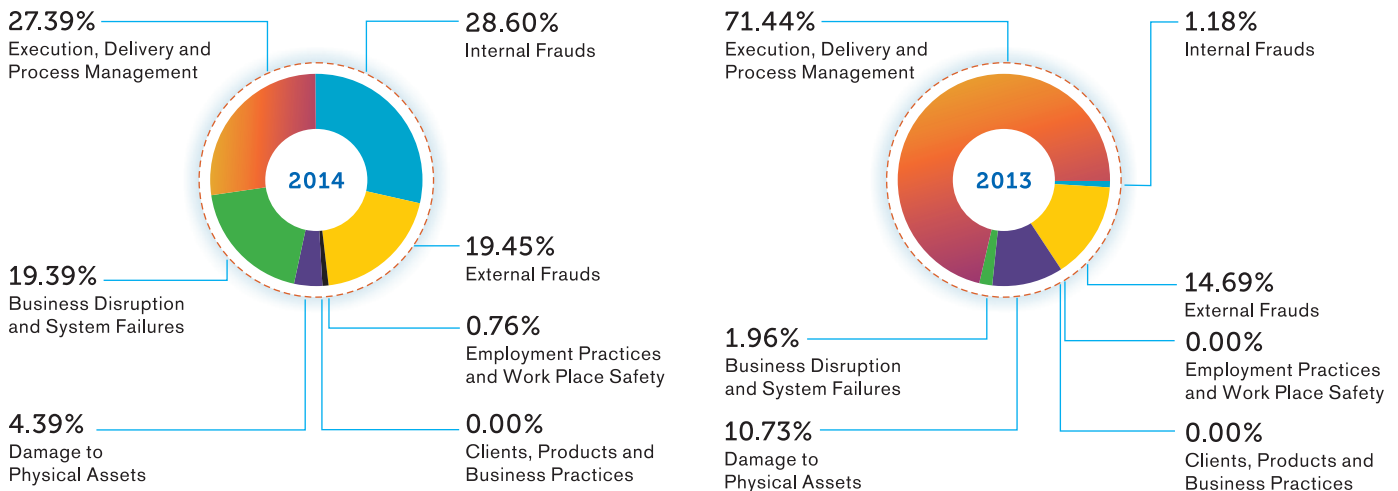
The following graphs depict the comparison of operational losses reported during the last two years under each Basel II loss event type both in terms of number of occurrences and value.

Majority of the losses encountered by the Bank during 2014 consists 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 880 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, which is a further improvement compared to the last year's statistics.

Composition of Losses by Type-Based on Number of Events



Composition of Losses by Type-Based on Value



When considering the values of the losses incurred by the Bank during the period under review, they can be mainly categorised under internal and external frauds, execution, delivery and process management-related, and business disruptions and system failures. Nevertheless, as described earlier, total of the actual operational risk-related losses for 2014 remains at a mere 0.24% of the average audited gross income for last three years, as compared to the capital allocation of 15% under the 'Basic Indicator Approach' (BIA) 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.

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.

IT Risk

Information Technology (IT) Risk is defined as the business risk associated with the use, ownership, operation, involvement, influence and adoption of IT within an organisation. IT systems have become critical to every aspect of the Bank's business and operations, resulting in IT Risk to become a major component of Operational Risk. IT Risk consists of 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, and it creates challenges in meeting strategic goals and objectives of the organisation.

In this context, the Bank has implemented an Information Technology Risk Management Framework whereby all significant IT risks are managed in a consistent and effective manner across the organisation. As part of this initiative, the Bank has introduced a dedicated, independent IT Risk Function under the ORMU in 2012, which will ultimately enhance the controls relating to IT Risk.

Under the framework, an IT Risk Management Policy which complements the Information Security Policy, the related processes, objectives and procedures relevant for managing risk and improving information security of the Bank has been implemented.

The IT Risk Management process of the Bank follows the same established structure of the Operational Risk Management process. Accordingly, 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. 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

Managing Risk at Commercial Bank

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 Bank has defined a list of Key IT Risk Indicators (KIRIs) along with corresponding thresholds that are set according to what level is deemed ‘Tolerable’, ‘Alert’ and ‘Unacceptable’. The IT Risk Unit carries out continuous monitoring of the KIRIs, which involves comparing estimated risks with established criteria where risks that are outside set thresholds receive a differential level of management attention in order to initiate corrective action as necessary.

Legal Risk

Legal Risk, an integral part of Operational Risk, arises out of the legal implications of failed systems, people, processes or external events. 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 relations 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

Regulatory Compliance 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. This risk is identified, monitored and managed by the Bank through a structured framework of policies and procedures. The Compliance Function is in place to assess the Bank’s compliance with external and internal regulations and a comprehensive Compliance Policy has been implemented to strengthen the Compliance Function.

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.

In the Bank, Strategic Risk is managed by critically reviewing the strategic goals in the Bank’s well defined Corporate Planning and Budgeting process and aligning those with the Vision and Mission statements to set a clear strategic direction. The detailed Scorecard based 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.

Expansive

With a highly successful and sustainable business model in place, Commercial Bank made a judicious and strategic foray beyond our shores.

Today, the Bank is present in Bangladesh and many other countries through Business Promotion Officers, proving the effectiveness and suitability of our core banking prospects in countries beyond our home.

As of today, Bangladesh operation contributes 13% to the Bank’s bottom-line.



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. Further, Reputational Risk is measured through the 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.

Basel II Pillar 2 and Internal Capital Adequacy Assessment Process (ICAAP)

The Bank implemented an ICAAP Framework which introduced a process for assessing total overall capital adequacy in relation to its risk profile.

The primary objective of ICAAP is supporting the regulatory review process through 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. It also supports profit optimisation through proactive decisions on exposures both current and potential through measurement of vulnerabilities by carrying out stress testing and scenario-based analysis. Another business benefit for the Bank arising out of ICAAP is the identification of 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 refers to various techniques (quantitative and qualitative) used by the Bank to gauge its vulnerability to exceptional but plausible events. It is also considered as an integral part of ICAAP under Pillar 2. Stress testing considers the size of the Bank, sophistication and diversification of its activities, materiality of different risk types and the Bank's vulnerability to such type of risk factors.

Since 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 and Risk Managers as well as Supervisors and Regulators.

In deciding the scenarios for stress testing, the Bank has taken into consideration a number of factors such as historical data, the current portfolio mix, desired portfolios etc. Stress testing framework has also focused on forward looking hypothetical scenarios that cover issues and risks which may not be identified by evaluating past and present data alone.

The stress testing framework covers all the material risks such as Credit Risk, Credit Concentration Risk, Operational Risk, Liquidity Risk, Foreign Exchange Risk, Interest Rate Risk in the Banking Book using Economic Value of Equity (EVE) and Earnings at Risk (EAR) perspectives.

The results of the stress testing are reported to the EIRMC and BIRMC on a quarterly basis for appropriate, proactive decision-making.



Investor Relations Supplement

Dear Investor,

As you are aware this 'Investor Relations Supplement' is presented to you in recognition of your continual support to the success of the Bank. We consider this as an important part of our corporate responsibility to have an effective dialogue with investors. Furthermore, it enables us to provide timely, transparent, accurate and consistent information to the investing public as part of our shareholder engagement process.

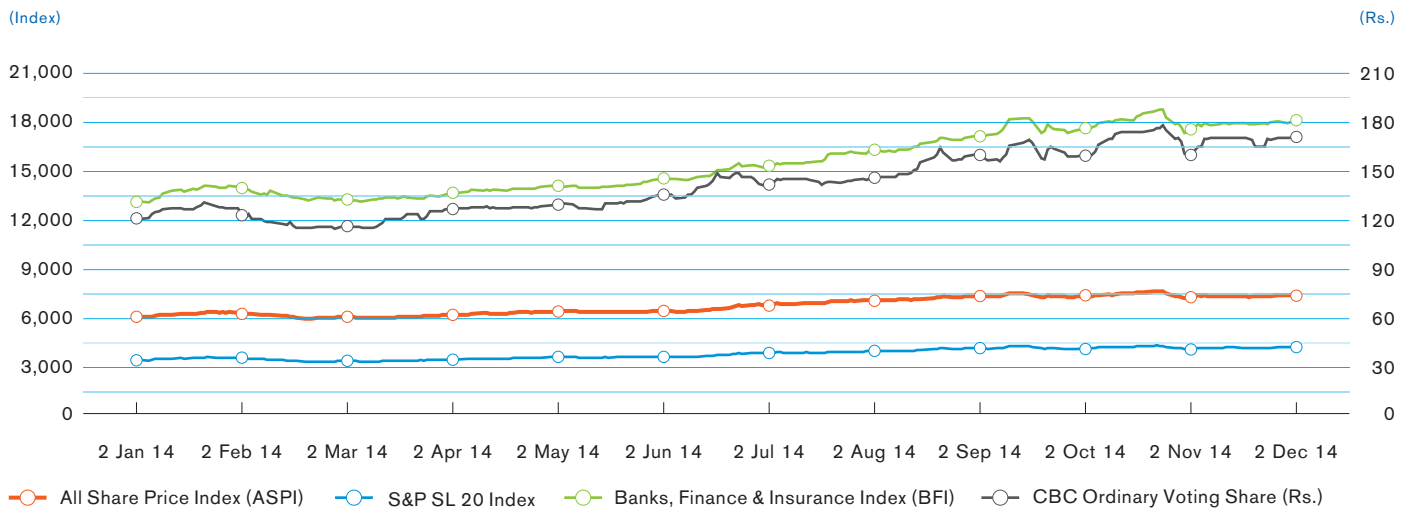
Through shareholder engagement, we expect you to actively seek to influence the behaviour of your Bank within your investment portfolio to improve the performance of areas such as environmental, social and governance. Another goal of this engagement is to create a productive dialog to address the risks related to above factors and thereby improve Long Term corporate performance.

The full Annual Report together with audited accounts 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 copy of the Annual Report on request. The Company Secretary of the Bank responds to individual letters received from shareholders.

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'. Details of trading activity and daily share prices 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.

Performance of the Commercial Bank's Ordinary Voting Share Price in 2014



Major Achievements in 2014

Commercial Bank in World's Top 1000 Banks for 4th successive year



The Commercial Bank of Ceylon has been ranked among the Top 1000 Banks of the World for a fourth successive year in 2014, becoming the only Sri Lankan bank to achieve this feat. This prestigious ranking published annually by 'The Banker' magazine of the UK, is an important endorsement of the consistent growth and key performance indicators achieved by Sri Lanka's largest private bank. The Top 1000 World Banks ranking is compiled from a database of over 5,000 of the world's biggest banks and is acknowledged by the global financial community as the definitive guide to bank rankings and analysis.

Making the Top 1000 list is a noteworthy achievement by itself, but staying there for four years in a row despite the challenging conditions we operate in, reflects well on the strength and stability of the Bank. A noteworthy feature of the 2014 ranking is the rise to the number one position of Industrial Commercial Bank of China (ICBC), displacing last year's top ranked banks, Bank of America and JPMorgan Chase & Co., which have now taken third and second places respectively, and are followed by HSBC in fourth place.

'Best Bank In Sri Lanka' title for the 15th consecutive year



The Commercial Bank of Ceylon has been rated the Best Bank in Sri Lanka by Global Finance, one of the world's leading publications serving the international business community. This benchmark ranking published annually by Global Finance for 21 years, names Commercial Bank among the best emerging markets banks in 30 countries in the Asia Pacific region in 2014, reaffirming the Bank's consistent country-leading performance.

Criteria for choosing the winners included growth in assets, profitability, strategic relationships, customer service, competitive pricing, and innovative products. In addition, for the first time, a poll of Global Finance's corporate readership was conducted in order to increase the accuracy and reliability of the results.

Ranked alongside Commercial Bank as the best banks in 2014 in their respective countries are China Merchants Bank (China), HDFC Bank (India), Shinhan Financial Group (South Korea), Public Bank (Malaysia), Standard Chartered Bank (Nepal), Siam Commercial Bank (Thailand) and Bank Central Asia (Indonesia).

Commercial Bank ranked 'The Strongest Bank in Sri Lanka in 2014'



The Commercial Bank of Ceylon has added another prestigious international accolade to its collection, being 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 award is based on a detailed and transparent scorecard that ranks commercial banks on six areas of Balance Sheet financial performance: the ability to scale, Balance Sheet growth, risk profile, profitability, asset quality and liquidity.

This ranking as Sri Lanka's strongest bank places Commercial Bank among The Asian Banker '500 Largest and Strongest Banks' - a ranking widely followed by investors, analysts and the media as the leading source to assess the financial strength of commercial banks in the region.

Ranked alongside Commercial Bank in The Asian Banker 500 as the strongest banks in their respective countries are Westpac Banking Corporation (Australia), Janata Bank (Bangladesh), China Construction Bank Corporation (China), HDFC Bank (India), Sumitomo Mitsui Financial Group (Japan), Maybank (Malaysia), ANZ Bank New Zealand (New Zealand), MCB Bank (Pakistan), DBS Group (Singapore), Shinhan Financial Group (South Korea), Cathay United Bank (Taiwan) Siam Commercial Bank (Thailand) and Standard Bank Group (South Africa).

'Sri Lanka's Bank of the Year in 2014' by The Banker Magazine



As its financial year draws to a close, the Commercial Bank of Ceylon has achieved yet another milestone, being declared Sri Lanka's 'Bank of the Year' by the respected UK-based 'The Banker' Magazine. This is the ninth Bank of the Year award presented to Commercial Bank by 'The Banker' – the magazine that is also responsible for the annual ranking of the Top 1,000 Banks of the World. The Bank of the Year Award also referred to as 'Bracken' is considered the 'Oscar' of the international banking industry, and is decided on performance across diverse key indicators.

Performance in key areas covers qualitative achievements, strategic initiatives, financial results, growth rates and performance data as well as other aspects such as technology and key strategic developments. Other Bank of the Year Award winners ranked alongside Commercial Bank in 2014 included those of the calibre of Westpac, Royal Bank of Canada, Raiffeisen Bank and Axis Bank.

Commercial Bank's Annual Report Best among private banks in South Asia



The 2013 Annual Report of the Commercial Bank of Ceylon PLC has won two key awards at the Best Presented Annual Report Awards presented by the South Asian Federation of Accountants (SAFA), reaffirming the high quality of the Bank's financial reporting standards.

The Bank was also adjudged the winner in the 'Private Sector Banks' category and was the first runner-up for the SAARC Anniversary Award for Corporate Governance Disclosures, at this prestigious event. The SAFA Awards, presented annually under different categories, are conferred on the basis of evaluations administered by the Federation's Committee for Improvement in Transparency, Accountability and Governance, of the published Annual Reports of entries from South Asian countries.

In second and third place among private sector banks in the South Asian region were MCB Bank Limited of Pakistan and Prime Bank Limited of Bangladesh.

Commercial Bank wins 'Top 10' Award at the 2014 Best Corporate Citizen Awards



The Commercial Bank's status as one of Sri Lanka's leading corporate citizens was emphatically reaffirmed by the Ceylon Chamber of Commerce presented the country's largest private bank with the Runner-Up award at the 2014 Best Corporate Citizen Sustainability Awards, along with seven more accolades.

While retaining its position as one of the Top 10 Best Corporate Citizens in Sri Lanka, the Bank emerged the winner in the category award for 'Economic Contribution,' took the award for 'Economic Sustainability' in the Triple Bottom Line category and was awarded as the winner in 'Financial Services' in the sector awards. Under the project category the Bank was recognised with a special Long Term Project Award for its efforts to support the national healthcare system. This was the only award that was presented in this category and was a special honour for the Bank's consistent and ongoing efforts to support the national healthcare system. Commercial Bank also received a Merit Award for its coral replanting project in Hikkaduwa.

The Long Term Project Award presented to Commercial Bank at the Best Corporate Citizen awards is in respect of the Bank's on-going programme of donations of critical care equipment and other facilities to Government hospitals around the country, alongside support to refurbish buildings where necessary

Commercial Bank rated Most Respected Bank in Sri Lanka



The Commercial Bank of Ceylon has been rated as the most respected bank in Sri Lanka for the 10th consecutive year and the second 'Most Respected' corporate entity in the country for the fourth consecutive year in the annual LMD rankings. Additionally, the Bank was ranked No. 1 in Sri Lanka for 'Honesty' for the second successive year, topping the category that is most important to businesses in the financial services sector.

Commercial Bank is the only bank among the Top 5 Most Respected entities in Sri Lanka, and is ranked among the Top 3 in several other key aspects such as Financial Performance, Quality Consciousness, Management Profile, CSR and Vision. The Bank has been the Most Respected Bank in the list since its inception in 2005.

The 2014 and tenth edition of this prestigious list of Sri Lanka's most respected companies includes the most diversified conglomerates in the country and some of the world's best-known multinationals.

Commercial Bank Sweeps the Board at Brand Excellence 2014



The Commercial Bank of Ceylon won the coveted 'Service Brand of the Year' and three other accolades at the 2014 SLIM Brand Excellence Awards to become the bank that won the most awards at this prestigious event conducted by the Sri Lanka Institute of Marketing.

Sri Lanka's largest private bank took the Golds in the 'Service Brand' category and in the 'Best New Entrant' category for its 'Anagi' Savings Account for Women, as well as the Silver in the 'Best Local Brand' and the Bronze in the 'CSR Brand of the Year' categories in a dominant showing at this annual gala.

Held for the 13th successive year, SLIM Brand Excellence Awards honour the brand building efforts of organisations. It is a keenly contested event and this year the entries reached an all time high of over 100 applications from more than 40 industries.

A summary of 'Awards and Accolades' won by the Bank during the recent past is given on page 409.

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

This year too, we are pleased to inform you that your Bank has 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 found 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 | <ul style="list-style-type: none"> Annual Report of the Board of Directors | 194-204 |
| 7.6 (ii) | Principal activities of the Bank and its Subsidiaries during the year and any changes therein | <ul style="list-style-type: none"> Note 1.3 of the Accounting Policies Group Structure | 277-408 |
| 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 | <ul style="list-style-type: none"> Item 4 of the Investor Relations Supplement | 254 & 255 |
| 7.6 (iv) | The public holding percentage | <ul style="list-style-type: none"> Item 4 of the Investor Relations Supplement | 254 & 255 |

Investor Relations Supplement

| Rule No. | Disclosure Requirement | Section/Reference | Page/s |
|------------|---|---|-------------------|
| 7.6 (v) | Directors' and Chief Executive Officer's holding in shares at the beginning and at the end of the financial year | <ul style="list-style-type: none"> Item 5 of the Investor Relations Supplement Annual Report of the Board of Directors | 255 194-204 |
| 7.6 (vi) | Information pertaining to material foreseeable risk factors | <ul style="list-style-type: none"> Item 6 of the Investor Relations Supplement | 256 |
| 7.6 (vii) | Details of material issues pertaining to employees and industrial relations | <ul style="list-style-type: none"> Item 7 of the Investor Relations Supplement | 256 |
| 7.6 (viii) | Extents, locations, valuations and the number of buildings of the land holdings and investment properties | <ul style="list-style-type: none"> Note 36 to the Financial Statements on 'Property, Plant and Equipment' | 336 |
| 7.6 (ix) | Number of shares representing the stated capital | <ul style="list-style-type: none"> Note 50 to the Financial Statements on 'Stated Capital' Item 8 of the Investor Relations Supplement | 361 256 & 257 |
| 7.6 (x) | A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings | <ul style="list-style-type: none"> Item 9 of the Investor Relations Supplement | 257 |
| 7.6 (xi) | Ratios and market price information: <ul style="list-style-type: none"> Equity - Dividend per share, dividend payout ratio, net asset value per share, market value per share Debt - Interest rate of comparable Government Security, debt equity ratio, interest cover and quick asset ratio, market prices and yields during the year Any changes in credit rating | <ul style="list-style-type: none"> Items 10 (a) and 10 (b) of the Investor Relations Supplement Items 10 (c) and 10 (d) of the Investor Relations Supplement Items 10 (e) and 10(f) of the Investor Relations Supplement | 258 259 259 |
| 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 | <ul style="list-style-type: none"> Note 36 to the Financial Statements on 'Property, Plant and Equipment' | 336 |
| 7.6 (xiii) | Details of funds raised through Public Issues, Rights Issues, and Private Placements during the year | <ul style="list-style-type: none"> Note 50 to the Financial Statements on 'Stated Capital' | 361 |
| 7.6 (xiv) | Information in respect of Employee Share Option Schemes: <ul style="list-style-type: none"> 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) Highest, lowest and closing price of the share recorded during the financial year | <ul style="list-style-type: none"> Note 50.2 to the Financial Statements on 'Employee Share Option Plan - 2008 ', respectively Item 10 (b) of the Investor Relations Supplement | 362 258 |
| 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 style="list-style-type: none"> Not applicable since the Bank received an exemption in terms of Section 7.10 (c) of the Listing Rules | — |
| 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 style="list-style-type: none"> The Bank did not have any related party transaction exceeding this threshold as at end 2014. | — |

1. Quarterly Performance – 2014 Compared to 2013

Summary of the Income Statements

| | 2014 | | | | | 2013 | | | | |
|--|--------------------|--------------------|---------------------|--------------------|-----------------|--------------------|--------------------|---------------------|--------------------|-----------------|
| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Total | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Total |
| | Mar. 31 Rs. Mn. | Jun. 30 Rs. Mn. | Sept. 30 Rs. Mn. | Dec. 31 Rs. Mn. | Rs. Mn. | Mar. 31 Rs. Mn. | Jun. 30 Rs. Mn. | Sept. 30 Rs. Mn. | Dec. 31 Rs. Mn. | Rs. Mn. |
| Group | | | | | | | | | | |
| Net Interest Income | 6,575.9 | 6,448.7 | 6,974.0 | 7,321.3 | 27,319.9 | 6,303.3 | 6,365.4 | 6,728.4 | 6,501.8 | 25,898.9 |
| Net Fees and Commission Income | 1,047.7 | 1,148.0 | 1,298.5 | 1,355.2 | 4,849.4 | 909.0 | 1,012.9 | 1,225.2 | 1,105.7 | 4,252.8 |
| Other Operating Income (Net) | 1,295.4 | 1,105.5 | 2,503.9 | 2,086.4 | 6,991.2 | 1,244.1 | 1,096.1 | 1,399.9 | 2,330.2 | 6,070.3 |
| Less: Impairment Charges for Loans and Other Losses | 1,144.8 | 1,197.1 | 1,254.6 | 1,301.9 | 4,898.4 | 1,198.9 | 1,263.4 | 1,293.1 | 1,421.5 | 5,176.9 |
| Net Operating Income | 7,774.2 | 7,505.1 | 9,521.8 | 9,461.1 | 34,262.1 | 7,257.5 | 7,211.0 | 8,060.4 | 8,516.2 | 31,045.1 |
| Less: Expenses | 4,450.4 | 4,294.1 | 4,765.3 | 4,898.8 | 18,408.6 | 4,004.1 | 3,918.9 | 4,161.6 | 4,274.9 | 16,359.4 |
| Operating Profit | 3,323.8 | 3,211.0 | 4,756.5 | 4,562.2 | 15,853.5 | 3,253.4 | 3,292.1 | 3,898.8 | 4,241.4 | 14,685.7 |
| Add: Share of Profits/ (Losses) of Associate Companies | 0.9 | 6.2 | 1.0 | (1.6) | 6.5 | 1.8 | 1.1 | 2.0 | 0.3 | 5.3 |
| Profit Before Income Tax | 3,324.7 | 3,217.2 | 4,757.5 | 4,560.6 | 15,860.0 | 3,255.2 | 3,293.2 | 3,900.9 | 4,241.7 | 14,691.0 |
| Less: Income Tax Expense | 1,022.6 | 999.5 | 1,425.9 | 1,169.2 | 4,617.2 | 998.4 | 1,060.0 | 1,144.3 | 914.8 | 4,117.5 |
| Profit for the Period | 2,302.1 | 2,217.8 | 3,331.6 | 3,391.4 | 11,242.8 | 2,256.8 | 2,233.2 | 2,756.6 | 3,326.9 | 10,573.5 |
| Quarterly profit as a % of the profit after tax | 20.5 | 19.7 | 29.6 | 30.2 | 100.0 | 21.3 | 21.1 | 26.1 | 31.5 | 100.0 |
| Cumulative quarterly profit as a % of the profit after tax | 20.5 | 40.2 | 69.8 | 100.0 | | 21.3 | 42.5 | 68.5 | 100.0 | |
| Bank | | | | | | | | | | |
| Net Interest Income | 6,571.4 | 6,444.4 | 6,945.9 | 7,260.2 | 27,221.9 | 6,300.7 | 6,362.2 | 6,723.5 | 6,498.6 | 25,885.0 |
| Net Fees and Commission Income | 1,046.6 | 1,146.9 | 1,297.4 | 1,340.4 | 4,831.3 | 908.1 | 1,012.3 | 1,224.2 | 1,104.7 | 4,249.3 |
| Other Operating Income (Net) | 1,277.3 | 1,094.2 | 2,503.6 | 2,142.0 | 7,017.1 | 1,224.4 | 1,101.0 | 1,408.3 | 2,362.3 | 6,096.0 |
| Less: Impairment Charges for Loans and Other Losses | 1,151.2 | 1,217.1 | 1,246.6 | 1,303.8 | 4,918.7 | 1,204.8 | 1,269.8 | 1,302.0 | 1,427.4 | 5,204.0 |
| Net Operating Income | 7,744.1 | 7,468.4 | 9,500.3 | 9,438.8 | 34,151.6 | 7,228.4 | 7,205.7 | 8,054.0 | 8,538.2 | 31,026.3 |
| Less: Expenses | 4,453.6 | 4,284.9 | 4,761.6 | 4,915.4 | 18,415.5 | 3,998.7 | 3,927.8 | 4,157.7 | 4,431.6 | 16,515.5 |
| Profit Before Income Tax | 3,290.5 | 3,183.5 | 4,738.7 | 4,523.4 | 15,736.1 | 3,229.7 | 3,277.9 | 3,896.4 | 4,106.6 | 14,510.5 |
| Less: Income Tax Expense | 1,011.9 | 983.1 | 1,413.0 | 1,148.0 | 4,556.0 | 989.0 | 1,047.1 | 1,134.0 | 894.9 | 4,065.0 |
| Profit for the Period | 2,278.6 | 2,200.4 | 3,325.7 | 3,375.4 | 11,180.1 | 2,240.7 | 2,230.8 | 2,762.3 | 3,211.7 | 10,445.5 |
| Quarterly profit as a % of the profit after tax | 20.4 | 19.7 | 29.7 | 30.2 | 100.0 | 21.5 | 21.4 | 26.4 | 30.7 | 100.0 |
| Cumulative quarterly profit as a % of the profit after tax | 20.4 | 40.1 | 69.8 | 100.0 | | 21.5 | 42.9 | 69.3 | 100.0 | |

Summary of the Statement of Financial Position

| | 2014 | | | | 2013 | | | |
|---|-----------------------------|-----------------------------|------------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------------|-----------------------------|
| | As at Mar. 31 Rs. Mn. | As at Jun. 30 Rs. Mn. | As at Sept. 30 Rs. Mn. | As at Dec. 31 Rs. Mn. | As at Mar. 31 Rs. Mn. | As at Jun. 30 Rs. Mn. | As at Sept. 30 Rs. Mn. | As at Dec. 31 Rs. Mn. |
| Group | | | | | | | | |
| Cash and Cash Equivalents | 18,538.0 | 15,332.2 | 15,789.1 | 20,617.0 | 17,320.3 | 17,242.3 | 12,441.8 | 14,263.3 |
| Placements with Banks | 7,190.8 | 4,981.5 | 4,774.8 | 14,512.6 | 18,392.4 | 1,657.1 | 4,949.3 | 4,131.8 |
| Other Financial Assets – Held-for-Trading | 15,241.7 | 14,941.2 | 9,834.4 | 6,326.6 | 9,822.8 | 10,474.9 | 10,000.5 | 6,379.1 |
| Loans and Receivables to Banks and Other Customers | 418,474.5 | 438,204.2 | 483,937.2 | 498,165.4 | 389,317.2 | 390,085.5 | 400,159.1 | 410,936.0 |
| Financial Investments – Available-for-Sale | 148,107.3 | 167,359.0 | 189,901.9 | 214,225.0 | 59,246.9 | 96,484.7 | 122,607.3 | 131,756.5 |
| Other Assets | 41,051.4 | 43,350.3 | 44,408.8 | 43,411.0 | 43,138.1 | 42,618.8 | 41,752.7 | 39,097.8 |
| | 648,603.7 | 684,168.2 | 748,647.3 | 797,257.7 | 537,237.6 | 558,563.3 | 591,910.7 | 606,564.5 |
| Due to Banks | 9,165.4 | 15,964.1 | 26,791.0 | 25,669.1 | 3,698.4 | 12,254.3 | 13,474.0 | 14,194.2 |
| Due to Other Customers Deposit from Customers | 472,175.2 | 487,506.2 | 504,103.2 | 529,266.6 | 405,173.1 | 417,223.9 | 435,394.0 | 451,098.9 |
| Other Borrowings | 74,948.0 | 85,329.3 | 114,042.7 | 136,027.6 | 46,797.1 | 47,958.5 | 54,684.5 | 53,997.5 |
| Subordinated Liabilities | 11,084.1 | 10,937.8 | 11,374.2 | 11,262.6 | 10,512.1 | 10,934.5 | 11,250.1 | 10,944.4 |
| Other Liabilities | 19,967.7 | 21,140.3 | 22,646.8 | 23,778.5 | 18,062.0 | 14,587.3 | 18,817.6 | 14,844.4 |
| Shareholders' Funds | 61,263.3 | 63,290.5 | 69,689.3 | 71,253.4 | 52,994.9 | 55,604.8 | 58,290.5 | 61,485.0 |
| | 648,603.7 | 684,168.2 | 748,647.3 | 797,257.7 | 537,237.6 | 558,563.3 | 591,910.7 | 606,564.5 |
| Bank | | | | | | | | |
| Cash and Cash Equivalents | 18,521.8 | 15,316.8 | 15,732.4 | 20,591.9 | 17,345.6 | 17,231.6 | 12,434.9 | 14,261.5 |
| Placements with Banks | 7,190.8 | 4,981.5 | 4,774.8 | 14,507.9 | 18,392.4 | 1,657.1 | 4,949.3 | 4,131.8 |
| Other Financial Assets – Held-for-Trading | 15,241.7 | 14,941.2 | 9,834.4 | 6,326.6 | 9,822.8 | 10,474.9 | 10,000.5 | 6,379.1 |
| Loans and Receivables to Banks and Other Customers | 418,483.0 | 438,209.4 | 482,940.4 | 497,065.8 | 389,450.7 | 390,119.4 | 400,182.9 | 410,951.4 |
| Financial Investments – Available-for-Sale | 148,107.3 | 167,359.0 | 189,885.5 | 214,208.4 | 59,246.9 | 96,484.7 | 122,607.3 | 131,765.5 |
| Other Assets | 40,478.3 | 42,772.1 | 44,121.9 | 42,909.1 | 42,627.0 | 42,143.8 | 41,314.9 | 38,507.3 |
| | 648,023.0 | 683,579.9 | 747,289.5 | 795,609.6 | 536,885.3 | 558,111.5 | 591,489.7 | 605,987.6 |
| Due to Banks | 9,165.4 | 15,964.1 | 26,423.8 | 25,261.0 | 3,698.4 | 12,254.3 | 13,474.0 | 14,194.2 |
| Due to Other Customers | 472,244.6 | 487,598.8 | 504,161.2 | 529,361.5 | 405,246.7 | 417,282.8 | 435,469.3 | 451,152.9 |
| Other Borrowings | 46,947.7 | 85,507.3 | 114,228.1 | 136,201.1 | 46,947.7 | 48,111.8 | 54,867.2 | 54,173.2 |
| Subordinated Liabilities | 11,084.1 | 10,937.8 | 11,156.4 | 11,044.8 | 10,512.1 | 10,934.5 | 11,250.1 | 10,944.4 |
| Other Liabilities | 47,882.0 | 20,859.3 | 22,236.3 | 23,229.6 | 17,922.0 | 14,371.9 | 18,581.2 | 14,578.9 |
| Shareholders' Funds | 60,699.2 | 62,712.6 | 69,083.8 | 70,511.7 | 52,558.4 | 55,156.2 | 57,848.0 | 60,944.0 |
| | 648,023.0 | 683,579.9 | 747,289.5 | 795,609.6 | 536,885.3 | 558,111.5 | 591,489.7 | 605,987.6 |

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 | • December 2006/16 |
| | Floating Rate | • December 2006/16 |

The unaudited Interim Financial Statements for the first three quarters of 2014 were submitted to the CSE within 45 days from the respective quarter ends as required by the Rule No. 7.4 (a) (i) of the Listing Rules of the CSE. (The Bank duly complied with this requirement for 2013).

The unaudited Interim Financial Statements for the fourth quarter of 2014 was submitted to the CSE on February 23, 2015, as required by the Rule No. 7.4 (a) (i) of the Listing Rules of the CSE. (The Bank duly complied with this requirement for 2013).

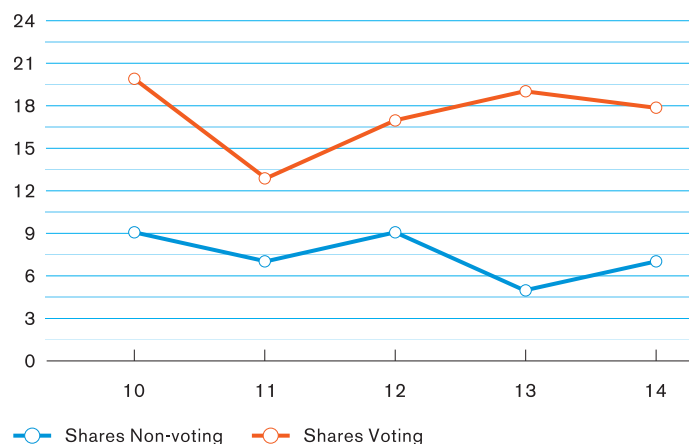
The Audited Income Statement for the year ended December 31, 2014 and the Audited Statement of Financial Position as at December 31, 2014 will be submitted to the CSE within three months from the year end, which is well within the required deadline as required by the Rule No. 7.5 (a) of the Listing Rules of the CSE. (The Bank duly complied with this requirement for 2013).

3. Information on Share Trading

| | Ordinary Shares Voting | | Ordinary Shares Non-Voting | |
|----------------------------------|------------------------|-------------|----------------------------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| Number of Transactions | 17,846 | 18,733 | 7,382 | 5,341 |
| Number of Shares Traded | 129,328,356 | 198,501,282 | 19,648,816 | 6,769,927 |
| Value of Shares Traded (Rs. Bn.) | 18.34 | 22.04 | 2.09 | 0.63 |

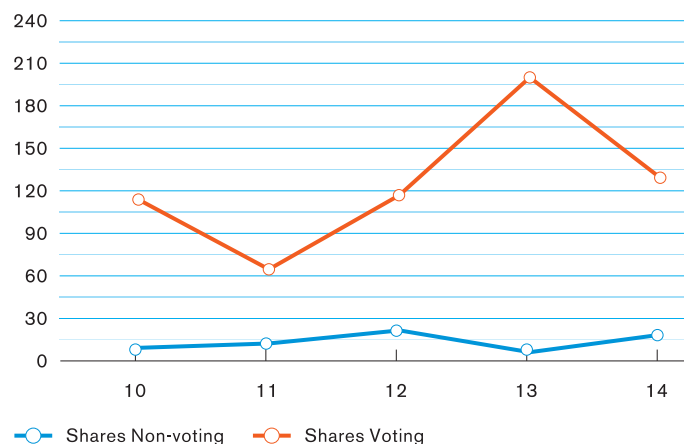
Number of Transactions

(No. '000)



Number of Shares Traded

(No. Mn.)



Investor Relations Supplement

4. 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 at December 31, | 2014 | | 2013(*) | |
|---|---------------------|---------------|---------------------|---------------|
| | No. of Shareholders | % | No. of Shareholders | % |
| Ordinary Shares Voting | | | | |
| 1. DFCC Bank A/C 1 | 119,806,122 | 14.79 | 117,951,857 | 14.85 |
| 2. Employees' Provident Fund | 78,806,032 | 9.73 | 77,586,335 | 9.76 |
| 3. HSBC International Nominees Ltd. - JPMLU - Franklin Templeton Investment Funds | 47,984,547 | 5.92 | 57,224,769 | 7.20 |
| 4. Mr. Y.S.H.I. Silva | 47,355,714 | 5.84 | 36,000,446 | 4.53 |
| 5. Sri Lanka Insurance Corporation Ltd. - Life Fund | 40,851,867 | 5.04 | 40,219,594 | 5.06 |
| 6. CB NY S/A International Finance Corporation | 40,381,198 | 4.98 | 39,756,210 | 5.00 |
| 7. Sri Lanka Insurance Corporation Ltd. - General Fund | 35,126,985 | 4.34 | 34,583,318 | 4.35 |
| 8. HSBC International Nominees Ltd. - SSBT- Wasatch Frontier - Emerging Small Countries Fund | 20,383,126 | 2.52 | 15,136,477 | 1.92 |
| 9. Melstacorp Ltd. | 18,989,272 | 2.34 | 1,346,563 | 0.17 |
| 10. HSBC International Nominees Ltd. - BPSS - LUX - Aberdeen Global - Asian Smaller Companies Fund | 15,177,533 | 1.87 | 17,786,191 | 2.24 |
| 11. Ms. L.E.M. Yaseen | 14,000,030 | 1.73 | 11,675,901 | 1.47 |
| 12. HSBC International Nominees Ltd - JPMLU - Schroder International Selection Fund | 12,012,366 | 1.48 | 2,520,212 | 0.32 |
| 13. HSBC International Nominees Ltd. - SSBT - Morgan Stanley Institutional Fund, Inc. Frontier Emerging Markets Portfolio | 11,295,245 | 1.39 | 3,303,524 | 0.42 |
| 14. Northern Trust Co S/A Harding Loevner Frontier Emerging Markets Portfolio | 11,250,000 | 1.39 | 6,850,000 | 0.86 |
| 15. HSBC International Nominees Ltd. - BPSS - LUX - Aberdeen Global Asia Pacific Equity Fund | 10,905,077 | 1.35 | 10,736,297 | 1.35 |
| 16. Mercantile Investments and Finance PLC | 10,405,566 | 1.28 | 10,244,517 | 1.29 |
| 17. The Bank of New York Mellon SA/NV - CF Ruffer Total Return Fund | 8,198,498 | 1.01 | 8,071,609 | 1.02 |
| 18. HSBC International Nominees Ltd. - SSBT - Morgan Stanley Asset Management SA Acting on behalf of Morgan Stanley Galaxy Fund | 8,094,018 | 1.00 | 7,398,991 | 0.93 |
| 19. HSBC International Nominees Ltd. - SSBT - Aberdeen Institutional Commingled Funds, LLC | 7,769,156 | 0.96 | 6,960,323 | 0.89 |
| 20. HSBC International Nominees Ltd. - BP2S London- Aberdeen Asia Smaller Companies Investment Trust | 6,777,581 | 0.84 | 6,672,683 | 0.84 |
| Sub Total | 565,569,933 | 69.80 | 512,025,817 | 64.46 |
| Other Shareholders | 244,707,796 | 30.20 | 282,510,002 | 35.54 |
| Total | 810,277,729 | 100.00 | 794,535,819 | 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, 2014 was 99.57% (85.01% as at December 31, 2013).

As per Rule No. 7.13.1 of the Listing Rules of the CSE, No. of shareholders representing public holding as at December 31, 2014 - 8,349 (9,072 as at December 31, 2013).

* Comparative shareholdings as at December 31, 2013 of the twenty largest shareholders as at December 31, 2014.

| As at December 31, | 2014 | | 2013 (*) | |
|---|---------------------|---------------|---------------------|---------------|
| | No. of Shareholders | % | No. of Shareholders | % |
| Ordinary Shares Non Voting | | | | |
| 1. HSBC International Nominees Ltd. - JPMLU - Franklin Templeton Investment Funds | 3,215,179 | 5.78 | 3,286,705 | 6.03 |
| 2. Mr.Y.S.H.I. Indrakumara | 2,360,842 | 4.25 | - | - |
| 3. Citibank NY S/A Forward International Dividend Fund | 1,926,649 | 3.47 | 1,800,733 | 3.30 |
| 4. GF Capital Global Ltd. | 1,545,795 | 2.78 | 1,516,962 | 2.78 |
| 5. HINL - JPMCB - Butterfield Trust (Bermuda) Ltd. | 1,379,083 | 2.48 | 1,353,360 | 2.48 |
| 6. Mr. J.D. Bandaranayake | 1,098,285 | 1.98 | 1,077,799 | 1.98 |
| 7. Citibank NY S/A Forward Select EM Dividend Fund | 1,016,446 | 1.83 | 618,000 | 1.13 |
| 8. Waldock Mackenzie Ltd. / Mr. S.N.P. Palihena and Ms. A.S. Palihena | 1,000,000 | 1.80 | 1,000,000 | 1.83 |
| 9. M.J.F. Exports Ltd. | 950,795 | 1.71 | 933,060 | 1.71 |
| 10. Northern Trust Company S/A Polar Capital Funds PLC | 919,031 | 1.65 | 778,280 | 1.43 |
| 11. Employees' Trust Fund Board | 882,181 | 1.59 | 126,470 | 0.23 |
| 12. Saboor Chatoor (Pvt) Ltd. | 751,000 | 1.35 | 687,000 | 1.26 |
| 13. Mr. M.F. Hashim | 746,733 | 1.34 | 689,800 | 1.26 |
| 14. Beta Holdings Ltd. | 698,000 | 1.26 | - | - |
| 15. Ms. L.V.C. Samarasingha | 600,000 | 1.08 | 457,144 | 0.8 |
| 16. Union Assurance PLC - A/C 01 | 565,107 | 1.02 | 429,739 | 0.79 |
| 17. Akbar Brothers (Pvt) Ltd. A/C 1 | 560,349 | 1.01 | 487,940 | 0.89 |
| 18. Asian Alliance Insurance PLC - A/C 02 - Life Fund | 504,482 | 0.91 | 495,072 | 0.91 |
| 19. Dr. A.K.A. Jayawardene | 490,623 | 0.88 | 481,472 | 0.89 |
| 20. Mr. G.R. Mallawaarachy/Ms. B.G.P. Mallawaarachy | 446,527 | 0.80 | 433,880 | 0.80 |
| Sub Total | 21,657,107 | 38.97 | 16,653,416 | 30.52 |
| Other Shareholders | 33,922,839 | 61.03 | 37,889,806 | 69.48 |
| Total | 55,579,946 | 100.00 | 54,543,222 | 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, 2014 was 99.79% (99.94% as at December 31, 2013).

As per Rule No. 7.13.1 of the Listing Rules of the CSE, No. of shareholders representing public holding as at December 31, 2014 - 4,131 (4,331 as at December 31, 2013).

* Comparative shareholdings as at December 31, 2013 of the twenty largest shareholders as at December 31, 2014.

5. 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 Shares Voting | | Ordinary Shares Non-Voting | |
|--|------------------------|---------|----------------------------|-------|
| | 2014 | 2013 | 2014 | 2013 |
| 1. Mr. K.G.D.D. Dheerasinghe (Chairman) | 20,653 | 20,334 | Nil | Nil |
| 2. Mr. M.P. Jayawardena (Deputy Chairman) | Nil | Nil | Nil | Nil |
| 3. Mr. J. Durairatnam (MD/CEO) | 379,087 | 344,336 | Nil | Nil |
| 4. Prof. U.P. Liyanage | Nil | Nil | Nil | Nil |
| 5. Mr. L. Hulugalle | Nil | Nil | Nil | Nil |
| 6. Mr. S. Swarnajothi | Nil | Nil | 8,490 | 8,332 |
| 7. Mr. H.J. Wilson | Nil | Nil | Nil | Nil |
| 8. Mr. S. Renganathan | 190,034 | 197,093 | 10,190 | Nil |
| 9. Mr. K.M.M. Siriwardana (Ceased to hold office w.e.f. February 23, 2015) | Nil | Nil | Nil | Nil |

Investor Relations Supplement

6. 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 218 to 245.

7. 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 need to be disclosed.

8. 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 |
| | 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 |

| Year | Details | Basis | No. of Shares Issued/ (Redeemed) | No. of Shares | | | |
|------|---|------------|----------------------------------|------------------------|----------------------------|---|---|
| | | | | Ordinary Shares Voting | Ordinary Shares Non-Voting | Cumulative Redeemable Preference Shares | |
| 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 | – |

9. 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 Colombo Stock Exchange)

| | As at December 31, 2014 | | | | As at December 31, 2013 | | | |
|-----------------------------------|-------------------------|---------------|--------------------|---------------|-------------------------|---------------|--------------------|---------------|
| | No. of Shareholders | % | No. of Shares | % | No. of Shareholders | % | No. of Shares | % |
| Ordinary Shares Voting | | | | | | | | |
| 1 - 1,000 | 4,033 | 48.16 | 985,748 | 0.12 | 4,257 | 46.83 | 1,070,676 | 0.13 |
| 1,001 - 10,000 | 2,683 | 32.04 | 10,067,965 | 1.24 | 3,028 | 33.31 | 11,127,681 | 1.40 |
| 10,001 - 100,000 | 1,380 | 16.48 | 40,455,736 | 4.99 | 1,503 | 16.53 | 43,110,082 | 5.43 |
| 100,001 - 1,000,000 | 206 | 2.46 | 61,331,081 | 7.57 | 229 | 2.52 | 63,934,905 | 8.05 |
| Over 1,000,000 | 72 | 0.86 | 697,437,199 | 86.08 | 74 | 0.81 | 675,292,475 | 84.99 |
| Total | 8,374 | 100.00 | 810,277,729 | 100.00 | 9,091 | 100.00 | 794,535,819 | 100.00 |
| Ordinary Shares Non-Voting | | | | | | | | |
| 1 - 1,000 | 2,163 | 52.24 | 564,960 | 1.02 | 2,274 | 52.44 | 604,911 | 1.11 |
| 1,001 - 10,000 | 1,359 | 32.83 | 4,533,671 | 8.15 | 1,424 | 32.84 | 4,798,522 | 8.79 |
| 10,001 - 100,000 | 515 | 12.44 | 14,051,351 | 25.28 | 534 | 12.32 | 14,655,746 | 26.87 |
| 100,001 - 1,000,000 | 96 | 2.32 | 23,887,685 | 42.99 | 98 | 2.26 | 24,145,146 | 44.27 |
| Over 1,000,000 | 7 | 0.17 | 12,542,279 | 22.56 | 6 | 0.14 | 10,338,897 | 18.96 |
| Total | 4,140 | 100.00 | 55,579,946 | 100.00 | 4,336 | 100.00 | 54,543,222 | 100.00 |

10. 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)

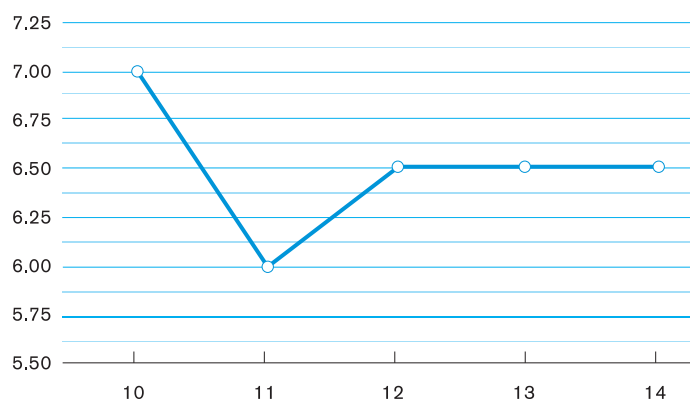
(a) Information on Ratios

| | | 2014 | 2013 | |
|----------------------------------|-------------------------|-------------------------------|-------------|------|
| Dividend per Share (Rs.) | Cash | First Interim Paid | 1.50 | 1.50 |
| | | Second Interim Paid | 1.00 | 1.00 |
| | | Final Proposed*/Paid | 2.00 | 2.00 |
| | | Total | 4.50 | 4.50 |
| | | Issue and Allotment of Shares | 2.00 | 2.00 |
| | Total Dividend | 6.50 | 6.50 | |
| Dividend Payout Ratio (%) | Cash | 34.85 | 36.60 | |
| | Total (Cash and Shares) | 50.34 | 52.87 | |
| Net Assets Value per Share (Rs.) | | 81.44 | 71.78 | |

* The Board of Directors of the Bank has recommended a final dividend of Rs. 4.00 per ordinary share, which consists of a cash dividend of Rs. 2.00 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, 2014 for approval by the shareholders at the 46th Annual General Meeting (AGM), to be held on March 31, 2015. (The Bank declared a final dividend of Rs. 4.00 per share for the year ended December 31, 2013 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).

Dividend Per Share

(Rs.)



(b) Market Prices

| | Ordinary Shares Voting | | Ordinary Shares Non-Voting | |
|---------------------------|------------------------|--------------|----------------------------|--------------|
| | 2014 Rs. | 2013 Rs. | 2014 Rs. | 2013 Rs. |
| Highest Price | 179.90 | 126.00 | 125.50 | 102.00 |
| Date of the Highest Price | (18.11.2014) | (21.05.2013) | (31.12.2014) | (21.05.2013) |
| Lowest Price | 113.50 | 103.20 | 91.30 | 87.00 |
| Date of the Lowest Price | (24.02.2014) | (02.01.2013) | (01.04.2014) | (04.12.2013) |
| Year-end Price | 171.00 | 120.40 | 125.10 | 93.00 |

(c) Other Ratios

| | 2014 | 2013 |
|---------------------------------------|-------|-------|
| Debt Equity Ratio (%) | 25.97 | 33.17 |
| Interest Cover (Times) | 28.31 | 20.25 |
| Liquid Assets Ratio (%) (Minimum 20%) | 33.11 | 34.05 |

(d) Debenture Composition

| | Fixed Interest Rate | | | | Floating Interest Rate | |
|---|---------------------|-------------|-------------|-------------|-----------------------------------|-----------------------------------|
| | 2014 | | 2013 | | 2014 | 2013 |
| 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 |
| | | | | | 12 Months TB Rate (Gross) + | 12 Months TB Rate (Gross) + |
| Offered Interest Rate | 13.25% p.a. | 14.00% p.a. | 13.25% p.a. | 14.00% p.a. | 1% p.a. | 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 | 10.21 | 13.99 |
| - Effective Annual Yield (%) | 13.25 | 14.00 | 13.25 | 14.00 | 10.21 | 13.99 |
| Interest rate of comparable Government Security | 6.35 | 6.70 | 8.85 | 9.10 | 7.70 | 10.20 |
| 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 | - N/A - | during the | during the | during the |
| | | year | | year | year | 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.

(e) Credit Ratings

- The Bank's credit rating, AA(lka) was reaffirmed by Fitch Ratings Lanka Ltd. in 2014
- The Bank's credit rating, AAA was affirmed by Lanka Rating Agency Ltd. [formally known as RAM Ratings (Lanka) Ltd.] in 2014.
- The Bank's Bangladesh operation's credit rating was reaffirmed as AAA by Credit Rating Information Services Ltd. in 2014

(f) Credit Ratings - Debentures

- The credit rating of the Bank's subordinated debentures, AA- (lka) too reaffirmed in 2014 by Fitch Ratings Lanka Ltd.

11. Information on Scrip Issues, Rights Issues and Share Splits

| Year/Month | Details |
|----------------|--|
| 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 | Rights 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 |
| 2001 May | Scrip issue of one ordinary share for every five ordinary shares held |
| 1998 June | Scrip issue of three ordinary shares for every ten ordinary shares held |

12. Shareholder Base

| | 2014 | 2013 |
|--|--------|--------|
| Number of Ordinary Voting Shareholders | 8,374 | 9,091 |
| Number of Ordinary Non-voting Shareholders | 4,140 | 4,336 |
| Total | 12,514 | 13,427 |

13. Composition of Shareholders

| | As at December 31, 2014 | | | | As at December 31, 2013 | | | |
|-----------------------------------|-------------------------|---------------|--------------------|---------------|-------------------------|---------------|--------------------|---------------|
| | No. of Shareholders | % | No. of Shares | % | No. of Shareholders | % | No. of Shares | % |
| Ordinary Shares Voting | | | | | | | | |
| Resident | 8,065 | 96.31 | 504,235,468 | 62.23 | 8,789 | 96.68 | 511,640,873 | 64.39 |
| Non-Resident | 309 | 3.69 | 306,042,261 | 37.77 | 302 | 3.32 | 282,894,946 | 35.61 |
| Total | 8,374 | 100.00 | 810,277,729 | 100.00 | 9,091 | 100.00 | 794,535,819 | 100.00 |
| Individuals | 7,878 | 94.08 | 149,595,615 | 18.46 | 8,546 | 94.01 | 142,086,949 | 17.88 |
| Institutions | 496 | 5.92 | 660,682,114 | 81.54 | 545 | 5.99 | 652,448,870 | 82.12 |
| Total | 8,374 | 100.00 | 810,277,729 | 100.00 | 9,091 | 100.00 | 794,535,819 | 100.00 |
| Ordinary Shares Non-Voting | | | | | | | | |
| Resident | 4,057 | 98.00 | 43,842,309 | 78.88 | 4,233 | 97.62 | 42,218,874 | 77.40 |
| Non-Resident | 83 | 2.00 | 11,737,637 | 21.12 | 103 | 2.38 | 12,324,348 | 22.60 |
| Total | 4,140 | 100.00 | 55,579,946 | 100.00 | 4,336 | 100.00 | 54,543,222 | 100.00 |
| Individuals | 3,941 | 95.19 | 34,736,840 | 62.50 | 4,119 | 95.00 | 32,321,004 | 59.26 |
| Institutions | 199 | 4.81 | 20,843,106 | 37.50 | 217 | 5.00 | 22,222,218 | 40.74 |
| Total | 4,140 | 100.00 | 55,579,946 | 100.00 | 4,336 | 100.00 | 54,543,222 | 100.00 |

14. Share Price Trend Over Last Ten Years

| Year | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|-----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Ordinary Shares Voting | | | | | | | | | | |
| Highest Price (Rs.) | 179.90 | 126.00 | 119.50 | 284.00 | 295.00 | 192.00 | 149.75 | 250.00 | 192.50 | 269.00 |
| Lowest Price (Rs.) | 113.50 | 103.20 | 96.80 | 97.00 | 178.00 | 66.00 | 66.25 | 128.00 | 123.00 | 120.00 |
| Last Traded Price (Rs.) | 171.00 | 120.40 | 103.00 | 100.00 | 259.90 | 189.50 | 67.00 | 147.00 | 190.00 | 135.50 |
| Ordinary Shares Non-Voting | | | | | | | | | | |
| Highest Price (Rs.) | 125.50 | 102.00 | 99.50 | 200.00 | 226.00 | 131.25 | 89.50 | 114.50 | 90.00 | 160.00 |
| Lowest Price (Rs.) | 91.30 | 87.00 | 73.00 | 69.10 | 75.00 | 48.25 | 48.00 | 60.00 | 54.00 | 51.00 |
| Last Traded Price (Rs.) | 125.10 | 93.00 | 91.10 | 74.50 | 162.00 | 124.75 | 49.00 | 74.50 | 89.00 | 57.50 |

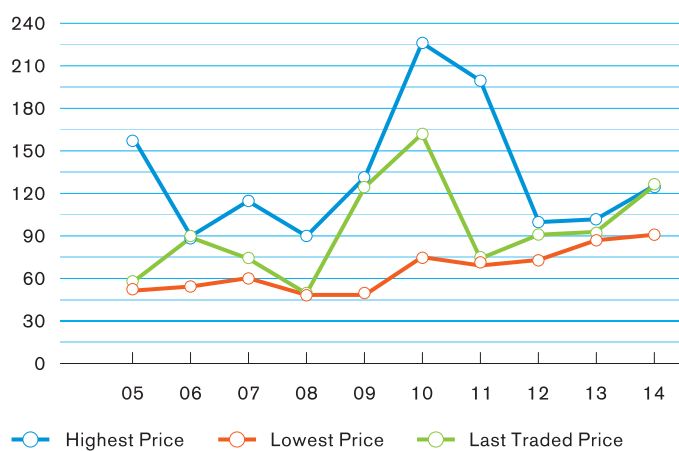
Share Price Trend Over the Past Decade - Voting

(Rs.)



Share Price Trend Over the Past Decade - Non-voting

(Rs.)



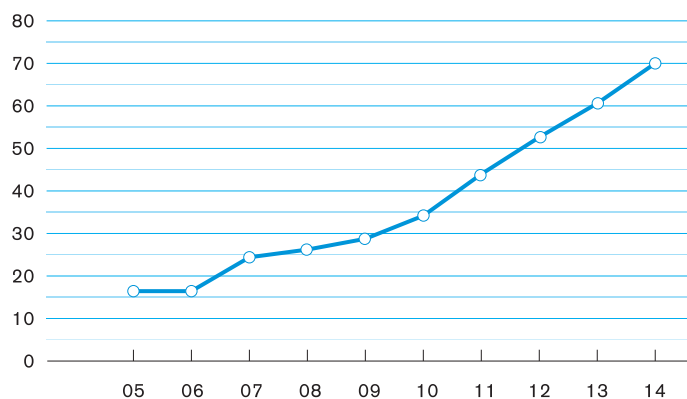
15. Information on Shareholders' Funds and Market Capitalisation

| As at December 31, | Shareholders' Funds Rs. Mn. | Com Bank's Market Capitalisation (*) Rs. Mn. | Total Market Capitalisation of the CSE Rs. Mn. | Com Bank's Market Capitalisation as a % of CSE Market Capitalisation % | Com Bank's Market Capitalisation Ranking Rank |
|--------------------|--------------------------------|--|---|--|--|
| 2014 | 70,512 | 138,557 | 3,104,864 | 4.76 | 3 |
| 2013 | 60,944 | 95,654 | 2,286,320 | 4.11 | 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 |
| 2005 | 15,768 | 17,991 | 583,786 | 3.08 | 4 |

* Commercial Bank's Market Capitalization includes only Voting Ordinary Shares.

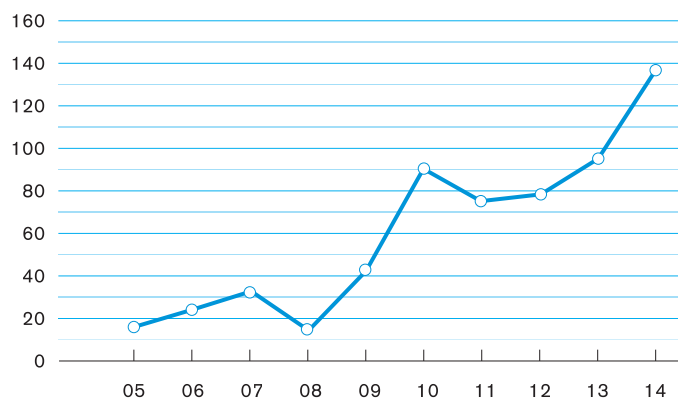
Shareholders' Funds

(Rs.Bn.)



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(Rs.Bn.)



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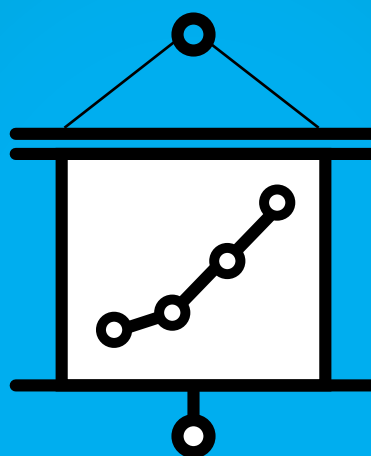
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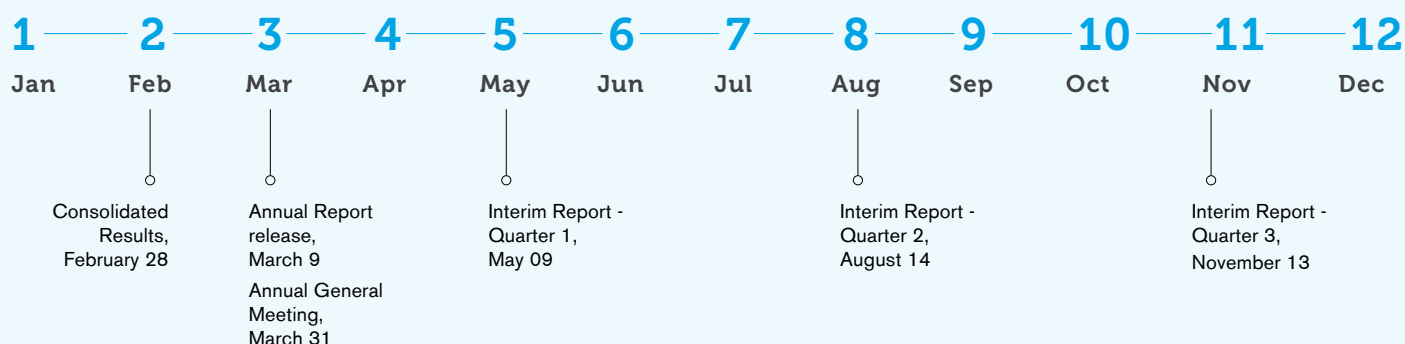
Notes to the
Financial
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Financial Reports

The Financial Statements presented herein have been prepared in compliance with all the applicable rules and regulations including the Sri Lanka Accounting Standards, the Companies Act No. 07 of 2007 and the Listing Rules of the Colombo Stock Exchange.

2014



| | 2014 | 2015 |
|---|--|-------------------------|
| Final Dividend for the previous year paid/payable | On April 09, 2014 | On April 10, 2015 |
| Interim Dividends for the year paid/payable | On November 21, 2014 On February 05, 2015 | In the second half 2015 |
| Annual Report and Accounts for the year signed/to be signed | On February 23, 2015 | In February 2016 |
| Annual General Meeting to be held | On March 31, 2015 | In March 2016 |
| Final Dividend for the year to be proposed | On March 31, 2015 | In March 2016 |
| Final Dividend for the year to be paid | On April 10, 2015 | In April 2016 |

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

| | 2014 Submitted on | 2015 To be submitted on or before |
|--|----------------------|--------------------------------------|
| For the 3 months ended March 31, (unaudited) | May 09, 2014 | May 15, 2015 |
| For the 3 and 6 months ended June 30, (unaudited) | (*) August 14, 2014 | August 15, 2015 |
| For the 3 and 9 months ended September 30, (unaudited) | November 13, 2014 | November 15, 2015 |
| For the 3 months and year ended December 31, (unaudited) | February 23, 2015 | February 29, 2016 |

(*) The Financial Statements of the Bank were audited.



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 (Chartered Accountants)
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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 statements of financial position as at December 31, 2014, the income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information set out on pages 269 to 405.

Board 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' judgement, 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, 2014, 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 Requirements

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, 2014, 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

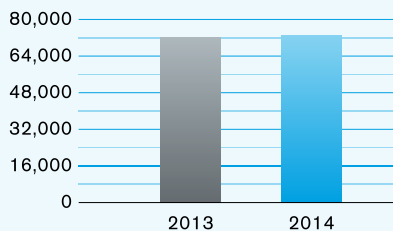
Colombo
 February 23, 2015

| | Page No. | | Page No. |
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Financial Statements Highlights - Bank

Gross Income

(Rs. Mn.)



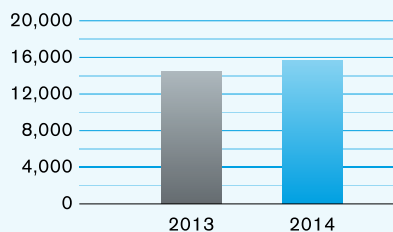
0.96% ↑
Growth

2014: Rs. 74,442 Mn.

2013: Rs. 73,736 Mn.

Profit Before Tax

(Rs. Mn.)



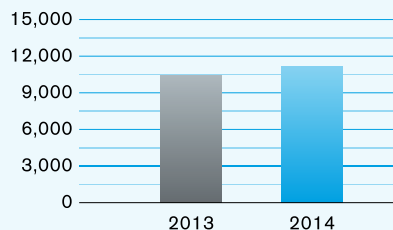
8.45% ↑
Growth

2014: Rs. 15,736 Mn.

2013: Rs. 14,511 Mn.

Profit After Tax

(Rs. Mn.)



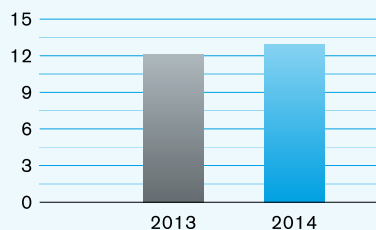
7.03% ↑
Growth

2014: Rs. 11,180 Mn.

2013: Rs. 10,446 Mn.

Basic Earnings per Ordinary Share

(Rs.)



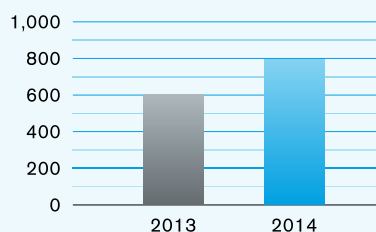
6.94% ↑
Growth

2014: Rs. 12.94

2013: Rs. 12.10

Total Assets

(Rs. Bn.)



31.29% ↑
Growth

2014: Rs. 795,610 Mn.

2013: Rs. 605,988 Mn.

| For the year ended December 31, | Note | GROUP | | | BANK | | |
|--|------|-------------------|-------------|---------|-------------------|-------------|---------|
| | | 2014 | 2013 | Change | 2014 | 2013 | Change |
| | | Rs. '000 | Rs. '000 | % | Rs. '000 | Rs. '000 | % |
| Gross income | 11 | 74,537,814 | 73,704,516 | 1.13 | 74,441,840 | 73,736,267 | 0.96 |
| Interest income | | 61,932,876 | 62,754,147 | (1.31) | 61,832,018 | 62,763,644 | (1.48) |
| Less: Interest expenses | | 34,613,052 | 36,855,204 | (6.08) | 34,610,179 | 36,878,755 | (6.15) |
| Net interest income | 12 | 27,319,824 | 25,898,943 | 5.49 | 27,221,839 | 25,884,889 | 5.16 |
| Fees and commission income | | 5,613,684 | 4,880,093 | 15.03 | 5,592,744 | 4,876,517 | 14.69 |
| Less: Fees and commission expenses | | 764,322 | 627,235 | 21.86 | 761,527 | 627,235 | 21.41 |
| Net fees and commission income | 13 | 4,849,362 | 4,252,858 | 14.03 | 4,831,217 | 4,249,282 | 13.69 |
| Net gains/(losses) from trading | 14 | (305,492) | (1,625,926) | 81.21 | (305,492) | (1,625,926) | 81.21 |
| Net gains/(losses) from financial instruments designated at fair value through profit or loss | | - | - | - | - | - | - |
| Net gains/(losses) from financial investments | 15 | 2,272,575 | 1,349,517 | 68.40 | 2,272,575 | 1,349,517 | 68.40 |
| Other income (net) | 16 | 5,024,171 | 6,346,685 | (20.84) | 5,049,995 | 6,372,515 | (20.75) |
| Total operating income | | 39,160,440 | 36,222,077 | 8.11 | 39,070,134 | 36,230,277 | 7.84 |
| Impairment charges for loans and other losses | 17 | 4,898,249 | 5,177,019 | (5.38) | 4,918,755 | 5,204,012 | (5.48) |
| Net operating income | | 34,262,191 | 31,045,058 | 10.36 | 34,151,379 | 31,026,265 | 10.07 |
| Less: Expenses | | | | | | | |
| Personnel expenses | 18 | 8,956,323 | 8,221,265 | 8.94 | 8,903,048 | 8,186,205 | 8.76 |
| Depreciation and amortisation | 19 | 1,262,000 | 868,382 | 45.33 | 1,200,546 | 936,257 | 28.23 |
| Other operating expenses | 20 | 5,501,963 | 5,300,824 | 3.79 | 5,622,578 | 5,424,330 | 3.65 |
| Operating profit before Value Added Tax (VAT) on financial services and Nation Building Tax (NBT) | | 18,541,905 | 16,654,587 | 11.33 | 18,425,207 | 16,479,473 | 11.81 |
| Less: Value Added Tax (VAT) on financial services and Nation Building Tax (NBT) | | 2,688,551 | 1,968,954 | 36.55 | 2,688,991 | 1,968,954 | 36.57 |
| Operating Profit after Value Added Tax (VAT) on financial services and Nation Building Tax (NBT) | | 15,853,354 | 14,685,633 | 7.95 | 15,736,216 | 14,510,519 | 8.45 |
| Share of profits of associates, net of tax | | 6,563 | 5,285 | 24.18 | - | - | - |
| Profit before tax | | 15,859,917 | 14,690,918 | 7.96 | 15,736,216 | 14,510,519 | 8.45 |
| Less: Income tax expense | 21 | 4,617,124 | 4,117,461 | 12.14 | 4,556,035 | 4,065,008 | 12.08 |
| Profit for the year | | 11,242,793 | 10,573,457 | 6.33 | 11,180,181 | 10,445,511 | 7.03 |
| Profit Attributable to: | | | | | | | |
| Equity holders of the Bank | | 11,238,892 | 10,563,378 | 6.39 | 11,180,181 | 10,445,511 | 7.03 |
| Non-controlling interest | | 3,901 | 10,079 | (61.30) | - | - | - |
| Profit for the year | | 11,242,793 | 10,573,457 | 6.33 | 11,180,181 | 10,445,511 | 7.03 |
| Earnings per Share | | | | | | | |
| Basic earnings per ordinary share (Rs.) | 22 | 13.01 | 12.24 | 6.29 | 12.94 | 12.10 | 6.94 |
| Diluted earnings per ordinary share (Rs.) | 22 | 12.95 | 12.22 | 5.97 | 12.88 | 12.09 | 6.53 |

The Notes appearing on pages 277 to 405 form an integral part of these Financial Statements.

Statement of Profit or Loss and Other Comprehensive Income

| For the year ended December 31, | GROUP | | | BANK | | |
|---|-------------------|------------------|-------------|-------------------|------------------|-------------|
| | 2014 Rs. '000 | 2013 Rs. '000 | Change % | 2014 Rs. '000 | 2013 Rs. '000 | Change % |
| Profit for the year | 11,242,793 | 10,573,457 | 6.33 | 11,180,181 | 10,445,511 | 7.03 |
| Other comprehensive income, net of tax | | | | | | |
| Items that will never be reclassified to profit or loss | | | | | | |
| Net actuarial gains/(losses) on defined benefit plans | (60,828) | (21,409) | (184.12) | (60,667) | (20,668) | (193.53) |
| Remeasurement of defined benefit liability/(asset) | (84,484) | (29,088) | (190.44) | (84,259) | (28,705) | (193.53) |
| Less: Deferred tax charge/(reversal) on actuarial gains/(losses) | (23,656) | (7,679) | (208.06) | (23,592) | (8,037) | (193.54) |
| Net change in revaluation surplus | 1,638,518 | (121,178) | 1,452.16 | 1,500,805 | (121,178) | 1,338.51 |
| Changes in revaluation surplus/(deficit) | 1,812,757 | - | - | 1,621,489 | - | - |
| Less: Deferred tax charge/(reversal) on revaluation surplus | 174,239 | 121,178 | 43.79 | 120,684 | 121,178 | (0.41) |
| Items that are or may be reclassified to profit or loss | | | | | | |
| Net gains/(losses) arising from translating the Financial Statements of the foreign operation | (60,430) | 361,343 | (116.72) | (57,151) | 350,969 | (116.28) |
| Net fair value gains/(losses) on re-measuring Financial investments – Available-for-sale | 681,002 | 1,579,100 | (56.87) | 681,011 | 1,579,100 | (56.87) |
| Sri Lanka Government Securities | 640,437 | 1,437,346 | (55.44) | 640,446 | 1,437,346 | (55.44) |
| Fair value gains/(losses) arose during the year, net of tax | 2,247,787 | 1,982,249 | 13.40 | 2,247,796 | 1,982,249 | 13.40 |
| Fair value gains/(losses) realised and recycled to the Income Statement on disposal, net of tax | (1,607,350) | (544,903) | (194.98) | (1,607,350) | (544,903) | (194.98) |
| Equity Securities | 40,565 | 141,754 | (71.38) | 40,565 | 141,754 | (71.38) |
| Fair value gains/(losses) arose during the year, net of tax | 40,565 | 141,754 | (71.38) | 40,565 | 141,754 | (71.38) |
| 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 | 6,402 | (2,132) | 400.28 | - | - | - |
| Other comprehensive income for the year, net of tax | 2,204,664 | 1,795,724 | 22.77 | 2,063,998 | 1,788,223 | 15.42 |
| Total comprehensive income for the year | 13,447,457 | 12,369,181 | 8.72 | 13,244,179 | 12,233,734 | 8.26 |
| Attributable to: | | | | | | |
| Equity holders of the Bank | 13,436,055 | 12,359,090 | 8.71 | 13,244,179 | 12,233,734 | 8.26 |
| Non-controlling interest | 11,402 | 10,091 | 12.99 | - | - | - |
| Total comprehensive income for the year | 13,447,457 | 12,369,181 | 8.72 | 13,244,179 | 12,233,734 | 8.26 |

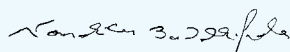
Statement of Financial Position

| As at December 31, | Note | GROUP | | | BANK | | |
|--|------|--------------------|--------------------|--------------|--------------------|--------------------|--------------|
| | | 2014 Rs. '000 | 2013 Rs. '000 | Change % | 2014 Rs. '000 | 2013 Rs. '000 | Change % |
| Assets | | | | | | | |
| Cash and cash equivalents | 26 | 20,621,778 | 14,263,533 | 44.58 | 20,591,867 | 14,261,549 | 44.39 |
| Balances with Central Banks | 27 | 19,633,746 | 18,431,936 | 6.52 | 19,633,746 | 18,431,936 | 6.52 |
| Placements with banks | 28 | 14,507,861 | 4,131,814 | 251.13 | 14,507,861 | 4,131,814 | 251.13 |
| Derivative financial assets | 29 | 459,510 | 837,694 | (45.15) | 459,510 | 837,694 | (45.15) |
| Other financial instruments – Held-for-trading | 30 | 6,326,636 | 6,379,058 | (0.82) | 6,326,636 | 6,379,058 | (0.82) |
| Loans and receivables to banks | 31 | 551,066 | 546,270 | 0.88 | 551,066 | 546,270 | 0.88 |
| Loans and receivables to other customers | 32 | 498,165,419 | 410,935,979 | 21.23 | 497,065,787 | 410,951,440 | 20.95 |
| Financial investments – Available-for-sale | 33 | 214,225,017 | 131,756,525 | 62.59 | 214,208,370 | 131,756,525 | 62.58 |
| Financial investments – Held-to-maturity | | - | - | - | - | - | - |
| Investments in subsidiaries | 34 | - | - | - | 1,211,000 | 288,946 | 319.11 |
| Investments in associates | 35 | 106,287 | 94,173 | 12.86 | 44,331 | 44,331 | - |
| Property, plant & equipment | 36 | 11,134,861 | 9,175,225 | 21.36 | 9,953,091 | 8,387,344 | 18.67 |
| Intangible assets | 37 | 856,230 | 477,728 | 79.23 | 439,128 | 467,593 | (6.09) |
| Leasehold property | 38 | 108,872 | 110,324 | (1.32) | 75,420 | 76,362 | (1.23) |
| Other assets | 39 | 10,560,430 | 9,424,248 | 12.06 | 10,541,817 | 9,426,730 | 11.83 |
| Total assets | | 797,257,713 | 606,564,507 | 31.44 | 795,609,630 | 605,987,592 | 31.29 |
| Liabilities | | | | | | | |
| Due to banks | 40 | 25,669,025 | 14,194,219 | 80.84 | 25,260,976 | 14,194,219 | 77.97 |
| Derivative financial liabilities | 41 | 1,193,139 | 1,411,916 | (15.50) | 1,193,139 | 1,411,916 | (15.50) |
| Other financial liabilities – Held-for-trading | | - | - | - | - | - | - |
| Due to other customers/Deposits from customers | 42 | 529,266,588 | 451,098,946 | 17.33 | 529,361,484 | 451,152,923 | 17.34 |
| Other borrowings | 43 | 136,027,625 | 53,997,503 | 151.91 | 136,201,082 | 54,173,175 | 151.42 |
| Current tax liabilities | 44 | 2,037,388 | 1,780,867 | 14.40 | 1,997,990 | 1,758,574 | 13.61 |
| Deferred tax liabilities | 45 | 2,876,199 | 1,763,414 | 63.10 | 2,573,760 | 1,563,070 | 64.66 |
| Other provisions | 46 | 1,874 | 2,409 | (22.21) | 1,874 | 2,409 | (22.21) |
| Other liabilities | 47 | 17,669,903 | 9,885,815 | 78.74 | 17,443,531 | 9,827,209 | 77.50 |
| Due to subsidiaries | 48 | - | - | - | 19,289 | 15,686 | 22.97 |
| Subordinated liabilities | 49 | 11,262,573 | 10,944,412 | 2.91 | 11,044,775 | 10,944,412 | 0.92 |
| Total liabilities | | 726,004,314 | 545,079,501 | 33.19 | 725,097,900 | 545,043,593 | 33.03 |
| Equity | | | | | | | |
| Stated capital | 50 | 21,457,501 | 19,586,813 | 9.55 | 21,457,501 | 19,586,813 | 9.55 |
| Statutory reserves | 51 | 4,327,103 | 4,034,614 | 7.25 | 4,327,103 | 4,034,614 | 7.25 |
| Retained earnings | 52 | 4,418,412 | 4,359,632 | 1.35 | 4,258,287 | 4,233,364 | 0.59 |
| Other reserves | 53 | 41,002,819 | 33,465,169 | 22.52 | 40,468,839 | 33,089,208 | 22.30 |
| Total equity attributable to equity holders of the Bank | | 71,205,835 | 61,446,228 | 15.88 | 70,511,730 | 60,943,999 | 15.70 |
| Non-controlling interest | 54 | 47,564 | 38,778 | 22.66 | - | - | - |
| Total equity | | 71,253,399 | 61,485,006 | 15.89 | 70,511,730 | 60,943,999 | 15.70 |
| Total liabilities and equity | | 797,257,713 | 606,564,507 | 31.44 | 795,609,630 | 605,987,592 | 31.29 |
| Contingent liabilities and commitments | 55 | 352,453,452 | 295,451,955 | 19.29 | 352,453,452 | 295,451,955 | 19.29 |
| Net assets value per ordinary share (Rs.) | 56 | 82.24 | 72.37 | 13.64 | 81.44 | 71.78 | 13.46 |

The Notes appearing on pages 277 to 405 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.



K.D.N. Buddhipala

Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the Board,



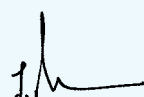
K.G.D.D. Dheerasinghe

Chairman



M.P. Jayawardena

Deputy Chairman



J. Durairatnam

Managing Director



Mrs. J.R. Gamage

Company Secretary

Colombo

February 23, 2015

Statement of Changes in Equity – Group

| | Statutory Reserves | | |
|---|--------------------|------------------------|-------------------------------------|
| | Stated Capital | Statutory Reserve Fund | Primary Dealer Special Risk Reserve |
| | Rs. '000 | Rs. '000 | Rs. '000 |
| Balance as at January 01, 2013 | 18,008,796 | 3,245,818 | 187,577 |
| Total comprehensive income for the year 2013 | | | |
| 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 foreign operations | - | - | - |
| Total comprehensive income for the year 2013 | - | - | - |
| Transactions with owners recognised directly in equity, contributions and distributions to owners | | | |
| Issue of ordinary shares under Employee Share Option Plans [Refer Note 50] | 76,074 | - | - |
| Dividends to equity holders | 1,501,943 | - | - |
| Second interim dividend for 2012 [Refer Note 23] | - | - | - |
| Final cash dividend for 2012 | - | - | - |
| Final dividend for 2012 satisfied in the form of issue and allotment of new shares | 1,501,943 | - | - |
| First interim dividend for 2013 [Refer Note 23] | - | - | - |
| Deferred tax effect on pre-acquisition reserves | - | - | - |
| Reclassification of retained earnings to available-for-sale reserve | - | - | - |
| Transfers during the year [Refer Notes 51, 52 and 53] | - | 522,276 | 78,943 |
| Total transactions with equity holders | 1,578,017 | 522,276 | 78,943 |
| Balance as at December 31, 2013 | 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 | - | - | - |
| Share of other comprehensive income of associates, net off tax | - | - | - |
| 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 foreign operations | - | - | - |
| 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 Plans [Refer Note 50] | 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 | 1,529,925 | - | - |
| First interim dividend for 2014 [Refer Note 23] | - | - | - |
| Re-classification of available-for-sale-reserve to retained earnings | - | - | - |
| Transfers during the year [Refer Notes 51, 52 and 53] | - | 559,009 | - |
| Transfer to general reserve [Refer Notes 51, 52 and 53] | - | - | (266,520) |
| Total transactions with equity holders | 1,870,688 | 559,009 | (266,520) |
| Balance as at December 31, 2014 | 21,457,501 | 4,327,103 | - |

The Notes appearing on pages 277 to 405 form an integral part of these Financial Statements.

| | Other Reserves | | | | | | Shareholders' Funds | Non-Controlling Interest | Total Equity |
|--|-------------------|---------------------|----------------------------|--------------------------------------|-------------------------|-------------------|---------------------|--------------------------|-------------------|
| | Retained Earnings | Revaluation Reserve | Available-for-Sale Reserve | Foreign Currency Translation Reserve | Investment Fund Account | General Reserve | | | |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | | | |
| | 4,172,814 | 4,737,125 | 475,467 | (755,101) | 2,846,935 | 20,048,989 | 52,968,420 | 32,141 | 53,000,561 |
| | 10,563,378 | - | - | - | - | - | 10,563,378 | 10,079 | 10,573,457 |
| | (21,421) | (121,178) | 1,576,968 | 361,343 | - | - | 1,795,712 | 12 | 1,795,724 |
| | (21,421) | - | - | - | - | - | (21,421) | 12 | (21,409) |
| | - | (121,178) | - | - | - | - | (121,178) | - | (121,178) |
| | - | - | 1,576,968 | - | - | - | 1,576,968 | - | 1,576,968 |
| | - | - | - | 361,343 | - | - | 361,343 | - | 361,343 |
| | 10,541,957 | (121,178) | 1,576,968 | 361,343 | - | - | 12,359,090 | 10,091 | 12,369,181 |
| | - | - | - | - | - | - | 76,074 | - | 76,074 |
| | (5,444,752) | - | - | - | - | - | (3,942,809) | (2,616) | (3,945,425) |
| | (833,609) | - | - | - | - | - | (833,609) | - | (833,609) |
| | (1,668,826) | - | - | - | - | - | (1,668,826) | - | (1,668,826) |
| | (1,668,826) | - | - | - | - | - | (166,883) | (1,308) | (168,191) |
| | (1,273,491) | - | - | - | - | - | (1,273,491) | (1,308) | (1,274,799) |
| | (14,547) | - | - | - | - | - | (14,547) | (838) | (15,385) |
| | 28,967 | - | (28,967) | - | - | - | - | - | - |
| | (4,924,807) | - | - | - | 1,991,758 | 2,331,830 | - | - | - |
| | (10,355,139) | - | (28,967) | - | 1,991,758 | 2,331,830 | (3,881,282) | (3,454) | (3,884,736) |
| | 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 |
| | 11,238,892 | - | - | - | - | - | 11,238,892 | 3,901 | 11,242,793 |
| | (54,422) | 1,631,013 | 681,002 | (60,430) | - | - | 2,197,163 | 7,501 | 2,204,664 |
| | (60,824) | - | - | - | - | - | (60,824) | (4) | (60,828) |
| | 6,402 | - | - | - | - | - | 6,402 | - | 6,402 |
| | - | 1,631,013 | - | - | - | - | 1,631,013 | 7,505 | 1,638,518 |
| | - | - | 681,002 | - | - | - | 681,002 | - | 681,002 |
| | - | - | - | (60,430) | - | - | (60,430) | - | (60,430) |
| | 11,184,470 | 1,631,013 | 681,002 | (60,430) | - | - | 13,436,055 | 11,402 | 13,447,457 |
| | - | - | - | - | - | - | 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) | (1,308) | (1,701,225) |
| | (1,699,917) | - | - | - | - | - | (169,992) | - | (169,992) |
| | (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 |

Statement of Changes in Equity – Bank

| | Statutory Reserves | | |
|---|--------------------|------------------------|-------------------------------------|
| | Stated Capital | Statutory Reserve Fund | Primary Dealer Special Risk Reserve |
| | Rs. '000 | Rs. '000 | Rs. '000 |
| Balance as at January 01, 2013 | 18,008,796 | 3,245,818 | 187,577 |
| Total comprehensive income for the year 2013 | | | |
| 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 foreign operations | - | - | - |
| Total comprehensive income for the year 2013 | - | - | - |
| Transactions with owners, recognised directly in equity, contributions and distributions to owners | | | |
| Issue of ordinary shares under Employee Share Option Plans [Refer Note 50] | 76,074 | - | - |
| Dividends to equity holders | 1,501,943 | - | - |
| Second interim dividend for 2012 [Refer Note 23] | - | - | - |
| Final cash dividend for 2012 | - | - | - |
| Final dividend for 2012 satisfied in the form of issue and allotment of new shares | 1,501,943 | - | - |
| First interim dividend for 2013 [Refer Note 23] | - | - | - |
| Transfers during the year [Refer Notes 50, 51 and 52] | - | 522,276 | 78,943 |
| Total transactions with equity holders | 1,578,017 | 522,276 | 78,943 |
| Balance as at December 31, 2013 | 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 foreign operations | - | - | - |
| 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 Plans [Refer Note 50] | 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 | 1,529,925 | - | - |
| First interim dividend for 2014 [Refer Note 23] | - | - | - |
| Transfers during the year [Refer Notes 51, 52 and 53] | - | 559,009 | - |
| Transfer to general reserve [Refer Notes 51, 52 and 53] | - | - | (266,520) |
| Total transactions with equity holders | 1,870,688 | 559,009 | (266,520) |
| Balance as at December 31, 2014 | 21,457,501 | 4,327,103 | - |

The Notes appearing on pages 277 to 405 form an integral part of these Financial Statements.

| | Other Reserves | | | | | | Shareholders' Funds | Non-Controlling Interest | Total Equity |
|--|-------------------|---------------------|----------------------------|--------------------------------------|-------------------------|-------------------|---------------------|--------------------------|-------------------|
| | Retained Earnings | Revaluation Reserve | Available-for-Sale Reserve | Foreign Currency Translation Reserve | Investment Fund Account | General Reserve | | | |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | | | |
| | 4,178,080 | 4,343,232 | 475,467 | (757,894) | 2,846,935 | 20,048,989 | 52,577,000 | - | 52,577,000 |
| | 10,445,511 | - | - | - | - | - | 10,445,511 | - | 10,445,511 |
| | (20,668) | (121,178) | 1,579,100 | 350,969 | - | - | 1,788,223 | - | 1,788,223 |
| | (20,668) | - | - | - | - | - | (20,668) | - | (20,668) |
| | - | (121,178) | - | - | - | - | (121,178) | - | (121,178) |
| | - | - | 1,579,100 | - | - | - | 1,579,100 | - | 1,579,100 |
| | - | - | - | 350,969 | - | - | 350,969 | - | 350,969 |
| | 10,424,843 | (121,178) | 1,579,100 | 350,969 | - | - | 12,233,734 | - | 12,233,734 |
| | - | - | - | - | - | - | 76,074 | - | 76,074 |
| | (5,444,752) | - | - | - | - | - | (3,942,809) | - | (3,942,809) |
| | (833,609) | - | - | - | - | - | (833,609) | - | (833,609) |
| | (1,668,826) | - | - | - | - | - | (1,668,826) | - | (1,668,826) |
| | (1,668,826) | - | - | - | - | - | (166,883) | - | (166,883) |
| | (1,273,491) | - | - | - | - | - | (1,273,491) | - | (1,273,491) |
| | (4,924,807) | - | - | - | 1,991,758 | 2,331,830 | - | - | - |
| | (10,369,559) | - | - | - | 1,991,758 | 2,331,830 | (3,866,735) | - | (3,866,735) |
| | 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) | - | (1,699,917) |
| | (1,699,917) | - | - | - | - | - | (169,992) | - | (169,992) |
| | (1,298,154) | - | - | - | - | - | (1,298,154) | - | (1,298,154) |
| | (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) | - | (3,676,448) |
| | 4,258,287 | 5,722,859 | 2,735,578 | (464,076) | - | 32,474,478 | 70,511,730 | - | 70,511,730 |

Statement of Cash Flows

| For the year ended December 31, | Note | GROUP | | BANK | |
|--|------|--------------------|--------------------|--------------------|--------------------|
| | | 2014 | 2013 | 2014 | 2013 |
| | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Cash Flows from Operating Activities | | | | | |
| Profit before income tax | | 15,859,917 | 14,690,918 | 15,736,216 | 14,510,519 |
| Adjustments for; | | | | | |
| Non-cash items included in profits before tax | 61 | 5,259,655 | 5,768,801 | 5,211,421 | 5,862,574 |
| Change in operating assets | 62 | (177,812,671) | (102,776,236) | (178,345,779) | (102,740,182) |
| Change in operating liabilities | 63 | 177,867,627 | 76,882,830 | 178,481,088 | 76,915,896 |
| Gains/(losses) on sale of property, plant & equipment | 16 | 2,144 | (11,115) | 4,916 | (233) |
| Share of profits in associates, net of tax | | (6,563) | (5,285) | – | – |
| Dividend income from subsidiaries and associates | 16 | 851 | 2,691 | (70,383) | (72,530) |
| Interest expense on subordinated liabilities | 12.2 | 766,101 | 619,126 | 752,781 | 619,126 |
| Net gains/(losses) arising from translating the Financial Statements of foreign operations | 53.4 | (60,430) | 361,343 | (57,151) | 350,969 |
| Benefits paid on defined benefit plans | | (74,497) | (47,891) | (73,675) | (46,147) |
| Income taxes paid | | (3,036,746) | (4,008,339) | (2,988,916) | (3,962,673) |
| Net cash from/(used in) operating activities | | 18,765,388 | (8,523,157) | 18,650,518 | (8,562,681) |
| Cash Flows from Investing Activities | | | | | |
| Net purchase of property, plant & equipment | | (1,072,322) | (957,152) | (989,864) | (956,337) |
| Proceeds from sale of property, plant & equipment | | 33,391 | 31,431 | 13,649 | 11,927 |
| Purchase of financial investments | | (6,868,493) | (2,749,888) | (6,868,493) | (2,749,888) |
| Proceeds from sale and maturity of financial investments | | 964,499 | 1,723,893 | 964,499 | 1,723,893 |
| Net purchase of intangible assets | | (144,494) | (119,903) | (144,417) | (119,449) |
| Net cash flow from investment in subsidiaries and associates | | – | – | (34,795) | – |
| Acquisition of a subsidiary, net of cash acquired | 34.2 | (891,470) | – | (916,046) | – |
| Dividends received from investments in subsidiaries and associates | | – | – | 70,383 | 72,530 |
| Net cash from/(used in) investing activities | | (7,978,889) | (2,071,619) | (7,905,084) | (2,017,324) |
| Cash Flows from Financing Activities | | | | | |
| Net proceeds from issue of ordinary voting shares | 50 | 340,763 | 76,074 | 340,763 | 76,074 |
| Net proceeds from subordinated liabilities | 49 | – | 9,468,750 | – | 9,468,750 |
| Repayment of subordinated liabilities | 49 | – | (550) | – | (550) |
| Interest paid on subordinated liabilities | | (749,190) | (492,745) | (738,668) | (492,745) |
| Dividend paid to non-controlling interest | 54 | (2,616) | (2,616) | – | – |
| Dividend paid to shareholders of the Bank | | (4,017,211) | (3,942,809) | (4,017,211) | (3,942,809) |
| Net cash from/(used in) financing activities | | (4,428,254) | 5,106,104 | (4,415,116) | 5,108,720 |
| Net increase/(decrease) in cash and cash equivalents | | 6,358,245 | (5,488,672) | 6,330,318 | (5,471,285) |
| Cash and cash equivalents as at January 01, | | 14,263,533 | 19,752,205 | 14,261,549 | 19,732,834 |
| Cash and cash equivalents as at December 31, | 26 | 20,621,778 | 14,263,533 | 20,591,867 | 14,261,549 |

The Notes appearing on pages 277 to 405 form an integral part of these Financial Statements.

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, 2014 was 4,852 (4,730 as at December 31, 2013).

For further information please refer 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, 2014, 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 at December 31, 2014 | Ownership at December 31, 2013 |
|---|--|--------------------------------|--------------------------------|
| Bank | Providing a comprehensive range of financial services encompassing accepting deposits, personal banking, trade financing, off-shore 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 facilities, 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 & related ancillary services and outsourcing of staff for non-critical functions of the Bank. | 94.55% | 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 and providing money transfer services, opening accounts, issuance and encashment of foreign currencies and travellers' cheques and collecting applications for credit facilities. The commercial operations of this company are yet to be commenced. | 100.00% | 100.00% |
| Indra Finance Ltd. | Providing financial services including leasing, hire purchase, loans, etc. | 100.00% (*) | N/A |
| Associates | | | |
| Equity Investments Lanka Ltd. | Fund management | 22.92% | 22.92% |
| Commercial Insurance Brokers (Pvt) Ltd. | Insurance brokering | 18.91% (**) | 18.91% (**) |

(*) As per the Financial Sector Consolidation Road Map of the Central Bank of Sri Lanka, the Bank acquired 100% stake in Indra Finance Ltd. on September 01, 2014.

(**) 20% stake of Commercial Insurance Brokers (Pvt) Ltd. is held by Commercial Development Company PLC, a 94.55% 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 18.91%.

Notes to the Financial Statements

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 Preparation

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) 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 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 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 8 on pages 285 to 303.

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.

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 194, 206 and 271 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 269 and 270;
- 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 271;
- 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 272 to 275.
- 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 the needs of entities to utilise those cash flows. Refer page 276 and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information. Refer pages 277 to 405.

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, 2014 (including comparatives for 2013) were approved and authorised for issue by the Board of Directors in accordance with Resolution of the Directors on February 23, 2015.

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 | 319 |
| Financial investments -available-for-sale | Fair Value | 33 | 329 |
| Land & buildings | Measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation | 36 | 336 |
| Defined benefit obligation | Liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses | 47.1, 47.2 & 47.4 | 355, 356 & 358 |

2.5 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 409 and 410 does not form part of the Financial Statements and is made available solely for the information of stakeholders.

2.6 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 from the Reporting date and after more than 12 months from the Reporting date is presented in Note 58 on pages 369 to 371.

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 and as specifically disclosed in the Accounting Policies of the Bank.

2.7 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'.

2.8 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'.

2.9 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period for all amounts reported 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 is amended, where relevant for better presentation and to be comparable with those of the current year.

2.10 Use of Judgements and Estimates

In preparing the Financial Statements of the Group in conformity with SLFRSs, the Management has made judgements, estimates and assumptions that affect the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. 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:

2.10.1 Going Concern

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.

2.10.2 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 4 on page 283.

2.10.3 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 in 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 5.3.3.1 and 5.3.4.1 on pages 207 and 290.
- 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 5.3.3.5 on page 289.

2.10.4 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 for in the Income Statement. In particular, Management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

Notes to the Financial Statements

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 component of the total provision for impairment applies to financial assets evaluated individually for impairment and is based on Management's best estimate of the present value of the 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 component of the total 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 product mix at the Reporting date. The loss rates are regularly benchmarked against actual loss experience.

In assessing the need for collective loss allowance, 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 5.3.10.1 on page 292 for details.

2.10.5 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 5.3.10.2 on page 293 for details.

2.10.6 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 5.8 on page 297 for details.

2.10.7 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 36.5 (b) on page 341.

2.10.8 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.

2.10.9 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 against which such tax losses can be utilised. 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 tax-planning strategies.

Refer Note 7.2 on page 302 for details.

2.10.10 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 47 on page 354 for the assumptions used.

2.10.11 Provisions for Liabilities, Commitments and Contingencies

The Group receives legal claims against it 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 depend on the due process 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 5.11 to 5.17 on page 290.

2.11 Events After the Reporting Period

Events after the Reporting period 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 66 on page 405 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.

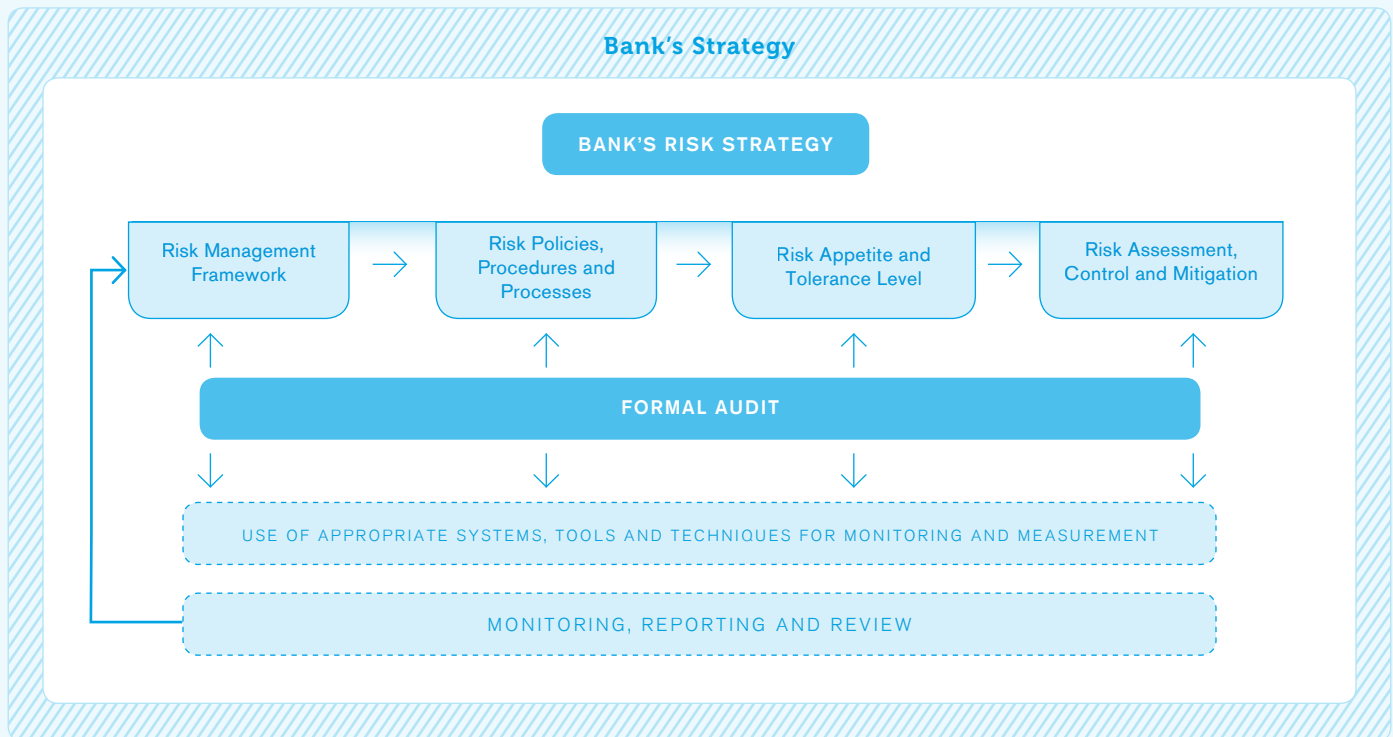
The Board of Directors of the Bank has formed a mandatory Sub-Committee namely, the Board Integrated Risk Management Committee (BIRMC) as per Banking Act Direction No. 11 of 2007 on Corporate Governance. The performance of the Committee and the duties and roles of members are reviewed by the Board annually.

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 in 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 sets 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 218 to 245. 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. USD. The positions were subjected to sensitivity analysis to provide insight to possible losses/gains arising from currency appreciation/depreciations, respectively as the reporting currency of the Bank being LKR. Despite political turmoil experienced in Russia/Ukraine and Middle Eastern countries during this year, the Bank's FX risk position remains relatively unscathed due to not having position in currencies of such origins.

Operational Risk Management

Sound Operational Risk Management practices are embedded in to 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 defense' 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 65 on pages 380 to 405 for 'Financial Risk Review'.

A detailed write up on how the Risk Management is carried out within the Bank's Financial 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 218 to 245. The write up referred to above 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.

Fair Value Hierarchy

The Group measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.

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.

Notes to the Financial Statements

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.

An analysis of fair value measurement of financial and non-financial assets and liabilities is provided in Note 25 on page 315.

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 - Recognition of Assets and Liabilities

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 and Separate Financial Statements' and the proportionate share of the profit or loss and net assets of its Associates in terms of the Sri Lanka Accounting Standard - LKAS 28 on 'Investments in Associates and Joint Ventures'. The Bank's Financial Statements comprise the amalgamation of the Financial Statements of the Domestic Banking Unit, the Off-Shore Banking 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 is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (Refer Note 5.7.3.1.1 on page 296). 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)

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.

5.1.3 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 Indra 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 months 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.

A listing of the Bank's Subsidiaries together with contingencies of Subsidiaries is set out in Notes 34 and 55.4 (a) on pages 333 and 368.

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 408.

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 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

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.

Notes to the Financial Statements

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.

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.

A listing of the Group's Associates together with their fair values and the Group's share of contingent liabilities of such Associates are set out in Notes 35 and 55.4 (b) on pages 335 and 368.

Summarised financial information of all Associates of the Bank together with the Bank's interests is given in the Section on 'Group Structure' on page 408.

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 the 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 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 of such that 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.

5.3 Financial Instruments - Initial Recognition, Classification and Subsequent Measurement

5.3.1 Date of Recognition

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities 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.

5.3.2 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 5.3.3 and 5.3.4 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.

5.3.2.1 'Day 1' Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Group 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 6.1 on page 301.

5.3.3 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; and

The Subsequent measurement of financial assets depends on their classification.

Please refer Notes 5.3.3.1 to 5.3.3.7 on pages 287 to 289 for details on different types of financial assets recognised on the Statement of Financial Position.

5.3.3.1 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 5.3.3.1.1 and 5.3.3.1.2 below:

5.3.3.1.1 Financial Assets 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

Notes to the Financial Statements

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.

Details of financial assets held for trading are given in Note 30 on page 319.

Derivatives Recorded at Fair Value through Profit or Loss

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.

Details of derivative financial assets recorded at fair value through profit or loss are given in Note 29 on page 319.

5.3.3.1.2 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 that 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.

5.3.3.2 Loans and Receivables to Banks and Other Customers

'Loans and receivables to banks and 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 receivable to banks and other customers' include Amounts due from banks, Loans & Advances, Lease Receivable and Securities purchased under resale agreements of the Group.

When the Group is the lessor in a lease agreement that transfers substantially all of the 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 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.

The Bank may enter into certain lending commitments where the loan, on draw down, 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.

Details of 'Loans and receivables to banks and other customers' are given in Notes 31 and 32 on page 322.

5.3.3.2.1 Securities Purchased Under Resale Agreements (Reverse Repos)

When the Group purchases a financial asset and simultaneously enters into an agreement to resale the asset (or a similar asset) at a fixed price on a future date (Reverse Repo), the arrangement is accounted for as a financial asset in the Statement of Financial Position reflecting the transaction's economic substance as a loan granted by the Group. Subsequent to initial recognition, these securities issued are measured at their amortised cost using the EIR method with the corresponding interest receivable being recognised as interest income in profit or loss.

Details of 'Securities purchased under resale agreements' are given in Note 32.1(a) on page 323.

5.3.3.3 Other Financial Investments Classified as Loans and Receivables

'Other 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.

Details of 'Other financial investments classified as loans and receivables' are given in Note 32 on page 322.

5.3.3.4 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'.

Details of Financial Investments – Available-for-Sale are given in Note 33 on page 329

5.3.3.5 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.

5.3.3.6 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.

Details of Cash and cash equivalents are given in Note 26 to the Financial Statements on page 318.

5.3.3.7 Balances with Central Banks

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain a statutory reserve equal to 6% on all deposit liabilities denominated in Sri Lankan Rupees (6% in 2013). The Bank's Bangladesh operation is required to maintain the statutory liquidity requirement of 19.5% (19% in 2013) on time and demand liabilities (both local and foreign currencies), inclusive of 6.5% (6% in 2013) in the form of a Cash Reserve Requirement and the balance 13% (13% in 2013) by way of foreign currency and/or in the form of unencumbered securities held with the Bangladesh Bank.

Balances with Central Banks are carried at amortised cost in the Statement of Financial Position.

Details of the Balances with Central Banks are given in Note 27 to the Financial Statements on page 318.

5.3.4 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

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The subsequent measurement of financial liabilities depends on their classification.

Please refer Notes 5.3.4.1 and 5.3.4.2 as detailed below.

5.3.4.1 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 5.3.4.1.1 and 5.3.4.1.2 below.

5.3.4.1.1 Financial Liabilities Held-for-Trading

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.

Details of derivative financial liabilities are given in Note 41 on page 350.

5.3.4.1.2 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.

5.3.4.2 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, 'Debt Securities Issued' 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.

5.3.4.2.1 Due to Banks

These represents refinance borrowings, call money borrowings, credit balances in Nostro Accounts and borrowings from financial institutions. 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.

Details of the 'Due to banks' are given in Notes 40 on page 350.

5.3.4.2.2 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.

Details of 'Due to other customers/Deposits from customers' are given in Note 42 on page 350.

5.3.4.2.3 Debt Securities Issued

These represent the funds borrowed by the Group for long term funding requirements. Subsequent to initial recognition debt securities issued are measured at their amortised cost using the EIR method, except where the Group designates debt securities issued at fair value through profit or loss. Interest paid/payable is recognised in profit or loss.

The Group does not have any debt securities issued as at the Reporting date.

5.3.4.2.4 Securities Sold Under Resale Agreements (Repos)

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (Repos), the arrangement is accounted for as a financial liability in the Statement of Financial Position reflecting the transaction's economic substance as a deposit. Subsequent to initial recognition, these securities are measured at their amortised cost using the EIR method with the corresponding interest payable being recognised as interest expense in profit or loss.

The details of the Group's Financial liabilities at amortised cost is disclosed in Notes 40, 42, 43 and 49 on pages 350, 351 and 360.

5.3.5 Reclassification of Financial Assets & Liabilities

The Group reclassifies non-derivative 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 of. 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.

5.3.6 Derecognition of Financial Assets and Financial Liabilities

5.3.6.1 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 of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the 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 of the 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 of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the 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.

5.3.6.2 Financial Liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

5.3.7 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.

5.3.8 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.

5.3.9 Fair Value of Financial Instruments

Fair value measurement of financial instruments including the fair value hierarchy is explained in the Note 4 on page 283.

5.3.10 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.

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Objective evidence that financial assets (including equity securities) are impaired can include:

- significant financial difficulty of the borrower or issuer,
- rescheduling 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.

5.3.10.1 Impairment of Financial Assets Carried at Amortised Cost

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 the '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 17 and Note 32 on pages 308 and 322.

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. 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.

To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have readily determinable market values are valued using statistical models. Non-financial collateral, such as real estate, is valued based on data obtained from third parties such as professional valuers, Audited Financial Statements and other independent sources.

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'.

5.3.10.2. 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.

5.4 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.

5.5 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.

5.5.1 Operating Leases

5.5.1.1 Operating Leases - Group as a Lessee

Leases that do not transfer to the Group substantially all the 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.

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5.5.1.2 Operating Leases - Group as a Lessor

Leases where the Group does not transfer substantially all of the 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 64 on page 379.

5.5.2 Finance Leases

5.5.2.1 Finance Leases - Group as a Lessee

Finance leases that transfer substantially all the 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.

5.5.2.2 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.

5.6 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.

5.6.1 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.

5.6.2 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 Note 5.6.3 below. 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.

5.6.2.1 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.

5.6.2.2 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 & freehold & 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 36.5 (b) on page 341.

5.6.3 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.

5.6.4 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'.

5.6.5 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).

5.6.6 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, 2014 are as follows:

| Class of Asset | % 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 above rates are also comparable with the rates applied in the previous year, except in the case of Office Interior Work which carried depreciation at the rate of 10% per annum until December 31, 2013.

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 36 on page 336.

5.6.7 Change in Depreciation Rate

Depreciation methods, useful lives and residual values are reassessed at each Reporting date and adjusted, if appropriate. As a result, the depreciation rate applicable for Office Interior Work was changed to 20% per annum from 10% per annum with effect from January 1, 2014. These are considered as changes in accounting estimates and hence applied prospectively.

The reason for the said change and the impact is given in Note 19 on page 309.

5.6.8 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.

5.7 Intangible Assets

The Bank's intangible assets include the value of acquired goodwill and computer software.

5.7.1 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.

5.7.2 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.

5.7.3 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:

5.7.3.1 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

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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.

5.7.3.1.1 Goodwill

Goodwill that arises on the acquisition of Subsidiaries is presented with intangible assets (Refer Note 5.1.1 on page 285). 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.

5.7.3.1.2 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.

5.7.3.1.3 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.

Amortisation of the asset begins when development is complete and the asset is available for use. The cost of the asset is amortised over the period of expected future benefit.

As at the Reporting date, the Group does not have development costs capitalised as an internally-generated intangible asset.

5.7.3.1.4 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 | % Per Annum | Period |
|-------------------|-------------|---------|
| Computer Software | 20 | 5 years |

Above rate is consistent with the rates used in the comparative years.

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.

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.

5.7.3.2 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.

5.7.4 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 37 on page 347.

A summary of Accounting Policies applied for the Group's Intangible Assets is as follows:

| 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. |

5.8 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.

5.9 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.

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 66.3 on page 405.

5.10 Employee Benefits

5.10.1 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'.

5.10.1.1 Defined Benefit Pension Plans

5.10.1.1.1 Description of the Plans and Employee Groups Covered

The Bank operates three types of Defined Benefit Pension Plans for its employees as described below:

- 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 1, 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.
- 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.
- 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 1, 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.

Notes to 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 47 on page 354.

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.

5.10.1.1.2 Recognition of Actuarial Gains or Losses

Actuarial gains or losses are recognised in the OCI in the period in which they arise.

5.10.1.1.3 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 47 on pages 308 and 354 respectively.

5.10.2 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 5.10.2.1, 5.10.2.2 and 5.10.2.3.

Amounts recognised in profit or loss as expenses on DCPs are given in Note 18 on page 308.

5.10.2.1 Defined Contribution Pension Plan

As explained in Note 5.11.1.1(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.

5.10.2.2 Employees' Provident Fund

The Bank and employees contribute to the 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.

5.10.2.3 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.

5.10.3 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 was 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.

5.10.4 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.

5.10.5 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.

5.10.6 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 Executives 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 1, 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 such 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.

As the Group did not grant any share-based payment transaction after January 01, 2012, it did not apply the above accounting treatment during the year and the proceeds received by the Group in consideration for the shares issued (in connection with the Employee Share Option Schemes granted prior to January 01, 2012) were accounted for as Stated Capital within equity.

The details of Employee Share Option Plans are given in Note 50.2 on page 362.

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 311.

5.11 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.

Details of 'Other Liabilities' are given in Note 47 on page 354.

5.12 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.

5.13 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 are not provided for.

The Group does not have any provision for restructuring as at the Reporting date.

5.14 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.

5.15 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. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

5.16 Commitments

All discernible risks are accounted for in determining the amount of known liabilities as explained in Note 5.11 above.

Details of the commitments are given in Notes 55.2 and 55.3 to the Financial Statements on pages 367 and 368.

5.17 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'.

Notes to the Financial Statements

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 55.1 on page 367.

5.17.1 Legal Claims

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 advised as the loss is possible, but not probable, that the action will succeed. Accordingly, no provision for any claims has been made in these Financial Statements.

A detailed list of significant pending litigations against the Group is given in Note 57 on page 368.

5.17.2 Contingent Liabilities, Commitments of Other Group Entities

The Bank's share of any contingencies and capital commitments of a Subsidiary or an Associate for which the Bank is also liable severally or otherwise is included with appropriate disclosures.

Details of the Commitments and contingencies of other Group entities are given in Note 55.4 on page 368.

5.18 Stated Capital and Reserves

5.18.1 Debt Vs Equity

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Distributions thereon are recognised as interest or dividend depending on the debt or equity classification.

5.18.2 Share Issue Costs

Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

5.18.3 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 51, 52 and 53 on pages 363 to 364.

5.19 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 for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

Details of Basic and Diluted EPS are given in Note 22 on page 311.

5.20 Operating Segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that 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:

| Operating Segment | Types of Products and Services Offered |
|--------------------------|--|
| Personal Banking | Refer page 27 for details on 'Product Portfolio by Business Lines' |
| Corporate Banking | |
| International Operations | |
| Investment Banking | |
| Dealing and Treasury | |

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.

Segment results that are reported to the Chief Executive Officer (being the chief operating decision-maker) include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Bank's head office), head office expenses and tax assets and liabilities.

Interest income is reported on a net basis as management primarily relies on net interest income as a performance measure and not the gross income and expense.

Inter-segment transactions are accounted for at fair market prices charged to inter-bank counterparts for similar services on an arm's length basis. Such transfers are eliminated on consolidation.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2014 or 2013.

Detailed information on the results of each reportable segment as required by the Sri Lanka Accounting Standard - SLFRS 8 on 'Operating Segments' is provided in Note 59 on page 372.

5.21 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.

6. Significant Accounting Policies - Recognition of Income and Expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

6.1 Interest Income and Expense

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 through 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 on an EIR method;
- interest income and expense on financial assets and liabilities held-for-trading calculated on an EIR method;
- interest on available-for-sale investment securities calculated on an 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.

6.2 Fees and Commission Income and Expense

Fees and commission income and expense that are integral to the EIR on a financial asset or liability are included in the measurement of the EIR.

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 expense relate mainly to transaction and service fees, which are expensed as the services are received.

6.3 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.

6.4 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. Dividends are presented in Net gains/(losses) from trading, or Net gains/(losses) from other financial investments based on the underlying classification of the equity investment.

6.5 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.

6.6 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.

Notes to the Financial Statements

6.7 Rental Income and Expenses

Rental income and expense are recognised in the profit or loss on an accrual basis.

7. Significant Accounting Policies - 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, in which case it is recognised in equity or in OCI.

7.1 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 310. 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 operations is made on the basis of the accounting profit for the year as adjusted for taxation purposes in accordance with the provisions of the relevant statutes in those countries using the tax rates enacted or substantively enacted, at the Reporting date.

7.2 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 because they generally relate to income arising from transactions that were originally recognised in profit or loss.

Details of Deferred Tax Assets and Liabilities are given in Note 45 on page 352.

7.3 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 judgments about future events. New information may become available that causes the Group to change its judgment 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.

7.4 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.

7.5 Withholding Tax on Dividends Distributed by the Bank, Subsidiaries and Associates**7.5.1 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.

7.5.2 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.

7.6 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.

7.7 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.

7.8 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 7.7 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 269.

8. 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 318.

The Statement of Cash Flows is given on pages 276.

9. New Accounting Standards Applied Effective from January 01, 2014

| New Accounting Standard | Objective of the Accounting Standard |
|--|--|
| SLFRS 10 - 'Consolidated Financial Statements' | Establishing principles for the preparation and presentation of Consolidated Financial Statements when an entity controls one or more other entities. |
| SLFRS 12 - 'Disclosure of Interests in Other Entities' | Requiring the entity to disclose information that enables users of its Financial Statements to evaluate the nature and risks associated with its interests in other entities; and the effects of those interests on its financial performance, financial position, and cash flows. |
| SLFRS 13 - 'Fair Value Measurement' | Defining fair value in a single SLFRS, a framework for measuring fair value and disclosures about fair value measurements. |

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 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. Effective date of SLFRS 9 has been deferred till January 01, 2018. | The Group/Bank is assessing the potential impact on its Consolidated Financial Statements resulting from the application of SLFRS 9. 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, 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'. SLFRS 15 is effective for annual reporting periods beginning on or after January 01, 2017. | The Group/Bank is assessing the potential impact on its Consolidated Financial Statements resulting from the application of SLFRS 15. |

The following new Accounting Standards are not expected to have an impact on the Financial Statements of the Group.

- Agriculture: Bearer Plants (Amendments to LKAS 16 on 'Property, Plant & Equipment' and LKAS 41 on 'Agriculture'). Effective date January 01, 2016
- Regulatory Deferral Assets (SLFRS 14) - Effective date January 01, 2016

Notes to the Financial Statements

11. Gross Income

| For the year ended December 31, | GROUP | | BANK | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Interest income [Refer Note 12.1] | 61,932,876 | 62,754,147 | 61,832,018 | 62,763,644 |
| Fees and commission income [Refer Note 13.1] | 5,613,684 | 4,880,093 | 5,592,744 | 4,876,517 |
| Net gains/(losses) from trading [Refer Note 14] | (305,492) | (1,625,926) | (305,492) | (1,625,926) |
| Net gains/(losses) from financial investments [Refer Note 15] | 2,272,575 | 1,349,517 | 2,272,575 | 1,349,517 |
| Other income (net) [Refer Note 16] | 5,024,171 | 6,346,685 | 5,049,995 | 6,372,515 |
| Total | 74,537,814 | 73,704,516 | 74,441,840 | 73,736,267 |

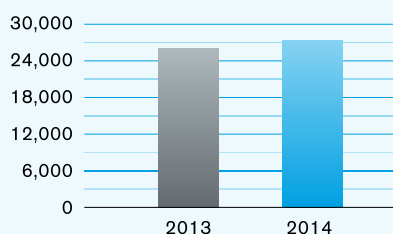
12. Net Interest Income

| For the year ended December 31, | GROUP | | BANK | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| 12.1 Interest Income | | | | |
| Cash and cash equivalents | 79,956 | 290,537 | 79,857 | 290,537 |
| Placements with banks | 136,051 | 65,013 | 136,051 | 65,013 |
| Financial instruments – Held-for-trading | 349,330 | 447,257 | 349,330 | 447,257 |
| Derivative financial instruments | – | – | – | – |
| Other financial instruments | 349,330 | 447,257 | 349,330 | 447,257 |
| Loans and receivables to banks | – | 6,412 | – | 6,412 |
| Loans and receivables to other customers(*) | 43,590,891 | 48,662,980 | 43,487,699 | 48,669,919 |
| Securities purchased under resale agreements | 2,046,020 | 473,563 | 2,046,020 | 473,563 |
| Financial investments – Available-for-sale | 15,449,780 | 12,501,861 | 15,449,334 | 12,501,861 |
| Interest income from impaired loans and receivables to other customers | 278,878 | 304,712 | 278,878 | 304,712 |
| Other interest income | 1,970 | 1,812 | 4,849 | 4,370 |
| Total interest income | 61,932,876 | 62,754,147 | 61,832,018 | 62,763,644 |

(*) For better presentation and to be comparable with the current year's classification, the Group has reclassified interest concessions granted to customers under 'Impairment charges for loans and other losses'. Until December 31, 2013, this amount had been netted off against 'Interest income on loans and receivables to other customers'.

Net Interest Income - Bank

(Rs. Mn.)



5.16% ↑
Growth

2014: Rs. 27,222 Mn.

2013: Rs. 25,885 Mn.

| | GROUP | | BANK | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| <i>For the year ended December 31,</i> | | | | |
| 12.2 Interest Expenses | | | | |
| Due to banks | 648,876 | 439,102 | 640,487 | 439,102 |
| Securities sold under repurchase agreements | 4,927,205 | 2,906,063 | 4,940,789 | 2,923,685 |
| Due to other customers | 27,652,070 | 32,097,921 | 27,657,322 | 32,103,850 |
| Refinance borrowings | 393,787 | 556,027 | 393,787 | 556,027 |
| Foreign currency borrowings | 225,013 | 236,965 | 225,013 | 236,965 |
| Subordinated liabilities | 766,101 | 619,126 | 752,781 | 619,126 |
| Total interest expenses | 34,613,052 | 36,855,204 | 34,610,179 | 36,878,755 |
| Net interest income [Total of Note 12.1 less total of Note 12.2] | 27,319,824 | 25,898,943 | 27,221,839 | 25,884,889 |

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.

| | GROUP | | BANK | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| <i>For the year ended December 31,</i> | | | | |
| 12.3 (a) Net Interest Income from Sri Lanka Government Securities | | | | |
| Interest income | 18,119,028 | 14,159,223 | 18,118,582 | 14,159,223 |
| Less: Interest expenses | 5,204,286 | 3,187,878 | 5,217,870 | 3,205,500 |
| Sub total | 12,914,742 | 10,971,345 | 12,900,712 | 10,953,723 |

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 1, 2014 to December 31, 2014 has been grossed up by Rs. 1,080.686 Mn. (2013 - Rs. 905.407 Mn.) and Rs. 1,079.038 Mn. (2013 - Rs. 903.649 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.

| | GROUP | | BANK | |
|--|------------------|------------------|------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| <i>For the year ended December 31,</i> | | | | |
| 12.3. (b) Net Interest Income from Bangladesh Government Securities | | | | |
| Interest income | 1,545,740 | 1,121,953 | 1,545,740 | 1,121,953 |
| Less: Interest expenses | 12,694 | 7,875 | 12,694 | 7,875 |
| Sub total | 1,533,046 | 1,114,078 | 1,533,046 | 1,114,078 |

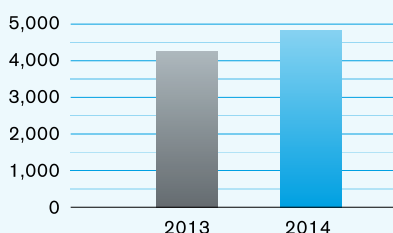
Notes to the Financial Statements

13. Net Fees and Commission Income

| For the year ended December 31, | GROUP | | BANK | |
|--|------------------|------------------|------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Fees and commission income [Refer Note 13.1] | 5,613,684 | 4,880,093 | 5,592,744 | 4,876,517 |
| Less: Fees and commission expenses [Refer Note 13.2] | 764,322 | 627,235 | 761,527 | 627,235 |
| Net fees and commission income | 4,849,362 | 4,252,858 | 4,831,217 | 4,249,282 |

Net Fees and Commission Income - Bank

(Rs. Mn.)



13.69% ↑
Growth

2014: Rs. 4,831 Mn.

2013: Rs. 4,249 Mn.

| For the year ended December 31, | GROUP | | BANK | |
|---|------------------|------------------|------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| 13.1 Fees and Commission Income | | | | |
| Loans and advances related services | 635,759 | 346,034 | 618,926 | 346,034 |
| Credit and debit cards related services | 1,603,161 | 1,455,167 | 1,603,161 | 1,455,167 |
| Trade and remittances related services | 1,948,321 | 1,794,432 | 1,948,321 | 1,794,432 |
| Deposits related services | 543,191 | 579,589 | 543,228 | 579,640 |
| Guarantees related services | 583,899 | 481,550 | 583,899 | 481,550 |
| Other financial services | 299,353 | 223,321 | 295,209 | 219,694 |
| Sub total | 5,613,684 | 4,880,093 | 5,592,744 | 4,876,517 |

| For the year ended December 31, | GROUP | | BANK | |
|--|----------------|----------------|----------------|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| 13.2 Fees and Commission Expenses | | | | |
| Loans and advances related services | 45,097 | 35,066 | 42,302 | 35,066 |
| Credit and debit cards related services | 622,140 | 491,364 | 622,140 | 491,364 |
| Trade and remittances related services | 34,332 | 38,287 | 34,332 | 38,287 |
| Other financial services | 62,753 | 62,518 | 62,753 | 62,518 |
| Sub total | 764,322 | 627,235 | 761,527 | 627,235 |

14. Net Gains/(Losses) from Trading

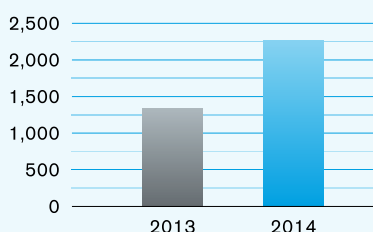
| | GROUP | | BANK | |
|--|------------------|--------------------|------------------|--------------------|
| | 2014 Rs. '000 | 2013 Rs. '000 | 2014 Rs. '000 | 2013 Rs. '000 |
| <i>For the year ended December 31,</i> | | | | |
| Foreign exchange | | | | |
| From banks | - | - | - | - |
| From other customers | (709,249) | (1,866,386) | (709,249) | (1,866,386) |
| Interest rates | | | | |
| Net mark-to-market gains/(losses) | 28,374 | 83,268 | 28,374 | 83,268 |
| Net capital gains/(losses) | 256,611 | 131,488 | 256,611 | 131,488 |
| Equities | | | | |
| Net mark-to-market gains/(losses) | 79,190 | 2,225 | 79,190 | 2,225 |
| Net capital gains/(losses) | 30,705 | 13,644 | 30,705 | 13,644 |
| Dividend income from shares in the trading portfolio | 8,877 | 9,835 | 8,877 | 9,835 |
| Total | (305,492) | (1,625,926) | (305,492) | (1,625,926) |

15. Net Gains/(Losses) from Financial Investments

| | GROUP | | BANK | |
|---|------------------|------------------|------------------|------------------|
| | 2014 Rs. '000 | 2013 Rs. '000 | 2014 Rs. '000 | 2013 Rs. '000 |
| <i>For the year ended December 31,</i> | | | | |
| Financial investments – Available-for-sale | | | | |
| Government securities | 2,197,337 | 544,903 | 2,197,337 | 544,903 |
| Equities | 31,782 | 804,614 | 31,782 | 804,614 |
| Net capital gains/(losses) | - | 787,362 | - | 787,362 |
| Dividend income | 31,782 | 17,252 | 31,782 | 17,252 |
| Loans and receivables | | | | |
| Government securities | 41,523 | - | 41,523 | - |
| Other securities | 1,933 | - | 1,933 | - |
| Total | 2,272,575 | 1,349,517 | 2,272,575 | 1,349,517 |

Net Gains/(Losses) from Financial Investments - Bank

(Rs. Mn.)



68.40% ↑
Growth

2014: Rs. 2,273 Mn.

2013: Rs. 1,350 Mn.

Notes to the Financial Statements

16. Other Income (Net)

| | GROUP | | BANK | |
|--|------------------|------------------|------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| <i>For the year ended December 31,</i> | | | | |
| Gains/(losses) on sale of property, plant & equipment | (2,144) | 11,115 | (4,916) | 233 |
| Gains/(losses) on revaluation of foreign exchange | 2,190,423 | 3,862,003 | 2,190,423 | 3,862,435 |
| Recoveries of loans written off and provision reversals | 2,719,334 | 2,228,281 | 2,719,334 | 2,228,281 |
| Dividend income from subsidiaries | – | – | 70,383 | 70,451 |
| Dividend income from associates | 851 | 2,691 | – | 2,079 |
| Rental and other income | 116,558 | 245,286 | 74,771 | 209,036 |
| Less: Dividends received from associates transferred to investment account | (851) | (2,691) | – | – |
| Total | 5,024,171 | 6,346,685 | 5,049,995 | 6,372,515 |

17. Impairment Charges for Loans and Other Losses**Loans and receivables**

| | | | | |
|---|------------------|------------------|------------------|------------------|
| To banks [Refer Note 31] | – | – | – | – |
| To other customers | 4,898,249 | 5,177,019 | 4,879,606 | 5,177,019 |
| Charge/(write back) to the Income Statement - Individual Impairment(*) [Refer Note 32.2] | 390,003 | 1,070,253 | 390,003 | 1,070,253 |
| Charge/(write back) to the Income Statement - Collective Impairment(*) [Refer Note 32.2] | 4,480,932 | 4,007,742 | 4,462,289 | 4,007,742 |
| Direct write-offs | 27,314 | 99,024 | 27,314 | 99,024 |
| Investments in subsidiaries [Refer Note 34.1] | – | – | 28,787 | 14,184 |
| Due from subsidiaries | – | – | 10,362 | 12,809 |
| Total | 4,898,249 | 5,177,019 | 4,918,755 | 5,204,012 |

(*) For better presentation and to be comparable with the current year's classification, the Group has separately identified provision reversals o/a loans and advances which were subjected to both individual and collective impairment under respective line items namely, 'Charge/(write back) to the Income Statement from individual/Collective Impairment'. Until December 31, 2013, this amount had been netted off against 'Charge/(write back) to the Income Statement on Individual Impairment'. Further, the Group has reclassified interest concessions granted to customers under 'Impairment charges for loans and other losses'. Until December 31, 2013, this amount had been netted off against - 'Interest income on loans and receivables to other customers'.

18. Personnel Expenses

| | GROUP | | BANK | |
|--|------------------|------------------|------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| <i>For the year ended December 31,</i> | | | | |
| Salary and bonus [Refer Note 18.1] | 6,866,200 | 6,125,863 | 6,828,987 | 6,108,648 |
| Pension Costs [Refer Note 18.1] | | | | |
| Contributions to defined contribution/benefit plans - Funded schemes | 984,213 | 904,919 | 980,821 | 900,844 |
| Contributions to defined benefit plans - Unfunded schemes [Refer Notes 47.1 (b) and 47.2 (b)] | 164,438 | 165,791 | 157,687 | 160,113 |
| Others [Refer Note 18.2] | 941,472 | 1,024,692 | 935,553 | 1,016,600 |
| Total | 8,956,323 | 8,221,265 | 8,903,048 | 8,186,205 |

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 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

| | GROUP | | BANK | |
|---|------------------|----------------|------------------|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| <i>For the year ended December 31,</i> | | | | |
| Depreciation of property, plant & equipment [Refer Note 36] | 1,087,175 | 717,583 | 1,026,730 | 786,024 |
| Amortisation of intangible assets [Refer Note 37] | 173,373 | 149,347 | 172,874 | 149,291 |
| Amortisation of leasehold property [Refer Note 38] | 1,452 | 1,452 | 942 | 942 |
| Total | 1,262,000 | 868,382 | 1,200,546 | 936,257 |

With effect from January 01, 2014, the Bank changed the depreciation rate used for Office Interior Work to 20% per annum from the 10% per annum earlier with the objective of better reflecting the expected periodic consumption pattern of the said asset category resulting from the assessment of the expected future benefits associated. As a result, the depreciation expense of the Bank and the Group for the year ended December 31, 2014 increased by Rs. 210.172 Mn.

20. Other Operating Expenses

| | GROUP | | BANK | |
|--|------------------|------------------|------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| <i>For the year ended December 31,</i> | | | | |
| Directors' emoluments [Refer Note 20.1] | 30,077 | 24,453 | 27,463 | 23,058 |
| Auditors' remuneration | 24,589 | 22,856 | 21,525 | 19,890 |
| Audit fees and expenses | 11,502 | 10,823 | 9,032 | 8,596 |
| Audit related fees and expenses | 7,792 | 6,654 | 7,570 | 6,405 |
| Non-audit fees and expenses | 5,295 | 5,379 | 4,923 | 4,889 |
| Professional and legal expenses | 252,438 | 251,068 | 315,388 | 305,450 |
| Deposit insurance premium to the Central Bank of Sri Lanka | 433,296 | 443,179 | 433,296 | 443,179 |
| Donations, including contribution made to the CSR Trust Fund | 54,583 | 51,319 | 54,583 | 51,319 |
| Establishment expenses | 1,976,178 | 1,838,325 | 2,054,074 | 1,919,681 |
| Maintenance of property, plant & equipment | 755,013 | 790,373 | 865,063 | 864,533 |
| Office administration expenses | 1,975,789 | 1,879,251 | 1,851,186 | 1,797,220 |
| Total | 5,501,963 | 5,300,824 | 5,622,578 | 5,424,330 |

20.1 Directors' Emoluments

Directors' emoluments represent the fees paid to both Executive and Non-Executive Directors of the Group.

Notes to the Financial Statements

21. Income Tax Expense**21.1 Entity-wise Breakup of the Income Tax Expense in the Income Statement is as follows:**

| For the year ended December 31, | GROUP | | BANK | |
|--|------------------|-----------|------------------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Bank | | | | |
| Current Year Tax Expense | | | | |
| Current year Income tax expense of Domestic Banking Unit | 2,964,140 | 2,869,752 | 2,964,140 | 2,869,752 |
| Current year Income tax expense of Off-shore Banking Centre | 282,603 | 191,760 | 282,603 | 191,760 |
| Current year Income tax expense of Bangladesh operation | 1,169,581 | 960,937 | 1,169,581 | 960,937 |
| Withholding tax on dividends paid | 7,789 | 8,285 | 7,789 | 8,285 |
| Sub total | 4,424,113 | 4,030,734 | 4,424,113 | 4,030,734 |
| Prior years | | | | |
| Under/(over) provision of taxes in respect of prior years [Refer Note 44 - Bank] | 11,041 | (169,789) | 11,041 | (169,789) |
| | 4,435,154 | 3,860,945 | 4,435,154 | 3,860,945 |
| Deferred Tax Expense | | | | |
| Effect of change in tax rates | - | - | - | - |
| Origination and reversal of temporary differences [Refer Note 45.1 - Bank] | 120,881 | 204,063 | 120,881 | 204,063 |
| | 4,556,035 | 4,065,008 | 4,556,035 | 4,065,008 |
| Subsidiaries | | | | |
| Income tax expense of Commercial Development Company PLC | 36,332 | 46,266 | - | - |
| Income tax expense of ONEzero Co. Ltd. | 11,774 | 6,187 | - | - |
| Income tax expense of Indra Finance Ltd. | 12,983 | - | - | - |
| Total | 4,617,124 | 4,117,461 | 4,556,035 | 4,065,008 |
| Effective tax rate (including deferred tax) | - | - | 28.95% | 28.01% |
| Effective tax rate (excluding deferred tax) | - | - | 28.18% | 26.61% |

The income tax for 2014 and 2013 of the Bank and its subsidiaries have been provided on the taxable income at the rates shown below:

| | 2014 | 2013 |
|---|-------------|------|
| | % | % |
| Domestic operations of the Bank | 28 | 28 |
| Off-shore banking operation of the Bank | 28 | 28 |
| Bangladesh operation of the Bank | 42.5 | 42.5 |
| Commercial Development Company PLC | 28 | 28 |
| ONEzero Company Ltd. | 28 | 28 |
| Indra Finance Ltd. | 28 | N/A |

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.

Accordingly, the net interest income earned by the Group and the Bank from the secondary market transactions in Government Securities, has been grossed up in these Financial Statements and such notional tax credit amounted to Rs. 1,080.686 Mn. and Rs. 1,079.038 Mn. respectively (Rs. 905.407 Mn. and Rs. 903.649 Mn. respectively in 2013).

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:

| For the year ended December 31, | Tax Rate | | GROUP | | BANK | |
|---|-------------|------|--------------------|-------------|--------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | % | % | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Accounting profit before tax from operations | | | 15,859,917 | 14,690,918 | 15,736,216 | 14,510,519 |
| Tax effect at the statutory income tax rate | | | 4,932,962 | 4,430,380 | 4,874,034 | 4,389,700 |
| Domestic operations of the Bank | 28 | 28 | 3,440,752 | 3,256,166 | 3,440,752 | 3,256,166 |
| Off-shore banking operation of the Bank | 28 | 28 | 268,589 | 167,244 | 268,589 | 167,244 |
| Bangladesh operation | 42.5 | 42.5 | 1,164,693 | 966,290 | 1,164,693 | 966,290 |
| Subsidiaries | 28 | 28 | 58,928 | 40,680 | - | - |
| Tax effect of exempt income | | | (865,453) | (887,400) | (865,453) | (887,400) |
| Tax effect of non-deductible expenses | | | 5,834,186 | 4,359,378 | 5,807,179 | 4,344,749 |
| Tax effect of deductible expenses | | | (5,169,064) | (3,832,519) | (5,142,943) | (3,824,600) |
| Qualifying payments | | | (256,493) | - | (256,493) | - |
| Under/(over) provision of taxes in respect of prior years [Refer Note 44] | | | 10,920 | (167,169) | 11,041 | (169,789) |
| Withholding tax on dividends paid | | | 7,879 | 8,285 | 7,789 | 8,285 |
| Deferred tax expense [Refer Notes 45.2 & 45.3] | | | 122,187 | 206,506 | 120,881 | 204,063 |
| Income tax expense reported in the Income Statement at the effective income tax rate | | | 4,617,124 | 4,117,461 | 4,556,035 | 4,065,008 |

22. Earnings Per Share (EPS)

The earnings per share has been calculated by dividing the profit for the year attributable to equity holders of the Parent by the weighted average number of ordinary shares in issue during the year, as per the Sri Lanka Accounting Standard - LKAS 33 on Earnings per Share.

22.1 Basic Earnings per Ordinary Share

| | GROUP | | BANK | |
|---|--------------------|-------------|--------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| Amounts used as the numerator: | | | | |
| Profit for the year attributable to equity holders of the Bank for basic earnings per ordinary share (Rs. '000) | 11,238,892 | 10,563,378 | 11,180,181 | 10,445,511 |
| Number of ordinary shares used as the denominator: | | | | |
| Weighted average number of ordinary shares for basic earnings per share calculation [Refer Note 22.3] | 864,152,525 | 862,938,805 | 864,152,525 | 862,938,805 |
| Basic earnings per ordinary share (Rs.) | 13.01 | 12.24 | 12.94 | 12.10 |

22.2 Diluted Earnings per Ordinary Share

| | GROUP | | BANK | |
|---|--------------------|-------------|--------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| Amounts used as the numerator: | | | | |
| Profit for the year attributable to equity holders of the parent for diluted earnings per ordinary share (Rs. '000) | 11,238,892 | 10,563,378 | 11,180,181 | 10,445,511 |
| 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] | 867,855,677 | 864,273,527 | 867,855,677 | 864,273,527 |
| Diluted earnings per ordinary share (Rs.) | 12.95 | 12.22 | 12.88 | 12.09 |

Notes to the Financial Statements

22.3 Weighted Average Number of Ordinary Shares for Basic and Diluted Earnings per Share

| | Outstanding No. of Shares | | Weighted average No. of Shares | |
|---|---------------------------|--------------------|--------------------------------|--------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Number of shares in issue as at January 01, | 849,079,041 | 833,487,980 | 849,079,041 | 833,487,980 |
| Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2012 | - | 14,145,663 | - | 14,145,663 |
| Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2013 | 13,541,068 | - | 13,541,068 | 13,541,068 |
| | 862,620,109 | 847,633,643 | 862,620,109 | 861,174,711 |
| Add: Number of shares issued under Employee Share Option Plan (ESOP) 2008 | 3,237,566 | 1,445,398 | 1,532,416 | 1,764,094 |
| Weighted average number of ordinary shares for basic earnings per ordinary share calculation | 865,857,675 | 849,079,041 | 864,152,525 | 862,938,805 |
| Add: Bonus element on number of outstanding options under ESOP 2008 as at the year-end | - | - | 3,703,152 | 1,334,722 |
| Weighted average number of ordinary shares for diluted earnings per ordinary share calculation(*) | 865,857,675 | 849,079,041 | 867,855,677 | 864,273,527 |

(*) 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, 2014 over the offer price.

23. Dividends

| | GROUP | | BANK | |
|--|--|---|--|---|
| | 2014 Second Interim Rs. 1.00 Per share for 2013 (Paid on January 27, 2014) Rs. '000 | 2013 Second Interim Rs. 1.00 Per share for 2012 (Paid on February 18, 2013) Rs. '000 | 2014 Second Interim Rs. 1.00 Per share for 2013 (Paid on January 27, 2014) Rs. '000 | 2013 Second Interim Rs. 1.00 Per share for 2012 (Paid on February 18, 2013) Rs. '000 |
| On Ordinary Shares | | | | |
| Net dividend paid to the Ordinary shareholders out of normal profits | 768,553 | 755,339 | 768,553 | 755,339 |
| Withholding tax deducted at source | 80,595 | 78,270 | 80,595 | 78,270 |
| Gross ordinary dividend paid | 849,148 | 833,609 | 849,148 | 833,609 |
| | | | | |
| | First Interim Rs. 1.50 Per share for 2014 (Paid on November 21, 2014) Rs. '000 | First Interim Rs. 1.50 Per share for 2013 (Paid on November 19, 2013) 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 2013 (Paid on November 19, 2013) Rs. '000 |
| On Ordinary Shares | | | | |
| Net dividend paid to the ordinary shareholders out of normal profits | 1,174,561 | 1,152,615 | 1,174,561 | 1,152,615 |
| Withholding tax deducted at source | 123,593 | 120,876 | 123,593 | 120,876 |
| Gross ordinary dividend paid | 1,298,154 | 1,273,491 | 1,298,154 | 1,273,491 |
| Total gross ordinary dividend paid | 2,147,302 | 2,107,100 | 2,147,302 | 2,107,100 |

The Bank declared and paid a second interim dividend of Rs. 1.00 per share on February 5, 2015 to both voting and non-voting ordinary shareholders of the Bank. (The second interim dividend for the year 2013 of Rs. 1.00 per share was paid on January 27, 2014).

The Board of Directors of the Bank has recommended the payment of a final dividend of Rs. 4.00 per share which consist of a cash dividend of Rs. 2.00 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 the voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2014 (Bank declared a final dividend of Rs. 4.00 per share in 2013 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, 2015. In accordance with provisions of the Sri Lanka Accounting Standard No. 10 on 'Events after the Reporting Period', the second interim dividend declared and paid on February 5, 2015 and the proposed final dividend has not been recognised as a liability as at the year-end. Final dividend payable for the year 2014 has been estimated at Rs. 3,463.772 Mn. (Actual final dividend for 2013 amounted to Rs. 3,399.834 Mn. due to exercise of options under ESOPs).

Accordingly, the dividend per ordinary share (for both voting and non-voting) for the year 2014 would be Rs. 6.50 (2013 - 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, 2014 | 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 | - | - | 20,621,778 | - | - | 20,621,778 |
| Balances with Central Banks | 27 | - | - | 19,633,746 | - | - | 19,633,746 |
| Placements with banks | 28 | - | - | 14,507,861 | - | - | 14,507,861 |
| 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 | - | - | 498,165,419 | - | - | 498,165,419 |
| Financial investments – Available-for-sale | 33 | - | - | - | 214,225,017 | - | 214,225,017 |
| Total financial assets | | 6,786,146 | - | 553,479,870 | 214,225,017 | - | 774,491,033 |
| Financial Liabilities | | | | | | | |
| Due to banks | 40 | - | - | - | - | 25,669,025 | 25,669,025 |
| Derivative financial liabilities | 41 | 1,193,139 | - | - | - | - | 1,193,139 |
| Due to other customers/Deposits from customers | 42 | - | - | - | - | 529,266,588 | 529,266,588 |
| Other borrowings | 43 | - | - | - | - | 136,027,625 | 136,027,625 |
| Subordinated liabilities | 49 | - | - | - | - | 11,262,573 | 11,262,573 |
| Total financial liabilities | | 1,193,139 | - | - | - | 702,225,811 | 703,418,950 |

Notes to the Financial Statements

24.1 (b) Group

| <i>As at December 31, 2013</i> | | | | | | | |
|---|------|---------------------------------------|---------------------------------------|--------------------------------------|--|-------------------------------------|--------------------|
| | 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 Rs. '000 |
| Financial Assets | | | | | | | |
| Cash and cash equivalents | 26 | – | – | 14,263,533 | – | – | 14,263,533 |
| Balances with Central Banks | 27 | – | – | 18,431,936 | – | – | 18,431,936 |
| Placements with banks | 28 | – | – | 4,131,814 | – | – | 4,131,814 |
| Derivative financial assets | 29 | 837,694 | – | – | – | – | 837,694 |
| Other financial instruments – Held-for-trading | 30 | 6,379,058 | – | – | – | – | 6,379,058 |
| Loans and receivables to banks | 31 | – | – | 546,270 | – | – | 546,270 |
| Loans and receivables to other customers | 32 | – | – | 410,935,979 | – | – | 410,935,979 |
| Financial investments – Available-for-sale | 33 | – | – | – | 131,756,525 | – | 131,756,525 |
| Total financial assets | | 7,216,752 | – | 448,309,532 | 131,756,525 | – | 587,282,809 |
| Financial Liabilities | | | | | | | |
| Due to banks | 40 | – | – | – | – | 14,194,219 | 14,194,219 |
| Derivative financial liabilities | 41 | 1,411,916 | – | – | – | – | 1,411,916 |
| Due to other customers/Deposits from customers | 42 | – | – | – | – | 451,098,946 | 451,098,946 |
| Other borrowings | 43 | – | – | – | – | 53,997,503 | 53,997,503 |
| Subordinated liabilities | 49 | – | – | – | – | 10,944,412 | 10,944,412 |
| Total financial liabilities | | 1,411,916 | – | – | – | 530,235,080 | 531,646,996 |

24.2 Classification of Financial Assets and Financial Liabilities - Bank

24.2 (a) Bank

| <i>As at December 31, 2014</i> | | | | | | | |
|---|------|---------------------------------------|---------------------------------------|--------------------------------------|--|-------------------------------------|--------------------|
| | 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 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 |
| 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 | – | – | 497,065,787 | – | – | 497,065,787 |
| Financial investments – Available-for-sale | 33 | – | – | – | 214,208,370 | – | 214,208,370 |
| Total financial assets | | 6,786,146 | – | 552,350,327 | 214,208,370 | – | 773,344,843 |
| Financial Liabilities | | | | | | | |
| Due to banks | 40 | – | – | – | – | 25,260,976 | 25,260,976 |
| Derivative financial liabilities | 41 | 1,193,139 | – | – | – | – | 1,193,139 |
| Due to other customers/Deposits from customers | 42 | – | – | – | – | 529,361,484 | 529,361,484 |
| Other borrowings | 43 | – | – | – | – | 136,201,082 | 136,201,082 |
| Subordinated liabilities | 49 | – | – | – | – | 11,044,775 | 11,044,775 |
| Total financial liabilities | | 1,193,139 | – | – | – | 701,868,317 | 703,061,456 |

24.2 (b) Bank

| As at December 31, 2013 | | | | | | | |
|---|------|---------------------------------------|---------------------------------------|--------------------------------------|--|-------------------------------------|--------------------|
| | 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 Rs. '000 |
| Financial Assets | | | | | | | |
| Cash and cash equivalents | 26 | – | – | 14,261,549 | – | – | 14,261,549 |
| Balances with Central Banks | 27 | – | – | 18,431,936 | – | – | 18,431,936 |
| Placements with banks | 28 | – | – | 4,131,814 | – | – | 4,131,814 |
| Derivative financial assets | 29 | 837,694 | – | – | – | – | 837,694 |
| Other financial instruments – Held-for-trading | 30 | 6,379,058 | – | – | – | – | 6,379,058 |
| Loans and receivables to banks | 31 | – | – | 546,270 | – | – | 546,270 |
| Loans and receivables to other customers | 32 | – | – | 410,951,440 | – | – | 410,951,440 |
| Financial investments – Available-for-sale | 33 | – | – | – | 131,756,525 | – | 131,756,525 |
| Total financial assets | | 7,216,752 | – | 448,323,009 | 131,756,525 | – | 587,296,286 |
| Financial Liabilities | | | | | | | |
| Due to banks | 40 | – | – | – | – | 14,194,219 | 14,194,219 |
| Derivative financial liabilities | 41 | 1,411,916 | – | – | – | – | 1,411,916 |
| Due to other customers/Deposits from customers | 42 | – | – | – | – | 451,152,923 | 451,152,923 |
| Other borrowings | 43 | – | – | – | – | 54,173,175 | 54,173,175 |
| Subordinated liabilities | 49 | – | – | – | – | 10,944,412 | 10,944,412 |
| Total financial liabilities | | 1,411,916 | – | – | – | 530,464,729 | 531,876,645 |

25. Assets and Liabilities Measured at Fair Value and Fair Value Hierarchy

25.1 Fair Value Hierarchy

The following table provides the analyses 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.

| | Note | GROUP | | | | BANK | | | |
|---|---------|---------------------|---------------------|---------------------|-------------------|---------------------|---------------------|---------------------|-------------------|
| | | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total Rs. '000 | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total Rs. '000 |
| As at December 31, 2014 | | | | | | | | | |
| Non-Financial Assets | | | | | | | | | |
| Property, Plant & Equipment | | | | | | | | | |
| Land and buildings | 36.5(b) | – | – | 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 | | | | | | | | | |
| Currency swaps | 29 | – | 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 | | | | | | | | | |
| Government securities | 30 | 5,958,904 | – | – | 5,958,904 | 5,958,904 | – | – | 5,958,904 |
| Equity shares | | 367,732 | – | – | 367,732 | 367,732 | – | – | 367,732 |

Notes to the Financial Statements

| | Note | GROUP | | | | BANK | | | |
|---|------|---------------------|---------------------|---------------------|-------------------|---------------------|---------------------|---------------------|-------------------|
| | | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total Rs. '000 | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total Rs. '000 |
| Financial investments – Available-for-sale | 33 | | | | | | | | |
| Government Securities | | 213,381,263 | – | – | 213,381,263 | 213,364,740 | – | – | 213,364,740 |
| Equity securities(*) | | 185,132 | 613,441 | – | 798,573 | 185,132 | 613,441 | – | 798,573 |
| Total financial assets at fair value | | 219,893,031 | 1,072,951 | – | 220,965,982 | 219,876,508 | 1,072,951 | – | 220,949,459 |
| Total assets at fair value | | 219,893,031 | 1,072,951 | 7,432,625 | 228,398,607 | 219,876,508 | 1,072,951 | 7,255,625 | 228,205,084 |
| Financial Liabilities | | | | | | | | | |
| Derivative financial liabilities | 41 | | | | | | | | |
| 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 |
| As at December 31, 2013 | | | | | | | | | |
| Non Financial Assets | | | | | | | | | |
| Property, Plant & Equipment | | | | | | | | | |
| Land and buildings | 36 | – | – | 5,647,563 | 5,647,563 | – | – | 5,647,563 | 5,647,563 |
| Total non financial assets at fair value | | – | – | 5,647,563 | 5,647,563 | – | – | 5,647,563 | 5,647,563 |
| Financial Assets | | | | | | | | | |
| Derivative financial assets | 29 | | | | | | | | |
| Currency swaps | | – | – | – | – | – | – | – | – |
| Forward contracts | | – | 832,346 | – | 832,346 | – | 832,346 | – | 832,346 |
| Spot contracts | | – | 5,348 | – | 5,348 | – | 5,348 | – | 5,348 |
| Other financial instruments – Held-for-trading | 30 | | | | | | | | |
| Government Securities | | 6,044,651 | – | – | 6,044,651 | 6,044,651 | – | – | 6,044,651 |
| Equity shares | | 334,407 | – | – | 334,407 | 334,407 | – | – | 334,407 |
| Financial investments – Available-for-sale | 33 | | | | | | | | |
| Government Securities | | 131,565,941 | – | – | 131,565,941 | 131,565,941 | – | – | 131,565,941 |
| Equity securities(*) | | 145,492 | – | – | 145,492 | 145,492 | – | – | 145,492 |
| Total financial assets at fair value | | 138,090,491 | 837,694 | – | 138,928,185 | 138,090,491 | 837,694 | – | 138,928,185 |
| Total assets at fair value | | 138,090,491 | 837,694 | 5,647,563 | 144,575,748 | 138,090,491 | 837,694 | 5,647,563 | 144,575,748 |
| Financial Liabilities | | | | | | | | | |
| Derivative financial liabilities | 41 | | | | | | | | |
| Currency swaps | | – | – | – | – | – | – | – | – |
| Forward contracts | | – | 1,406,553 | – | 1,406,553 | – | 1,406,553 | – | 1,406,553 |
| Spot contracts | | – | 5,363 | – | 5,363 | – | 5,363 | – | 5,363 |
| Total liabilities at fair value | | – | 1,411,916 | – | 1,411,916 | – | 1,411,916 | – | 1,411,916 |

(*) Value of Unquoted shares of Rs. 45.181 Mn. in Group and Rs. 45.057 Mn. in Bank as at end of the year 2014 (Rs. 45.092 Mn. in Group and Bank as at end 2013) categorised under Financial Investments – Available-for-sale in the Statement of Financial Position has not been considered within the above amount due to non-availability of reliable market values.

25.2 Financial Instruments not Measured at Fair Value - Fair Value Hierarchy

The following table sets out the fair values of financial assets and liabilities not measured at fair value and related fair value hierarchy.

| | Note | 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 |
| | | 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 |
| 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 | - | - | 500,659,378 | 500,659,378 | 498,165,419 | - | - | 499,559,746 | 499,559,746 | 497,065,787 |
| Total financial assets not at fair value | | - | 21,172,844 | 500,659,378 | 521,832,222 | 519,338,263 | - | 21,142,933 | 499,559,746 | 520,702,679 | 518,208,720 |
| Financial Liabilities | | | | | | | | | | | |
| Due to banks | 40 | - | 25,669,025 | - | 25,669,025 | 25,669,025 | - | 25,260,976 | - | 25,260,976 | 25,260,976 |
| Due to other customers/ Deposits from customers | 42 | - | - | 531,209,832 | 531,209,832 | 529,266,588 | - | - | 531,304,728 | 531,304,728 | 529,361,484 |
| Subordinated liabilities | 49 | - | - | 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 | | - | 25,669,025 | 542,557,610 | 568,226,635 | 566,198,186 | - | 25,260,976 | 542,434,708 | 567,695,684 | 565,667,235 |
| As at December 31, 2013 | | | | | | | | | | | |
| Financial Assets | | | | | | | | | | | |
| Cash and cash equivalents | 26 | - | 14,263,533 | - | 14,263,533 | 14,263,533 | - | 14,261,549 | - | 14,261,549 | 14,261,549 |
| Loans and receivables to banks | 31 | - | 546,270 | - | 546,270 | 546,270 | - | 546,270 | - | 546,270 | 546,270 |
| Loans and receivables to other customers | 32 | - | - | 411,737,311 | 411,737,311 | 410,935,979 | - | - | 411,752,772 | 411,752,772 | 410,951,440 |
| Total financial assets not at fair value | | - | 14,809,803 | 411,737,311 | 426,547,114 | 425,745,782 | - | 14,807,819 | 411,752,772 | 426,560,591 | 425,759,259 |
| Financial Liabilities | | | | | | | | | | | |
| Due to banks | 40 | - | 14,194,219 | - | 14,194,219 | 14,194,219 | - | 14,194,219 | - | 14,194,219 | 14,194,219 |
| Due to other customers/ Deposits from customers | 42 | - | - | 452,436,796 | 452,436,796 | 451,098,946 | - | - | 452,490,773 | 452,490,773 | 451,152,923 |
| Subordinated liabilities | 49 | - | - | 11,013,207 | 11,013,207 | 10,944,412 | - | - | 11,013,207 | 11,013,207 | 10,944,412 |
| Total financial liabilities not at fair value | | - | 14,194,219 | 463,449,603 | 477,643,822 | 476,237,577 | - | 14,194,219 | 463,503,980 | 447,698,199 | 476,291,554 |

Fair Valuation Methodology and Significant Unobservable Valuation Inputs

The fair value of fixed rate financial assets and liabilities carried at amortised cost (eg. fixed rate loans and receivables due to other customers, subordinated 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 Fair Value Measurement to Unobservable Inputs

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.

25.3 Note 36.5 (b) on page 341 provides information on significant unobservable inputs used as at December 31, 2014 used in measuring fair value of Land and buildings categorised as Level 3 in the fair value hierarchy.

25.4 Reconciliation of Revaluation Reserve pertaining to Land and Buildings categorised as Level 3 in fair value hierarchy is found in the Statement of Changes in Equity from pages 272 to 275.

Notes to the Financial Statements

25.5 Table below provides information about the valuation techniques and inputs used in measuring the fair values of 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, 2014 (Rs. '000) | Valuation Technique | Significant Valuation inputs |
|----------------------------------|---|--|--|
| Derivative Financial Assets | 459,510 | Adjusted forward rate approach This approach considers the present value of calculated forward exchange rate as of the reporting date using the spot exchange rate that prevailed and the forward premium/discount calculated using extrapolated interest rates of the currency pairs of the derivatives. In computing the present value, interest rate differentials between two currencies under consideration is used as the discount rate. | <ul style="list-style-type: none"> • Spot exchange rate • Interest rate differentials between currencies under consideration |
| Derivative Financial Liabilities | 1,193,139 | | |

26. Cash and Cash Equivalents

| As at December 31, | GROUP | | BANK | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2014 Rs. '000 | 2013 Rs. '000 | 2014 Rs. '000 | 2013 Rs. '000 |
| Cash in hand | | | | |
| Coins and notes held in local currency | 12,232,921 | 9,643,069 | 12,222,065 | 9,641,519 |
| Coins and notes held in foreign currency | 1,440,699 | 1,866,981 | 1,426,445 | 1,866,547 |
| Balances with banks | 5,948,158 | 2,635,082 | 5,943,357 | 2,635,082 |
| Local banks | 4,801 | – | – | – |
| Foreign banks | 5,943,357 | 2,635,082 | 5,943,357 | 2,635,082 |
| Money at call and at short notice | 1,000,000 | 118,401 | 1,000,000 | 118,401 |
| Total | 20,621,778 | 14,263,533 | 20,591,867 | 14,261,549 |

The maturity analysis of Cash and Cash Equivalents is given in Note 58.

27. Balances with Central Banks

| As at December 31, | GROUP | | BANK | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2014 Rs. '000 | 2013 Rs. '000 | 2014 Rs. '000 | 2013 Rs. '000 |
| Statutory balances with Central Banks | | | | |
| Central Bank of Sri Lanka | 17,433,858 | 15,449,704 | 17,433,858 | 15,449,704 |
| Bangladesh Bank | 2,199,888 | 2,982,232 | 2,199,888 | 2,982,232 |
| Non-statutory balances with Central Banks | | | | |
| Central Bank of Sri Lanka | – | – | – | – |
| Bangladesh Bank | – | – | – | – |
| Total | 19,633,746 | 18,431,936 | 19,633,746 | 18,431,936 |

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, 2014, the minimum cash reserve requirement was 6.00% of the rupee deposit liabilities (6.00% in 2013). There is no reserve requirement for foreign currency deposit liabilities of the Domestic Banking Unit and the deposit liabilities of the Off-shore Banking Centre (OBC) in Sri Lanka.

As per the Bangladesh Bank regulations, the Statutory Liquidity Requirement as at December 31, 2014 was 19.50% (19.00% in 2013) on time and demand liabilities (both local and foreign currencies), which includes a 6.50% (6.00% in 2013) cash reserve requirement and the balance 13.00% (13.00% in 2013) is permitted to be maintained in foreign currency and/or also in unencumbered securities held with the Bangladesh Bank.

The maturity analysis of Balances with Central Banks is given in Note 58.

28. Placements with Banks

| As at December 31, | GROUP | | BANK | |
|--------------------------------|-------------------|------------------|-------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Placements - within Sri Lanka | 6,783,931 | – | 6,783,931 | – |
| Placements - outside Sri Lanka | 7,723,930 | 4,131,814 | 7,723,930 | 4,131,814 |
| Total | 14,507,861 | 4,131,814 | 14,507,861 | 4,131,814 |

The maturity analysis of Placements with Banks is given in Note 58.

29. Derivative Financial Assets

Foreign currency derivatives

| | | | | |
|-------------------|----------------|----------------|----------------|----------------|
| Currency swaps | 222,533 | – | 222,533 | – |
| Forward contracts | 233,300 | 832,346 | 233,300 | 832,346 |
| Spot contracts | 3,677 | 5,348 | 3,677 | 5,348 |
| Total | 459,510 | 837,694 | 459,510 | 837,694 |

The maturity analysis of Derivative Financial Assets is given in Note 58.

30. Other Financial Instruments Held-for-Trading

| | | | | |
|---|------------------|------------------|------------------|------------------|
| Government securities [Refer Note 30.1] | 5,958,904 | 6,044,651 | 5,958,904 | 6,044,651 |
| Equity securities [Refer Note 30.2] | 367,732 | 334,407 | 367,732 | 334,407 |
| Total | 6,326,636 | 6,379,058 | 6,326,636 | 6,379,058 |

30.1 Government Securities

| | | | | |
|------------------------------------|------------------|------------------|------------------|------------------|
| Treasury bills | 4,224,163 | 4,788,578 | 4,224,163 | 4,788,578 |
| Treasury bonds | 1,734,741 | 1,256,073 | 1,734,741 | 1,256,073 |
| Total Government Securities | 5,958,904 | 6,044,651 | 5,958,904 | 6,044,651 |

The maturity analysis of Other Financial Instruments Held-for-trading is given in Note 58.

30.2 Equity Securities - Group and Bank

| Sector/Name of the Company | As at December 31, 2014 | | | | As at December 31, 2013 | | | |
|---------------------------------------|-------------------------|--------------|---------------|------------------------|-------------------------|--------------|---------------|------------------------|
| | No. of Shares | Market Price | Market Value | Cost of the Investment | No. of Shares | Market Price | Market Value | Cost of the Investment |
| | | Rs. | Rs. '000 | Rs. '000 | | Rs. | Rs. '000 | Rs. '000 |
| Bank, Finance and Insurance | | | | | | | | |
| Central Finance Company PLC | 94,930 | 250.00 | 23,733 | 18,937 | – | – | – | – |
| Citizen Development Bank PLC | 101,965 | 74.00 | 7,545 | 3,398 | 123,950 | 35.60 | 4,413 | 4,130 |
| Hatton National Bank PLC | 82 | 194.90 | 16 | 12 | 82 | 147.00 | 12 | 12 |
| Lanka Venture PLC | 100,000 | 46.90 | 4,690 | 3,033 | 100,000 | 41.00 | 4,100 | 3,033 |
| Nations Trust Bank PLC | – | – | – | – | 262,314 | 62.20 | 16,316 | 16,238 |
| Sampath Bank PLC | 25,000 | 236.30 | 5,908 | 4,298 | 25,000 | 171.90 | 4,298 | 4,298 |
| Sub total | | | 41,892 | 29,678 | | | 29,139 | 27,711 |
| Beverage, Foods and Tobacco | | | | | | | | |
| COCO Lanka PLC | 402,000 | 26.70 | 10,733 | 7,062 | 402,000 | 16.50 | 6,633 | 7,062 |
| COCO Lanka PLC (Non-voting) | 1,000 | 23.90 | 24 | 15 | 1,000 | 13.10 | 13 | 15 |
| Distilleries Company of Sri Lanka PLC | 181,490 | 210.00 | 38,113 | 28,968 | 281,490 | 193.00 | 54,328 | 44,929 |
| Lanka Milk Foods (CWE) PLC | 250,000 | 120.40 | 30,100 | 27,866 | 250,000 | 105.30 | 26,325 | 27,866 |
| Sub total | | | 78,970 | 63,911 | | | 87,299 | 79,872 |

Notes to the Financial Statements

| Sector/Name of the Company | As at December 31, 2014 | | | | As at December 31, 2013 | | | |
|---|-------------------------|--------------|---------------|------------------------|-------------------------|--------------|---------------|------------------------|
| | No. of Shares | Market Price | Market Value | Cost of the Investment | No. of Shares | Market Price | Market Value | Cost of the Investment |
| | | Rs. | Rs. '000 | Rs. '000 | | Rs. | Rs. '000 | Rs. '000 |
| Chemical and Pharmaceutical | | | | | | | | |
| Chemical Industries Colombo PLC | 161,400 | 66.40 | 10,717 | 11,692 | 161,400 | 34.50 | 5,568 | 11,692 |
| Haycarb PLC | 107,100 | 173.00 | 18,528 | 15,914 | 107,100 | 189.80 | 20,328 | 15,914 |
| Sub total | | | 29,245 | 27,606 | | | 25,896 | 27,606 |
| Construction and Engineering | | | | | | | | |
| Colombo Dockyard PLC | 75,000 | 193.00 | 14,475 | 16,685 | 75,000 | 189.60 | 14,220 | 16,685 |
| Sub total | | | 14,475 | 16,685 | | | 14,220 | 16,685 |
| Diversified Holdings | | | | | | | | |
| Hemas Holdings PLC | 60 | 74.30 | 4 | 2 | 635,750 | 34.00 | 21,616 | 23,242 |
| Sub total | | | 4 | 2 | | | 21,616 | 23,242 |
| Health Care | | | | | | | | |
| Ceylon Hospitals PLC | 121,900 | 117.40 | 14,311 | 12,868 | 156,900 | 110.00 | 17,259 | 16,665 |
| Ceylon Hospitals PLC (Non-voting) | 61,100 | 80.00 | 4,888 | 4,423 | 61,100 | 75.00 | 4,583 | 4,423 |
| Sub total | | | 19,199 | 17,291 | | | 21,842 | 21,088 |
| Hotels and Travels | | | | | | | | |
| John Keells Hotels PLC | 267,608 | 17.00 | 4,549 | 3,473 | 137,608 | 12.50 | 1,720 | 1,638 |
| Taj Lanka Hotels PLC | 212,390 | 34.40 | 7,306 | 6,625 | - | - | - | - |
| Sub total | | | 11,855 | 10,098 | | | 1,720 | 1,638 |
| Investment Trust | | | | | | | | |
| Renuka Holdings PLC | 117,158 | 31.50 | 3,690 | 3,180 | 50,000 | 30.60 | 1,530 | 1,770 |
| Renuka Holdings PLC (Non-voting) | 265,368 | 23.50 | 6,236 | 4,958 | 100,000 | 20.70 | 2,070 | 2,477 |
| Sub total | | | 9,926 | 8,138 | | | 3,600 | 4,247 |
| Land and Property | | | | | | | | |
| Overseas Reality Ceylon PLC | 174,000 | 26.30 | 4,576 | 2,512 | 174,000 | 18.30 | 3,184 | 2,512 |
| Property Developments Ltd. | - | - | - | - | 83,235 | 66.00 | 5,494 | 4,693 |
| Sub total | | | 4,576 | 2,512 | | | 8,678 | 7,205 |
| Manufacturing | | | | | | | | |
| ACL Cables PLC | 171,516 | 76.40 | 13,104 | 14,096 | 171,516 | 64.90 | 11,131 | 14,096 |
| Dipped Products PLC | 200,000 | 143.00 | 28,600 | 24,239 | 200,000 | 90.00 | 18,000 | 24,239 |
| Lanka Walltile PLC | 60 | 97.30 | 6 | 5 | 60 | 53.90 | 3 | 5 |
| Pelwatte Sugar Industries PLC | 12,300 | 0.10 | 1 | 351 | 12,300 | 0.10 | 1 | 351 |
| Royal Ceramics Lanka PLC | 264,896 | 116.90 | 30,966 | 30,676 | 264,896 | 84.60 | 22,410 | 30,676 |
| Tokyo Cement Company (Lanka) PLC (Non-voting) | 140,055 | 46.90 | 6,569 | 3,407 | 588,555 | 23.40 | 13,772 | 15,502 |
| Sub total | | | 79,246 | 72,774 | | | 65,317 | 84,869 |
| Plantations | | | | | | | | |
| Kotagala Plantations PLC | 201,750 | 31.60 | 6,375 | 9,172 | 201,750 | 37.00 | 7,465 | 9,172 |
| Sub total | | | 6,375 | 9,172 | | | 7,465 | 9,172 |

| Sector/Name of the Company | As at December 31, 2014 | | | | As at December 31, 2013 | | | |
|--|-------------------------|--------------|----------------|------------------------|-------------------------|--------------|----------------|------------------------|
| | No. of Shares | Market Price | Market Value | Cost of the Investment | No. of Shares | Market Price | Market Value | Cost of the Investment |
| | | Rs. | Rs. '000 | Rs. '000 | | Rs. | Rs. '000 | Rs. '000 |
| Power and Energy | | | | | | | | |
| Hemas Power PLC | 600,000 | 18.10 | 10,860 | 11,591 | 336,657 | 17.60 | 5,925 | 6,748 |
| Lanka IOC PLC | 685,984 | 60.00 | 41,159 | 15,013 | 685,984 | 33.10 | 22,706 | 15,013 |
| Sub total | | | 52,019 | 26,604 | | | 28,631 | 21,761 |
| Telecommunication | | | | | | | | |
| Dialog Axiata PLC | 1,500,000 | 13.30 | 19,950 | 9,956 | 2,109,322 | 9.00 | 18,984 | 15,193 |
| Sub total | | | 19,950 | 9,956 | | | 18,984 | 15,193 |
| Total | | | 367,732 | 294,427 | | | 334,407 | 340,289 |
| Mark to market gains/(losses) | | | | 73,305 | | | | (5,882) |
| Market value of equity securities | | | | 367,732 | | | | 334,407 |

30.3 Industry/Sector Composition of the Equity Securities - Group and Bank

| Sector/Industry | As at December 31, 2014 | | | As at December 31, 2013 | | |
|--|-------------------------|--------------------|---------------|-------------------------|--------------------|---------------|
| | Market Value | Cost of Investment | % | Market Value | Cost of Investment | % |
| | Rs. '000 | Rs. '000 | | Rs. '000 | Rs. '000 | |
| Bank, Finance and Insurance | 41,892 | 29,678 | 11.39 | 29,139 | 27,711 | 8.71 |
| Beverage, Foods and Tobacco | 78,970 | 63,911 | 21.47 | 87,299 | 79,872 | 26.11 |
| Chemical and Pharmaceutical | 29,245 | 27,606 | 7.95 | 25,896 | 27,606 | 7.74 |
| Construction and Engineering | 14,475 | 16,685 | 3.94 | 14,220 | 16,685 | 4.25 |
| Diversified Holdings | 4 | 2 | 0.0 | 21,616 | 23,242 | 6.46 |
| Health Care | 19,199 | 17,291 | 5.22 | 21,842 | 21,088 | 6.53 |
| Hotels and Travels | 11,855 | 10,098 | 3.22 | 1,720 | 1,638 | 0.51 |
| Investment Trust | 9,926 | 8,138 | 2.71 | 3,600 | 4,247 | 1.08 |
| Land and Property | 4,576 | 2,512 | 1.24 | 8,678 | 7,205 | 2.61 |
| Manufacturing | 79,246 | 72,774 | 21.55 | 65,317 | 84,869 | 19.53 |
| Plantations | 6,375 | 9,172 | 1.73 | 7,465 | 9,172 | 2.23 |
| Power and Energy | 52,019 | 26,604 | 14.15 | 28,631 | 21,761 | 8.56 |
| Telecommunication | 19,950 | 9,956 | 5.43 | 18,984 | 15,193 | 5.68 |
| Sub total | 367,732 | 294,427 | 100.00 | 334,407 | 340,289 | 100.00 |
| Mark to market gains/(losses) | | 73,305 | | | (5,882) | |
| Market value of equity securities | 367,732 | 367,732 | 100.00 | 334,407 | 334,407 | 100.00 |

Notes to the Financial Statements

31. Loans and Receivables to Banks

| As at December 31, | GROUP | | BANK | |
|----------------------------------|------------------|------------------|------------------|------------------|
| | 2014 Rs. '000 | 2013 Rs. '000 | 2014 Rs. '000 | 2013 Rs. '000 |
| Gross loans and receivables | 551,066 | 546,270 | 551,066 | 546,270 |
| Less: Provision for impairment | - | - | - | - |
| Net loans and receivables | 551,066 | 546,270 | 551,066 | 546,270 |

The maturity analysis of Loans and Receivables to Banks is given in Note 58.

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 USD 4.170 Mn. (Rs. 551.066 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 the amount due to the said counter party bank, have been recorded in the Statement of Financial Position.

31. 1 (a) By Currency

| As at December 31, | GROUP | | BANK | |
|----------------------|------------------|------------------|------------------|------------------|
| | 2014 Rs. '000 | 2013 Rs. '000 | 2014 Rs. '000 | 2013 Rs. '000 |
| United States Dollar | 551,066 | 546,270 | 551,066 | 546,270 |
| Sub total | 551,066 | 546,270 | 551,066 | 546,270 |

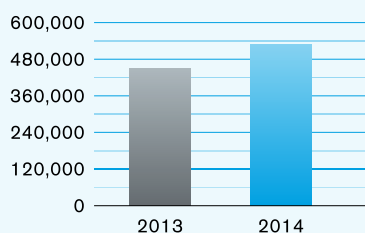
32. Loans and Receivables to Other Customers

| | | | | |
|---|--------------------|--------------------|--------------------|--------------------|
| Gross loans and receivables | 515,335,442 | 426,723,148 | 514,022,361 | 426,738,608 |
| Loans and advances [Refer Note 32.1 (a)] | 464,899,378 | 379,237,437 | 463,586,297 | 379,252,897 |
| Investments in Government Securities [Refer Note 32.1 (a)] | 40,850,011 | 43,108,697 | 40,850,011 | 43,108,697 |
| Other investments [Refer Note 32.1 (a)] | 9,586,053 | 4,377,014 | 9,586,053 | 4,377,014 |
| Less: Provision for individual impairment [Refer Note 32.2] | 4,334,587 | 4,204,654 | 4,334,587 | 4,204,654 |
| Provision for collective impairment [Refer Note 32.2] | 12,835,436 | 11,582,515 | 12,621,987 | 11,582,514 |
| Net loans and receivables | 498,165,419 | 410,935,979 | 497,065,787 | 410,951,440 |

The maturity analysis of Loans and Receivables to Other Customers is given in Note 58.

Gross Loans and Receivables to Other Customers - Bank

(Rs. Mn.)



20.45% ↑
Growth

2014: Rs. 514,022 Mn.

2013: Rs. 426,739 Mn.

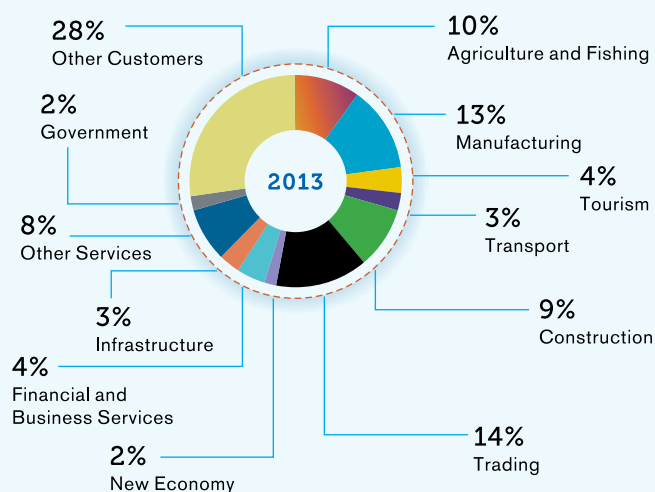
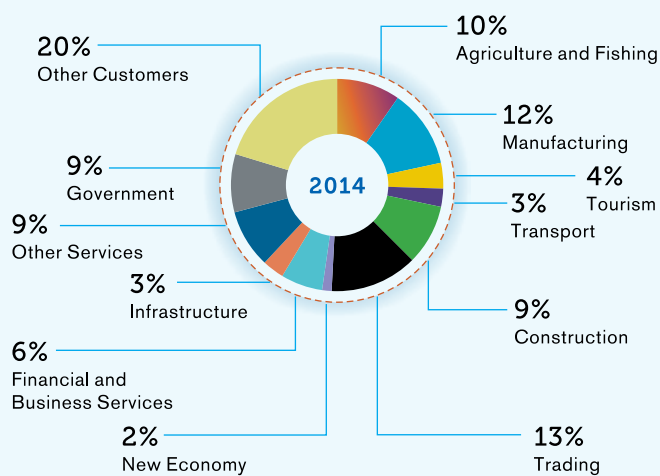
| As at December 31, | GROUP | | BANK | |
|--|--------------------|--------------------|--------------------|--------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| 32.1 Analysis | | | | |
| 32.1 (a) By product | | | | |
| Loans and receivables | | | | |
| Overdrafts | 70,149,877 | 72,420,675 | 70,149,877 | 72,420,675 |
| Trade finance | 41,964,999 | 47,957,137 | 41,964,999 | 47,957,137 |
| Lease/hire purchase receivable [Refer Note 32.3] | 24,814,178 | 21,778,745 | 23,068,581 | 21,795,710 |
| Credit cards | 4,221,367 | 3,999,619 | 4,221,367 | 3,999,619 |
| Pawning | 2,315,884 | 6,995,603 | 2,315,884 | 6,995,603 |
| Staff loans | 5,023,379 | 3,885,911 | 5,022,923 | 3,885,911 |
| Housing loans | 31,402,858 | 27,729,953 | 31,402,858 | 27,729,953 |
| Personal loans | 21,943,589 | 16,517,343 | 21,943,016 | 16,517,343 |
| Term loans | | | | |
| Short-term | 31,387,867 | 30,636,267 | 31,974,667 | 30,636,267 |
| Long-term | 178,538,532 | 129,805,616 | 178,385,277 | 129,804,111 |
| Loans granted from Investment Fund Account (IFA) [Refer Note 32.4 (a)] | 4,554,420 | 3,520,411 | 4,554,420 | 3,520,411 |
| Bills of exchange | 7,384,162 | 5,043,658 | 7,384,162 | 5,043,658 |
| Securities purchased under resale agreements | 41,198,266 | 8,946,499 | 41,198,266 | 8,946,499 |
| Sub total [Refer Note 32.1 (c)] | 464,899,378 | 379,237,437 | 463,586,297 | 379,252,897 |
| Investments in Government Securities | | | | |
| Treasury bonds | 605,859 | 605,859 | 605,859 | 605,859 |
| Sri Lanka Development bonds | 40,244,152 | 42,502,838 | 40,244,152 | 42,502,838 |
| Sub total | 40,850,011 | 43,108,697 | 40,850,011 | 43,108,697 |
| Other investments | | | | |
| Debentures [Refer Note 32.5 (a)] | 8,458,544 | 3,273,401 | 8,458,544 | 3,273,401 |
| Trust certificates [Refer Note 32.5 (b)] | 1,126,469 | 1,029,072 | 1,126,469 | 1,029,072 |
| Corporate bonds in Bangladesh [Refer Note 32.5 (c)] | 1,040 | 74,541 | 1,040 | 74,541 |
| Sub total | 9,586,053 | 4,377,014 | 9,586,053 | 4,377,014 |
| 32.1 (b) By currency | | | | |
| Sri Lanka Rupee | 391,550,260 | 314,608,021 | 390,237,179 | 314,623,481 |
| United States Dollar | 86,212,972 | 78,911,348 | 86,212,972 | 78,911,348 |
| Great Britain Pound | 651,205 | 871,965 | 651,205 | 871,965 |
| Euro | 106,299 | 1,466,964 | 106,299 | 1,466,964 |
| Australian Dollar | 980,361 | 46,234 | 980,361 | 46,234 |
| Japanese Yen | - | 613 | - | 613 |
| Singapore Dollar | - | 5,127 | - | 5,127 |
| Bangladesh Taka | 35,830,724 | 30,852,627 | 35,830,724 | 30,852,627 |
| Others | 3,621 | - | 3,621 | - |
| Total | 515,335,442 | 426,762,899 | 514,022,361 | 426,778,359 |

Notes to the Financial Statements

| As at December 31, | GROUP | | BANK | |
|--|--------------------|--------------------|--------------------|--------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| 32.1 (c) By Industry (*) | | | | |
| Agriculture and fishing | 45,451,951 | 38,013,743 | 45,306,783 | 38,013,743 |
| Manufacturing | 54,799,178 | 49,650,801 | 54,799,178 | 49,650,801 |
| Tourism | 18,306,599 | 14,242,671 | 18,273,643 | 14,242,671 |
| Transport | 13,294,127 | 10,157,863 | 13,241,354 | 10,174,829 |
| Construction | 42,546,071 | 35,601,502 | 42,525,815 | 35,601,502 |
| Trading | 62,280,308 | 52,367,237 | 62,017,576 | 52,367,237 |
| New economy | 6,533,193 | 6,440,151 | 6,533,193 | 6,440,151 |
| Financial and business services | 28,627,011 | 16,415,452 | 29,205,088 | 16,415,452 |
| Infrastructure | 15,729,998 | 12,814,953 | 15,729,998 | 12,814,953 |
| Other services | 40,676,423 | 30,420,543 | 40,424,390 | 30,420,543 |
| Government | 41,198,266 | 8,946,499 | 41,198,266 | 8,946,499 |
| Other customers | 95,456,253 | 104,166,022 | 94,331,013 | 104,164,516 |
| Sub total [Refer Note 32.1 (a)] | 464,899,378 | 379,237,437 | 463,586,297 | 379,252,897 |

(*) Industry-wise breakdown is provided only for loans and receivables.

Sectoral Classification of Loans & Advances - Bank



32.2 Movement in Provision for Individual and Collective Impairment during the Year

| As at December 31, | GROUP | | BANK | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2014 Rs. '000 | 2013 Rs. '000 | 2014 Rs. '000 | 2013 Rs. '000 |
| Movement in Provision for Individual Impairment | | | | |
| Balance as at January 01, | 4,204,654 | 3,402,168 | 4,204,654 | 3,402,168 |
| Charge/(write back) to the Income Statement [Refer Note 17] | 390,003 | 1,070,253 | 390,003 | 1,070,253 |
| Net write-off/(recoveries) during the year | (403,411) | (369,740) | (403,411) | (369,740) |
| Exchange rate variance on foreign currency provisions | 6,765 | 18,792 | 6,765 | 18,792 |
| Interest accrued/(reversals) on impaired loans and advances | (278,878) | (304,712) | (278,878) | (304,712) |
| Other movements | 415,454 | 387,893 | 415,454 | 387,893 |
| Balance as at December 31, | 4,334,587 | 4,204,654 | 4,334,587 | 4,204,654 |
| Movement in Provision for Collective Impairment | | | | |
| Balance as at January 01, | 11,582,515 | 10,099,059 | 11,582,514 | 10,099,059 |
| Balance assumed on business combination | 194,805 | – | – | – |
| Charge/(write back) to the Income Statement [Refer Note 17] | 4,480,932 | 4,007,742 | 4,462,289 | 4,007,742 |
| Net write-off/(recoveries) during the year | (3,422,651) | (2,527,827) | (3,422,651) | (2,527,828) |
| Exchange rate variance on foreign currency provisions | (165) | 3,541 | (165) | 3,541 |
| Other movements | – | – | – | – |
| Balance as at December 31, | 12,835,436 | 11,582,515 | 12,621,987 | 11,582,514 |
| Total of individual and collective impairment | 17,170,023 | 15,787,168 | 16,956,574 | 15,787,168 |

| As at December 31, | GROUP | | BANK | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2014 Rs. '000 | 2013 Rs. '000 | 2014 Rs. '000 | 2013 Rs. '000 |
| 32.3 Lease/Hire Purchase Receivable | | | | |
| Gross Lease/Hire Purchase Receivable | 24,814,178 | 21,778,745 | 23,068,581 | 21,795,710 |
| Within one year [Refer Note 32.3 (a)] | 10,129,318 | 8,807,377 | 9,303,525 | 8,822,061 |
| From one to five years [Refer Note 32.3 (b)] | 14,676,651 | 12,966,406 | 13,756,847 | 12,968,687 |
| Over five years [Refer Note 32.3 (c)] | 8,209 | 4,962 | 8,209 | 4,962 |
| Less: Provision for Individual impairment [Refer Note 32.3 (d)] | 60,961 | 54,317 | 60,961 | 54,317 |
| Provision for Collective impairment [Refer Note 32.3 (e)] | 1,064,533 | 789,654 | 856,170 | 789,653 |
| Net lease/Hire purchase receivable | 23,688,684 | 20,934,774 | 22,151,450 | 20,951,740 |

32.3 (a) Lease/Hire Purchase Receivable within One Year

| | | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| Total Lease/Hire purchase receivable within one year | 13,168,565 | 11,670,475 | 12,084,654 | 11,686,628 |
| Less: Unearned lease/Hire purchase income | 3,039,247 | 2,863,098 | 2,781,129 | 2,864,567 |
| Gross Lease/Hire purchase receivable within one year | 10,129,318 | 8,807,377 | 9,303,525 | 8,822,061 |
| Less: Provision for individual impairment | 49,695 | 45,564 | 49,695 | 45,564 |
| Provision for collective impairment | 707,769 | 542,527 | 627,694 | 542,526 |
| Sub total | 9,371,854 | 8,219,286 | 8,626,136 | 8,233,971 |

Notes to the Financial Statements

| As at December 31, | GROUP | | BANK | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| 32.3 (b) Lease/Hire Purchase Receivable from One to Five Years | | | | |
| Total Lease/Hire purchase receivable from one to five years | 17,062,402 | 15,328,773 | 15,871,840 | 15,331,054 |
| Less: Unearned lease/Hire purchase income | 2,385,751 | 2,362,367 | 2,114,993 | 2,362,367 |
| Gross Lease/Hire purchase receivable from one to five years | 14,676,651 | 12,966,406 | 13,756,847 | 12,968,687 |
| Less: Provision for individual impairment | 11,266 | 8,753 | 11,266 | 8,753 |
| Provision for collective impairment | 356,596 | 247,112 | 228,308 | 247,112 |
| Sub total | 14,308,789 | 12,710,541 | 13,517,273 | 12,712,822 |

32.3 (c) Lease/Hire Purchase Receivable after Five Years

| | | | | |
|--|--------------|--------------|--------------|--------------|
| Total Lease/Hire purchase receivable after five years | 8,666 | 5,667 | 8,666 | 5,667 |
| Less: Unearned lease/Hire purchase income | 457 | 705 | 457 | 705 |
| Gross Lease/Hire purchase receivable after five years | 8,209 | 4,962 | 8,209 | 4,962 |
| Less: Provision for individual impairment | - | - | - | - |
| Provision for collective impairment | 168 | 15 | 168 | 15 |
| Sub total | 8,041 | 4,947 | 8,041 | 4,947 |

32.3 (d) Movement in Provision for Individual Impairment on Lease/Hire Purchase Receivable

| | | | | |
|---|---------------|---------------|---------------|---------------|
| Balance as at January 01, | 54,317 | 50,100 | 54,317 | 50,100 |
| Charge/(write back) to the income statement | 13,004 | 15,773 | 13,004 | 15,773 |
| Net write-off/(recoveries) during the year | (6,211) | (12,163) | (6,211) | (12,163) |
| Exchange rate variance on foreign currency provisions | - | - | - | - |
| Interest accrued on impaired loans and advances | (3,268) | (2,891) | (3,268) | (2,891) |
| Other movements | 3,119 | 3,498 | 3,119 | 3,498 |
| Balance as at December 31, | 60,961 | 54,317 | 60,961 | 54,317 |

32.3 (e) Movement in Provision for Collective Impairment on Lease/Hire Purchase Receivable

| | | | | |
|---|------------------|----------------|----------------|----------------|
| Balance as at January 01, | 789,654 | 589,113 | 789,653 | 589,113 |
| Balance assumed on business combination | 191,037 | - | - | - |
| Charge/(write back) to the income statement | 783,494 | 324,052 | 766,169 | 324,052 |
| Net write-off/(recoveries) during the year | (699,652) | (123,511) | (699,652) | (123,512) |
| Exchange rate variance on foreign currency provisions | - | - | - | - |
| Other movements | - | - | - | - |
| Balance as at December 31, | 1,064,533 | 789,654 | 856,170 | 789,653 |

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 1, 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.

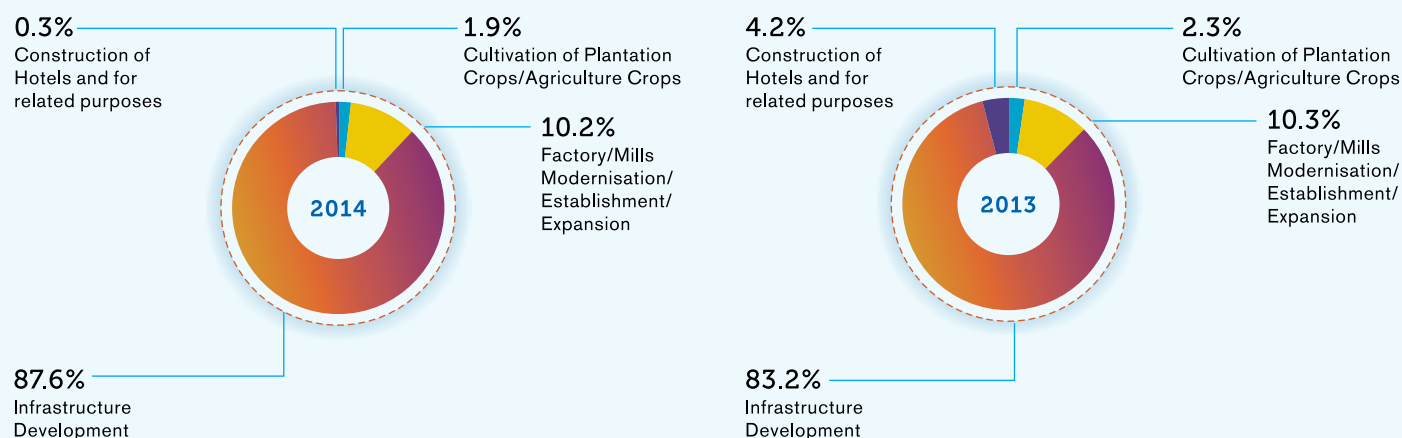
| As at December 31, | 2014 Rs. '000 | 2013 Rs. '000 |
|--|--------------------|------------------|
| Balance in IFA(*) | 5,126,108 | 4,838,694 |
| Capital outstanding of loans granted from IFA - [Refer Note 32.4 (a)] | (4,377,318) | (3,396,973) |
| Amount Invested in Government Securities | 748,790 | 1,441,721 |

(*) The requirement to maintain the Investment Fund Account ceased with effect from October 1, 2014 as per the instructions issued by the Central Bank of Sri Lanka.

32.4. (a) Capital Outstanding of Loans Granted from Investment Fund Account

| Sector | | | 2014 | | | 2013 | | | | |
|---|--------------|------|------------------|----------------|------------------------|--------------------------|------------------|------------------------|--------------------------|-----------------|
| | | | Interest Rates | Tenure | Amount Outstanding (A) | Pending Disbursement (B) | Total (A) + (B) | Amount Outstanding (A) | Pending Disbursement (B) | Total (A) + (B) |
| | | | (%) | (Years) | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| (a) Cultivation of Plantation crops/ Agriculture crops | 6.85 - 11.04 | 5 | 58,067 | 35,115 | 93,182 | 65,340 | 55,115 | 120,455 | | |
| (b) Factory/Mills modernisation/ Establishment/Expansion | 6.85 - 12.54 | 5 | 445,247 | 51,800 | 497,047 | 485,588 | 49,300 | 534,888 | | |
| (c) Infrastructure Development | 8.87 - 13.57 | 14.5 | 3,861,496 | 402,017 | 4,263,614 | 2,767,945 | 1,559,669 | 4,327,614 | | |
| (d) Construction of Hotels and for related purposes | 7.35 - 12.79 | 7 | 12,508 | - | 12,508 | 78,100 | 142,583 | 220,683 | | |
| Capital Outstanding of the Loans granted | | | 4,377,318 | 488,932 | 4,866,351 | 3,396,973 | 1,806,667 | 5,203,640 | | |
| (e) Interest receivable | | | 177,102 | - | 177,102 | 123,438 | - | 123,438 | | |
| Carrying amount of the Loans granted | | | 4,554,420 | 488,932 | 5,043,453 | 3,520,411 | 1,806,667 | 5,327,078 | | |

Sectoral Distribution of Loans Under IFA



Notes to the Financial Statements

| As at December 31, | GROUP | | | | BANK | | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2014 | | 2013 | | 2014 | | 2013 | |
| | Amortised Cost | Market Value | Amortised Cost | Market Value | Amortised Cost | Market Value | Amortised Cost | Market Value |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| 32.5 (a) Debentures | | | | | | | | |
| Urban Development Authority (11% - 2015) | 447,296 | 447,296 | 447,296 | 447,296 | 447,296 | 447,296 | 447,296 | 447,296 |
| People's Leasing & Finance PLC | 738,654 | 738,654 | 541,589 | 541,589 | 738,654 | 738,654 | 541,589 | 541,589 |
| Senkadagala Finance PLC | 41,869 | 41,869 | 41,869 | 41,869 | 41,869 | 41,869 | 41,869 | 41,869 |
| Singer (Sri Lanka) PLC | 181,005 | 181,005 | 181,005 | 181,005 | 181,005 | 181,005 | 181,005 | 181,005 |
| Central Finance PLC | 277,872 | 277,872 | 273,078 | 273,078 | 277,872 | 277,872 | 273,078 | 273,078 |
| Lion Brewery (Ceylon) PLC | 815,073 | 815,073 | 1,031,658 | 1,031,658 | 815,073 | 815,073 | 1,031,658 | 1,031,658 |
| Hayleys PLC | 91,575 | 91,575 | 91,575 | 91,575 | 91,575 | 91,575 | 91,575 | 91,575 |
| Singer Finance (Lanka) PLC | 355,756 | 355,756 | 355,756 | 355,756 | 355,756 | 355,756 | 355,756 | 355,756 |
| Nawaloka Hospitals PLC | 237,167 | 237,167 | 237,256 | 237,256 | 237,167 | 237,167 | 237,256 | 237,256 |
| Hemas Holdings PLC | 54,048 | 54,048 | 72,319 | 72,319 | 54,048 | 54,048 | 72,319 | 72,319 |
| Abans PLC | 77,156 | 77,156 | - | - | 77,156 | 77,156 | - | - |
| DFCC Bank | 1,857,008 | 1,857,008 | - | - | 1,857,008 | 1,857,008 | - | - |
| Richard Pieris & Company PLC | 695,136 | 695,136 | - | - | 695,136 | 695,136 | - | - |
| Softlogic Finance PLC | 330,465 | 330,465 | - | - | 330,465 | 330,465 | - | - |
| Lanka ORIX Leasing Company PLC | 2,018,740 | 2,018,740 | - | - | 2,018,740 | 2,018,740 | - | - |
| Mercantile Investments & Finance PLC | 42,551 | 42,551 | - | - | 42,551 | 42,551 | - | - |
| Orient Finance PLC | 197,173 | 197,173 | - | - | 197,173 | 197,173 | - | - |
| Sub total | 8,458,544 | 8,458,544 | 3,273,401 | 3,273,401 | 8,458,544 | 8,458,544 | 3,273,401 | 3,273,401 |

The above debentures are stated at amortised cost and classified under loans and receivables due to the absence of an active market.

| As at December 31, | GROUP | | | | BANK | | | |
|------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2014 | | 2013 | | 2014 | | 2013 | |
| | Amortised Cost | Market Value | Amortised Cost | Market Value | Amortised Cost | Market Value | Amortised Cost | Market Value |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| 32.5 (b) Trust Certificates | | | | | | | | |
| People's Leasing Company PLC | 644,356 | 644,356 | 629,717 | 629,717 | 644,356 | 644,356 | 629,717 | 629,717 |
| LB Finance PLC | - | - | 297,415 | 297,415 | - | - | 297,415 | 297,415 |
| Softlogic Finance PLC | - | - | 101,940 | 101,940 | - | - | 101,940 | 101,940 |
| Assetline Leasing Company Ltd. | 374,091 | 374,091 | - | - | 374,091 | 374,091 | - | - |
| Richard Pieris Arpico Finance Ltd. | 108,022 | 108,022 | - | - | 108,022 | 108,022 | - | - |
| Sub total | 1,126,469 | 1,126,469 | 1,029,072 | 1,029,072 | 1,126,469 | 1,126,469 | 1,029,072 | 1,029,072 |

32.5 (c) Corporate Bonds in Bangladesh

| | | | | | | | | |
|------------------|--------------|--------------|---------------|---------------|--------------|--------------|---------------|---------------|
| Prize Bonds | 1,040 | 1,040 | 1,040 | 1,040 | 1,040 | 1,040 | 1,040 | 1,040 |
| Corporate Bonds | - | - | 73,501 | 73,501 | - | - | 73,501 | 73,501 |
| Sub total | 1,040 | 1,040 | 74,541 | 74,541 | 1,040 | 1,040 | 74,541 | 74,541 |

32.6 Summary of Individually Impaired Loans and Receivables - Bank

| As at December 31, | 2014 | | 2013 | |
|--|---|-----------------------|---|-----------------------|
| | 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 | 1,005,810 | 836,674 | 1,011,562 | 755,677 |
| Trade finance | 531,495 | 393,998 | 495,877 | 355,102 |
| Lease/hire purchase receivable | 107,219 | 60,961 | 135,148 | 54,317 |
| Credit cards | - | - | - | - |
| Pawning | 6,360 | 133 | - | - |
| Staff loans | - | - | - | - |
| Housing loans | 24,041 | 5,632 | 23,456 | 4,182 |
| Personal loans | 2,368 | 1,697 | 2,148 | 1,476 |
| Term loans | 4,871,389 | 3,035,493 | 5,134,833 | 3,033,900 |
| Bills of exchange | - | - | - | - |
| Securities purchased under resale agreements | - | - | - | - |
| Total impaired loans and advances | 6,548,682 | 4,334,588 | 6,803,024 | 4,204,654 |
| Other Receivables | | | | |
| Government securities | - | - | - | - |
| Investments | - | - | - | - |
| Total impaired other receivables | - | - | - | - |
| Total impaired loans and receivables | 6,548,682 | 4,334,588 | 6,803,024 | 4,204,654 |

33. Financial Investments – Available-for-Sale

| As at December 31, | GROUP | | BANK | |
|---|--------------------|--------------------|--------------------|--------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Government securities | 213,381,263 | 131,565,941 | 213,364,740 | 131,565,941 |
| Government securities - Sri Lanka [Refer Note 33.1 (a)] | 205,176,556 | 123,597,457 | 205,160,033 | 123,597,457 |
| Government securities - Bangladesh [Refer Note 33.1 (b)] | 8,204,707 | 7,968,484 | 8,204,707 | 7,968,484 |
| Equity securities [Refer Notes 33.2 and 33.3] | 230,313 | 190,584 | 230,189 | 190,584 |
| Quoted shares - (At mark to market value) [Refer Notes 33.2 (a) & 33.3 (a)] | 185,132 | 145,492 | 185,132 | 145,492 |
| Unquoted shares - (At cost) [Refer Notes 33.2 (b) & 33.3 (b)] | 45,181 | 45,092 | 45,057 | 45,092 |
| Investment in Unit Trust [Refer Note 33.4] | 613,441 | - | 613,441 | - |
| Total | 214,225,017 | 131,756,525 | 214,208,370 | 131,756,525 |

There were no impairment losses on Financial investments – Available-for-Sale as at December 31, 2014 (2013 - Nil).

The maturity analysis of Financial investments – Available-for-Sale is given in Note 58.

Notes to the Financial Statements

| As at December 31, | GROUP | | BANK | |
|---|--------------------|--------------------|--------------------|--------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| 33.1 Government Securities | | | | |
| 33.1 (a) Government Securities – Sri Lanka | | | | |
| Treasury bills | 48,112,556 | 81,782,640 | 48,096,033 | 81,782,640 |
| Treasury bonds | 150,113,050 | 39,902,375 | 150,113,050 | 39,902,375 |
| Sri Lanka sovereign bonds | 6,950,950 | 1,912,442 | 6,950,950 | 1,912,442 |
| Sub total | 205,176,556 | 123,597,457 | 205,160,033 | 123,597,457 |

| | | | | |
|--|------------------|------------------|------------------|------------------|
| 33.1 (b) Government Securities – Bangladesh | | | | |
| Treasury bills | 736,146 | – | 736,146 | – |
| Treasury bonds | 7,468,561 | 7,968,484 | 7,468,561 | 7,968,484 |
| Sub total | 8,204,707 | 7,968,484 | 8,204,707 | 7,968,484 |

33.2 (a) Equity Securities – As at December 31, 2014

| Sector/Type of Securities | GROUP | | | | 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 |
| 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 |

33.2 (b) Equity Securities - As at December 31, 2014

| | GROUP | | | | 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 | | | | | | | | |
| 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 |
| Lanka Clear (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 | 154,446.00 | 7,259 | 7,259 | 47 | 154,446.00 | 7,259 | 7,259 |
| Total | | | 45,181 | 45,181 | | | 45,057 | 45,057 |

33.2 (c) Sector/Industry Composition of the Equity Securities – As at December 31, 2014

| | GROUP | | BANK | |
|-----------------------------|----------------|--------------------|----------------|--------------------|
| | Market Value | Cost of Investment | Market Value | Cost of Investment |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Sector/Industry | | | | |
| Bank, Finance and Insurance | 218,957 | 45,984 | 218,833 | 45,860 |
| Manufacturing | 11,356 | 9,999 | 11,356 | 9,999 |
| Total | 230,313 | 55,983 | 230,189 | 55,859 |

33.3 (a) Equity Securities – As at December 31, 2013

| | GROUP | | | | 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 | 129.00 | 451 | 155 | 3,496 | 129.00 | 451 | 155 |
| Hatton National Bank PLC | 11,760 | 147.00 | 1,729 | 315 | 11,760 | 147.00 | 1,729 | 315 |
| Nations Trust Bank PLC | 1,333 | 62.20 | 83 | 22 | 1,333 | 62.20 | 83 | 22 |
| National Development Bank PLC | 5,424 | 160.50 | 871 | 215 | 5,424 | 160.50 | 871 | 215 |
| Sampath Bank PLC | 3,714 | 171.90 | 638 | 72 | 3,714 | 171.90 | 638 | 72 |
| Seylan Bank PLC | 1,015 | 64.20 | 65 | 24 | 1,015 | 64.20 | 65 | 24 |
| VISA Inc. | 4,856 | US\$. 222.68 | 141,655 | – | 4,856 | 222.68 | 141,655 | – |
| Total | | | 145,492 | 803 | | | 145,492 | 803 |

Notes to the Financial Statements

| | GROUP | | | | 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 |

33.3 (b) Equity Securities – As at December 31, 2013

Sector/Type of Securities

Unquoted Shares:

Bank, Finance and Insurance

| | | | | | | | | |
|---|-----------|------------|--------|--------|-----------|------------|--------|--------|
| Central Depository of Bangladesh Ltd. | 3,427,083 | Taka 2.75 | 15,898 | 15,898 | 3,427,083 | Taka 2.75 | 15,898 | 15,898 |
| Credit Information Bureau of Sri Lanka | 4,400 | 100.00 | 440 | 440 | 4,400 | 100.00 | 440 | 440 |
| Fitch Ratings Lanka Ltd. | 62,500 | 10.00 | 625 | 625 | 62,500 | 10.00 | 625 | 625 |
| Lanka Clear (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 | 154,446.00 | 7,259 | 7,259 | 47 | 154,446.00 | 7,259 | 7,259 |
| Total | | | 45,092 | 45,092 | | | 45,092 | 45,092 |

33.3 (c) Sector/Industry composition of the Equity Securities – As at December 31, 2013

| | GROUP | | BANK | |
|----------------------------|--------------|--------------------|--------------|--------------------|
| | Market Value | Cost of Investment | Market Value | Cost of Investment |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Sector/Industry | | | | |
| Bank Finance and Insurance | 190,584 | 45,895 | 190,584 | 45,895 |
| Total | 190,584 | 45,895 | 190,584 | 45,895 |

33.4 Investment in Unit Trust – As at December 31, 2014

| | GROUP | | BANK | |
|------------------------------------|--------------|--------------------|--------------|--------------------|
| | 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. | 613,441 | 613,441 | 613,441 | 613,441 |
| Total | 613,441 | 613,441 | 613,441 | 613,441 |

(2013 - Nil)

34. Investments in Subsidiaries

| As at December 31, | Holding | GROUP | | | | BANK | | | |
|--|----------|----------|--|----------|--|------------------|--|---------------|--|
| | | 2014 | | 2013 | | 2014 | | 2013 | |
| | | 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 | 94.55 | - | - | - | - | 274,393 | 1,145,916 | 274,393 | 752,220 |
| (11,345,705 Ordinary Shares) | | | | | | (@ Rs. 101.00) | | (@ Rs. 66.30) | |
| (11,345,705 Ordinary Shares as at December 31, 2013) | | | | | | | | | |
| 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, 2013) | | | | | | | | | |
| Indra Finance Ltd. | 100 | - | - | - | - | 916,046 | 916,046 | - | - |
| (21,600,000 Ordinary Shares) | | | | | | | | | |
| (2013 - Nil) | | | | | | | | | |
| Foreign Subsidiary: | | | | | | | | | |
| Unquoted: | | | | | | | | | |
| Commex - Sri Lanka S.R.L. (Incorporated in Italy) (*) | 100 | - | - | - | - | 129,928 | 15,561 | 95,133 | 9,553 |
| Gross Total | | - | - | - | - | 1,325,367 | 2,082,523 | 374,526 | 766,773 |
| Less: Provision for impairment [Refer Note 34.1] | | - | - | - | - | (114,367) | - | (85,580) | - |
| Net Total | | - | - | - | - | 1,211,000 | 2,082,523 | 288,946 | 766,773 |

(*) 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 before finalising the Bank's Financial Statements. All arrangements have been made to submit the new application to 'Bank of Italy' to obtain Money Transfer License and it is expected to commence commercial operations during 2015.

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 Interest in Other Entities'.

34.1 Movement in Provision for Impairment o/a Subsidiaries during the Year

| | GROUP | | BANK | |
|---|----------|----------|----------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Balance as at January 01, | - | - | 85,580 | 71,396 |
| Charge/(Write back) to the Income Statement [Refer Note 17] | - | - | 28,787 | 14,184 |
| Balance as at December 31, | - | - | 114,367 | 85,580 |

34.2 Acquisition of 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., 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 acquisition of this Company.

Notes to the Financial Statements

34.2.1 Consideration Transferred

Total purchase consideration stated above was satisfied in the form of cash.

34.2.2 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 36.1 and 37.1] | 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 44] | (7,200) |
| Subordinated liabilities [Refer Note 49] | (215,000) |
| Provision for gratuity payable [Refer Note 47.1 (b)] | (1,977) |
| Deferred tax liabilities [Refer Note 45.1] | (47,292) |
| Other liabilities | (100,105) |
| Sub Total | (1,410,310) |
| Fair value of identifiable net assets at the date of acquisition | 516,001 |

Fair value of the land and buildings acquired was obtained using the valuations carried out by an independent professional valuer.

34.2.3 Goodwill

Goodwill arising from the acquisition has been recognised as the excess of the consideration transferred over the net identifiable assets acquired and liabilities assumed.

| | Rs. '000 |
|--|----------------|
| Consideration transferred [Refer Note 34.2] | 916,046 |
| Fair value of identifiable net assets at the date of acquisition [Refer Note 34.2.2] | (516,001) |
| Goodwill [Refer Note 37] | 400,045 |

34.2.4 Cost of acquisition of the subsidiary, net of cash acquired

| | GROUP Rs. '000 | BANK Rs. '000 |
|--|-------------------|------------------|
| Purchase consideration transferred [Refer Note 34.2] | 916,046 | 916,046 |
| Cash and cash equivalents acquired on business combination [Refer Note 34.2.2] | (24,576) | – |
| Cost of acquisition of the subsidiary, net of cash acquired | 891,470 | 916,046 |

35. Investments in Associates

| As at December 31, | Holding | GROUP | | | | BANK | | | |
|---|----------|----------------|--|---------------|--|---------------|--|---------------|--|
| | | 2014 | | 2013 | | 2014 | | 2013 | |
| | | 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 | |
| Unquoted: | | | | | | | | | |
| Equity Investments Lanka Ltd. (4,110,938 Ordinary Shares) (4,110,938 Ordinary Shares as at December 31, 2013) | 22.92 | 44,331 | 72,134 | 44,331 | 60,411 | 44,331 | 72,134 | 44,331 | 60,411 |
| Add: Share of profit applicable to the Bank: | | | | | | | | | |
| Balance as at January 01, | | 16,080 | | 18,380 | | | | | |
| Current year's share of profit/(loss) after tax | | 5,108 | | 1,911 | | | | | |
| Other comprehensive income, net of tax | | 6,615 | | (2,132) | | | | | |
| Less: Dividend received during the year | | - | | (2,079) | | | | | |
| Current year's retained profit | | 11,723 | | (2,300) | | | | | |
| Balance as at December 31, | | 27,803 | | 16,080 | | | | | |
| Total | | 72,134 | 72,134 | 60,411 | 60,411 | 44,331 | 72,134 | 44,331 | 60,411 |
| Commercial Insurance Brokers (Pvt) Ltd. (120,000 Ordinary Shares) (120,000 Ordinary Shares as at December 31, 2013) | 18.91 | 100 | 34,153 | 100 | 33,762 | - | - | - | - |
| Add: Share of profit applicable to the Bank: | | | | | | | | | |
| Balance as at January 01, | | 33,662 | | 30,901 | | | | | |
| Current year's share of profit after tax | | 1,455 | | 3,374 | | | | | |
| Other comprehensive income, net of tax | | (213) | | - | | | | | |
| Less: Dividend received during the year | | (851) | | (613) | | | | | |
| Current year's retained profit | | 391 | | 2,761 | | | | | |
| Balance as at December 31, | | 34,053 | | 33,662 | | | | | |
| Total | | 34,153 | 34,153 | 33,762 | 33,762 | - | - | - | - |
| Total value of Investments in unquoted associates at carrying value on equity basis | | 106,287 | | 94,173 | | 44,331 | | 44,331 | |
| Less: provision for impairment | | - | | - | | - | | - | |
| Net Total | | 106,287 | | 94,173 | | 44,331 | | 44,331 | |
| Total Market Value/ Directors' Valuation of Investments in Associates | | | 106,287 | | 94,173 | | 72,134 | | 60,411 |

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 in Associates is given in Note 58.

Notes to the Financial Statements

36. Property, Plant & Equipment

36.1 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 | - | - | - | - | - | - | - | - | - |
| Transfer of accumulated depreciation on assets revalued | - | (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 |

36.2 Group – 2013

| | Freehold Land | Freehold Buildings | Leasehold Buildings | Computer Equipment | Motor Vehicles | Office Equipment - Furniture & Fixtures | Capital Work-in-Progress | Total 2013 | Total 2012 |
|---|------------------|--------------------|---------------------|--------------------|----------------|---|--------------------------|-------------------|-------------------|
| | 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, | 3,502,740 | 2,209,630 | 838,626 | 3,170,031 | 367,490 | 3,542,095 | 119,003 | 13,749,615 | 12,719,314 |
| Additions during the year | 51,658 | 20,389 | - | 348,577 | 20,858 | 384,674 | 132,863 | 959,019 | 1,260,079 |
| Surplus on revaluation of property | - | - | - | - | - | - | - | - | 192,237 |
| Disposals during the year | - | - | - | (137,017) | (58,843) | (86,011) | - | (281,871) | (396,409) |
| Exchange rate variance | - | - | - | 6,580 | 2,357 | 13,874 | 1,399 | 24,210 | 58,524 |
| Transfers/adjustments | - | - | - | (59) | - | 235 | (2,102) | (1,926) | (84,130) |
| Balance as at December 31, | 3,554,398 | 2,230,019 | 838,626 | 3,388,112 | 331,862 | 3,854,867 | 251,163 | 14,449,047 | 13,749,615 |
| Accumulated Depreciation and Impairment Losses | | | | | | | | | |
| Balance as at January 01, | - | 67,722 | 146,515 | 2,351,033 | 236,328 | 2,001,136 | - | 4,802,734 | 4,216,103 |
| Charge for the year [Refer Note 19] | - | 69,132 | (97,396) | 337,730 | 48,169 | 359,948 | - | 717,583 | 942,765 |
| Impairment loss | - | - | - | - | - | - | - | - | - |
| Disposals during the year | - | - | - | (136,262) | (50,221) | (75,072) | - | (261,555) | (336,079) |
| Exchange rate variance | - | - | - | 5,710 | 1,746 | 7,663 | - | 15,119 | 31,849 |
| Transfers/adjustments | - | - | - | (59) | - | - | - | (59) | (51,904) |
| Balance as at December 31, | - | 136,854 | 49,119 | 2,558,152 | 236,022 | 2,293,675 | - | 5,273,822 | 4,802,734 |
| 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 | |
| Net book value as at December 31, 2012 | 3,502,740 | 2,141,908 | 692,111 | 818,998 | 131,162 | 1,540,959 | 119,003 | | 8,946,881 |

There were no capitalised borrowing cost related to the acquisition of property, plant & equipment during the year 2014 (2013 - 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, | 2014 | | | 2013 | | |
|-----------------------|------------------|--------------------------|------------------|------------------|--------------------------|------------------|
| | 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 | 711,720 | - | 711,720 | 608,588 | - | 608,588 |
| Freehold buildings | 1,080,035 | 298,287 | 781,748 | 1,027,212 | 269,653 | 757,559 |
| Leasehold buildings | 259,625 | 144,490 | 115,135 | 259,759 | 136,567 | 123,192 |
| Total | 2,051,380 | 442,777 | 1,608,603 | 1,895,559 | 406,220 | 1,489,339 |

Notes to the Financial Statements

36.3 Bank – 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 | 104,625 | 3,383,183 | 146,484 | 3,851,453 | 229,365 | 13,499,527 | 12,747,986 |
| Additions during the year | 52,399 | 3,558 | – | 273,109 | 637 | 485,307 | 205,302 | 1,020,312 | 958,204 |
| Transfer of accumulated depreciation on assets revalued | – | (206,238) | – | – | – | – | – | (206,238) | – |
| Surplus on revaluation of property | 1,190,476 | 431,013 | – | – | – | – | – | 1,621,489 | – |
| Disposals during the year | – | – | – | (146,255) | (17,972) | (246,316) | – | (410,543) | (227,463) |
| Exchange rate variance | – | – | – | (254) | (102) | (648) | – | (1,004) | 22,726 |
| Transfers/adjustments | – | – | – | (5,491) | – | 5,491 | (30,448) | (30,448) | (1,926) |
| 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 |
| 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 |
| Charge for the year [Refer Note 19] | – | 69,384 | 3,599 | 305,358 | 17,945 | 630,444 | – | 1,026,730 | 786,024 |
| Impairment loss | – | – | – | – | – | – | – | – | – |
| Transfer of accumulated depreciation on assets revalued | – | (206,238) | – | – | – | – | – | (206,238) | – |
| Disposals during the year | – | – | – | (143,926) | (15,484) | (232,568) | – | (391,978) | (215,769) |
| Exchange rate variance | – | – | – | (207) | (87) | (399) | – | (693) | 15,119 |
| Transfers/adjustments | – | – | – | (5,359) | – | 5,359 | – | – | (59) |
| Balance as at December 31, | – | – | 34,368 | 2,711,315 | 99,461 | 2,694,860 | – | 5,540,004 | 5,112,183 |
| 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 | |
| Net book value as at December 31, 2013 | | | | | | | | | |
| | 3,554,398 | 2,093,165 | 73,856 | 827,734 | 49,397 | 1,559,429 | 229,365 | | 8,387,344 |

36.4 Bank – 2013

| | Freehold Land | Freehold Buildings | Leasehold Buildings | Computer Equipment | Motor Vehicles | Office Equipment - Furniture & Fixtures | Capital Work-in-Progress | Total 31.12.2013 | Total 31.12.2012 |
|---|------------------|--------------------|---------------------|--------------------|----------------|---|--------------------------|-------------------|-------------------|
| | 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, | 3,502,740 | 2,209,630 | 104,625 | 3,165,537 | 127,704 | 3,539,146 | 98,604 | 12,747,986 | 11,793,172 |
| Additions during the year | 51,658 | 20,389 | – | 348,142 | 20,858 | 384,294 | 132,863 | 958,204 | 1,197,639 |
| Disposals during the year | – | – | – | (137,017) | (4,435) | (86,011) | – | (227,463) | (266,664) |
| Exchange rate variance | – | – | – | 6,580 | 2,357 | 13,789 | – | 22,726 | 55,788 |
| Transfers/adjustments | – | – | – | (59) | – | 235 | (2,102) | (1,926) | (31,949) |
| Balance as at December 31, | 3,554,398 | 2,230,019 | 104,625 | 3,383,183 | 146,484 | 3,851,453 | 229,365 | 13,499,527 | 12,747,986 |
| Accumulated Depreciation and Impairment Losses | | | | | | | | | |
| Balance as at January 01, | – | 67,722 | 27,170 | 2,348,915 | 83,297 | 1,999,764 | – | 4,526,868 | 3,886,142 |
| Charge for the year [Refer Note 19] | – | 69,132 | 3,599 | 337,145 | 16,479 | 359,669 | – | 786,024 | 859,675 |
| Impairment loss | – | – | – | – | – | – | – | – | – |
| Disposals during the year | – | – | – | (136,262) | (4,435) | (75,072) | – | (215,769) | (251,075) |
| Exchange rate variance | – | – | – | 5,710 | 1,746 | 7,663 | – | 15,119 | 31,849 |
| Transfers/adjustments | – | – | – | (59) | – | – | – | (59) | 277 |
| Balance as at December 31, | – | 136,854 | 30,769 | 2,555,449 | 97,087 | 2,292,024 | – | 5,112,183 | 4,526,868 |
| Net book value as at December 31, 2013 | 3,554,398 | 2,093,165 | 73,856 | 827,734 | 49,397 | 1,559,429 | 229,365 | 8,387,344 | |
| Net book value as at December 31, 2012 | 3,502,740 | 2,141,908 | 77,455 | 816,622 | 44,407 | 1,539,382 | 98,604 | | 8,221,118 |

There were no capitalised borrowing costs related to the acquisition of property, plant & equipment during the year 2014 (2013 - 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, | 2014 | | | 2013 | | |
|-----------------------|------------------|--------------------------|------------------|------------------|--------------------------|------------------|
| | 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 | 608,588 | – | 608,588 |
| Freehold buildings | 1,030,770 | 295,422 | 735,348 | 1,027,212 | 269,653 | 757,559 |
| Leasehold buildings | 102,726 | 41,005 | 61,721 | 102,726 | 38,437 | 64,289 |
| Total | 1,794,483 | 336,427 | 1,458,056 | 1,738,526 | 308,090 | 1,430,436 |

The maturity analysis of Property, Plant & Equipment is given in Note 58.

Notes to the Financial Statements

36.5 (a) Information on Freehold Land and Buildings of the Bank - Extents and Locations

[As required by Rule No. 7.6 (viii) of the 'Continuing Listing Requirements' of the Colombo Stock Exchange]

| Location | Extent (Perches) | Buildings (Square Feet) | Revalued Amounts Land Rs. '000 | Revalued Amounts Buildings Rs. '000 | Net Book Value/ Revalued Rs. '000 | Net Book Value before Revaluation Rs. '000 |
|--|---------------------|-------------------------------|---|--|--|---|
| CEO's Bungalow - No. 27, Queens Road, Colombo 3 | 64 | 5,616 | 544,850 | 15,150 | 560,000 | 421,459 |
| Holiday Bungalow - Bandarawela Ambatenne Estate, Bandarawela | 423 | 5,649 | 56,700 | 11,400 | 68,100 | 61,436 |
| Holiday Bungalow - Haputale No. 23, Lily Avenue, Welimada Road, Haputale | 258 | 5,662 | 30,900 | 15,300 | 46,200 | 38,713 |
| Branch Buildings | | | | | | |
| Battaramulla - No. 213, Kaduwela Road, Battaramulla | 14 | 11,216 | 52,500 | 87,375 | 139,875 | 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 | 355,000 | 126,331 |
| Chilaw - No. 44, Colombo Road, Chilaw | 35 | 9,420 | 63,522 | 38,000 | 101,522 | 126,541 |
| Galewela - No. 49/57, Matale Road, Galewela | 99 | 18,472 | 22,275 | 15,225 | 37,500 | 32,012 |
| Galle City - No. 130, Main Street, Galle | 7 | 3,675 | 40,500 | 8,269 | 48,769 | 40,277 |
| Galle Fort - No. 22, Church Street, Fort, Galle | 100 | 11,625 | 210,000 | 40,000 | 250,000 | 146,256 |
| Gampaha - No. 51, Queen Mary's Road, Gampaha | 33 | 4,685 | 57,575 | 10,541 | 68,116 | 61,463 |
| Hikkaduwa - No. 217, Galle Road, Hikkaduwa | 37 | 6,713 | 26,370 | 24,608 | 50,978 | 37,518 |
| Ja-Ela - No. 140, Negombo Road, Ja-Ela | 13 | 7,468 | 29,000 | 21,000 | 50,000 | 38,741 |
| Jaffna - No. 474, Hospital Road, Jaffna | 77 | 5,146 | 581,000 | 19,000 | 600,000 | 283,456 |
| Kandy - No. 120, Kotugodella Veediya, Kandy | 45 | 44,500 | 354,000 | 231,000 | 585,000 | 549,953 |
| Kegalle - No. 186, Main Street, Kegalle | 85 | 2,650 | 128,000 | 7,000 | 135,000 | 121,300 |
| Keyzer Street - No. 32, Keyzer Street, Colombo 11 | 7 | 6,100 | 56,000 | 26,000 | 82,000 | 68,128 |
| Kollupitiya - No. 285, Galle Road, Colombo 3 | 17 | 16,254 | 115,000 | 65,000 | 180,000 | 158,283 |
| Kotahena - No. 198, George R. De Silva Mawatha, Kotahena, Colombo 13 | 28 | 26,722 | 140,000 | 207,400 | 347,400 | 314,958 |
| Kurunegala - No. 4, Suratissa Mawatha, Kurunegala | 50 | 9,821 | 199,325 | 34,675 | 234,000 | 218,636 |
| Maharagama - No. 154, High Level Road, Maharagama | 18 | 8,440 | 53,250 | 31,750 | 85,000 | 101,015 |
| Matale - No. 70, King Street, Matale | 51 | 8,596 | 75,000 | 60,000 | 135,000 | 117,358 |
| Matara - No. 18, Station Road, Matara | 37 | 8,137 | 50,695 | 25,291 | 75,986 | 50,470 |
| Minuwangoda - No. 42, Siriwardena Mawatha, Minuwangoda | 25 | 5,550 | 31,250 | 17,690 | 48,940 | 71,655 |
| Mutwal - 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 | 220,000 | 162,939 |
| Narammala - No. 55, Negombo Road, Narammala | 42 | 5,353 | 53,391 | 16,609 | 70,000 | 58,843 |
| Negombo - No. 24, 26, Fernando Avenue, Negombo | 37 | 11,360 | 73,000 | 31,000 | 104,000 | 73,940 |
| Nugegoda - No. 100, Stanley Thilakarathne Mawatha, Nugegoda | 39 | 11,150 | 156,000 | 41,000 | 197,000 | 234,221 |
| Nuwara Eliya - No. 36, Buddhajayanthi Mawatha, Nuwara-Eliya | 42 | 10,184 | 82,000 | 71,000 | 153,000 | 135,834 |
| Panadura - No. 375, Galle Road, Panadura | 12 | 6,168 | 30,750 | 40,090 | 70,840 | 35,236 |
| Pettah - People's Park Shopping Complex, Colombo 11 | – | 3,147 | – | 58,000 | 58,000 | 45,723 |
| Pettah - Stores - People's Park Shopping Complex, Colombo 11 | – | 225 | – | 4,800 | 4,800 | 3,521 |
| Pettah - Main Street - No. 280, Main Street, Pettah, Colombo 11 | 20 | 22,760 | 280,000 | 69,299 | 349,299 | 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 | 1,200,000 | 936,148 |
| Wellawatte - No. 343, Galle Road, Colombo 6 | 45 | 15,050 | 249,520 | 50,480 | 300,000 | 235,222 |
| Wennappuwa - No. 262, 264, Colombo Road, Wennappuwa | 36 | 9,226 | 42,000 | 28,000 | 70,000 | 58,315 |
| Total | | | 4,797,273 | 2,458,352 | 7,255,625 | 5,634,136 |

36.5 (b) Information on Valuations of Freehold Land and Buildings of the Bank

[As required by Rule No. 7.6 (viii) of the 'Continuing Listing Requirements' of the Colombo Stock Exchange and the SLFRS 13 on '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 Inputs | Net Book Value before Revaluation of | | Revalued Amount of | | Revaluation Gain/(Loss) Recognised on | |
|--|---|--|--------------------------------------|-----------|--------------------|-----------|---------------------------------------|-----------|
| | | | Land | Buildings | Land | Buildings | Land | Buildings |
| | | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Mr. H.M.N. Herath | | | | | | | | |
| Chilaw No. 44, Colombo Road, Chilaw | Market comparable method | | 61,750 | 64,791 | 63,522 | 38,000 | 1,772 | (26,791) |
| | • Price per perch for land | Rs. 1,800,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 4,250 p.sq.ft. | | | | | | |
| | • Depreciation rate | 5% | | | | | | |
| Gampaha No. 51, Queen Mary's Road Gampaha | Market comparable method | | 51,658 | 9,805 | 57,575 | 10,541 | 5,917 | 736 |
| | • Price per perch for land | Rs. 1,750,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 3,750 p.sq.ft. | | | | | | |
| | • Depreciation rate | 40% | | | | | | |
| Minuwangoda No. 42, Siriwardena Mw., Minuwangoda | Market comparable method | | 37,500 | 34,155 | 31,250 | 17,690 | (6,250) | (16,465) |
| | • Price per perch for land | Rs. 1,250,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 4,250 p.sq.ft. | | | | | | |
| | • Depreciation rate | 25% | | | | | | |
| Mr. K.C.B. Condegama | | | | | | | | |
| Maharagama No. 154, Highlevel Road, Maharagama | Market comparable method | | 62,125 | 38,890 | 53,250 | 31,750 | (8,875) | (7,140) |
| | • Price per perch for land | Rs. 3,000,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 3,750 p.sq.ft. | | | | | | |
| Nugegoda No. 100, Stanley Thilakaratne Mw., Nugegoda | Market comparable method | | 195,000 | 39,221 | 156,000 | 41,000 | (39,000) | 1,779 |
| | • Price per perch for land | Rs. 4,000,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 3,800 p.sq.ft. | | | | | | |
| Wellawatte No. 343, Galle Road, Colombo 6 | Market comparable method | | 204,100 | 31,122 | 249,520 | 50,480 | 45,420 | 19,358 |
| | • 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. Kalugalagedara | | | | | | | | |
| Keyzer Street No. 32, Keyzer Street, Colombo 11 | Market comparable method | | 45,000 | 23,128 | 56,000 | 26,000 | 11,000 | 2,872 |
| | • Price per perch for land | Rs. 7,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 500 to Rs. 6,000 p.sq.ft. | | | | | | |
| Kollupitiya No. 285, Galle Road, Colombo 3 | Market comparable method | | 100,000 | 58,283 | 115,000 | 65,000 | 15,000 | 6,717 |
| | • Price per perch for land | Rs. 7,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 1,250 to Rs. 5,000 p.sq.ft. | | | | | | |

Notes to the Financial Statements

| Name of Professional Valuer/Location and Address | Method of Valuation and Significant Unobservable Inputs | Range of Estimates for Unobservable Inputs | Net Book Value before Revaluation of | | Revalued Amount of | | Revaluation Gain/(Loss) Recognised on | |
|--|--|--|--------------------------------------|-----------|--------------------|-----------|---------------------------------------|-----------|
| | | | Land | Buildings | Land | Buildings | Land | Buildings |
| | | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Kotahena No. 198, George R. De Silva Mw., Kotahena, Colombo 13 | Market comparable method • Price per perch for land • Price per square foot for building | Rs. 5,000,000 p.p. Rs. 1,000 to Rs. 7,750 p.sq.ft. | 110,000 | 204,958 | 140,000 | 207,400 | 30,000 | 2,442 |
| Mutwal No. 160, St. James Street, Colombo 15 | Market comparable method • Price per perch for land | Rs. 2,000,000 p.p. | 22,300 | – | 34,000 | – | 11,700 | – |
| Mr. R.S. Wijesuriya | | | | | | | | |
| Battaramulla No. 213, Kaduwela Road, Battaramula | Market comparable method • Price per perch for land • Price per square foot for building | Rs. 3,750,000 p.p. Rs. 7,500 p.sq.ft. | 24,518 | 55,348 | 52,500 | 87,375 | 27,982 | 32,027 |
| Battaramulla No. 213, Kaduwela Road, Battaramula | Market comparable method • Price per perch for land | Rs. 3,750,000 p.p. | 52,399 | – | 50,000 | – | (2,399) | – |
| Panadura No. 375, Galle Road, Panadura | Market comparable method • Price per perch for land • Price per square foot for building | Rs. 2,500,000 p.p. Rs. 6,500 p.sq.ft. | 18,450 | 16,787 | 30,750 | 40,090 | 12,300 | 23,303 |
| Mr. S.A.S. Fernando | | | | | | | | |
| Galle City No. 130, Main Street, Galle | Market comparable method • Price per perch for land • Price per square foot for building | Rs. 6,000,000 p.p. Rs. 2,250 p.sq.ft. | 33,750 | 6,527 | 40,500 | 8,269 | 6,750 | 1,742 |
| Galle Fort No. 22, Church Street, Fort, Galle | Market comparable method • Price per perch for land • Price per square foot for building | Rs. 2,100,000 p.p. Rs. 3,440 p.sq.ft. | 100,000 | 46,256 | 210,000 | 40,000 | 110,000 | (6,256) |
| Hikkaduwa No. 217, Galle Road, Hikkaduwa | Market comparable method • Price per perch for land • Price per square foot for building | Rs. 500,000 to Rs. 850,000 p.p. Rs. 2,750 to Rs. 3,500 p.sq.ft. | 16,740 | 20,778 | 26,370 | 24,608 | 9,630 | 3,830 |
| Matara No. 18, Station Road, Matara | Market comparable method • Price per perch for land • Price per square foot for building | Rs. 750,000 to Rs. 1,750,000 p.p. Rs. 2,750 to Rs. 3,500 p.sq.ft. | 28,154 | 22,315 | 50,695 | 25,291 | 22,541 | 2,976 |
| Trincomalee No. 474, Power House Road, Trincomalee | Market comparable method • Price per perch for land | Rs. 900,000 p.p. | 75,000 | – | 90,300 | – | 15,300 | – |

| Name of Professional Valuer/Location and Address | Method of Valuation and Significant Unobservable Inputs | Range of Estimates for Unobservable Inputs | Net Book Value before Revaluation of | | Revalued Amount of | | Revaluation Gain/(Loss) Recognised on | |
|--|--|--|--------------------------------------|-----------|--------------------|-----------|---------------------------------------|-----------|
| | | | Land | Buildings | Land | Buildings | Land | Buildings |
| | | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Mr. S.T. Sanmuganathan | | | | | | | | |
| Jaffna No. 474, Hospital Road, Jaffna | Investment method | | 272,135 | 11,321 | 581,000 | 19,000 | 308,865 | 7,679 |
| | • Gross Monthly Rental | Rs. 7,500,000 p.m. | | | | | | |
| | • Years purchase (Present value of 1 unit per period) | 10 | | | | | | |
| | • Void period | 2 months p.a. | | | | | | |
| Mr. Sarath G. Fernando | | | | | | | | |
| Holiday Bungalow - Bandarawela Ambatenne Estate, Bandarawela | Market comparable method | | 51,400 | 10,036 | 56,700 | 11,400 | 5,300 | 1,364 |
| | • Price per perch for land | Rs. 50,000 to Rs. 200,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 3,750 to Rs. 4,500 p.sq.ft. | | | | | | |
| | • Depreciation rate | 50% | | | | | | |
| Holiday Bungalow - Haputale No. 23, Lily Avenue, Welimada Road, Haputale | Market comparable method | | 25,700 | 13,013 | 30,900 | 15,300 | 5,200 | 2,287 |
| | • Price per perch for land | Rs. 150,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 3,250 to Rs. 6,500 p.sq.ft. | | | | | | |
| | • Depreciation rate | 20% to 55% | | | | | | |
| Kandy No. 120, Kotugodella Veediya, Kandy | Market comparable method | | 342,000 | 207,953 | 354,000 | 231,000 | 12,000 | 23,047 |
| | • Price per perch for land | Rs. 8,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 5,750 to Rs. 9,500 p.sq.ft. | | | | | | |
| | • Depreciation rate | 30% & 35% | | | | | | |
| Kegalle No.186, Main Street, Kegalle | Market comparable method | | 115,000 | 6,300 | 128,000 | 7,000 | 13,000 | 700 |
| | • 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 No. 70, King Street, Matale | Market comparable method | | 60,000 | 57,358 | 75,000 | 60,000 | 15,000 | 2,642 |
| | • Price per perch for land | Rs. 1,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 8,750 p.sq.ft. | | | | | | |
| | • Depreciation rate | 20% | | | | | | |
| Nuwara-Eliya No. 36/3, Buddha Jayanthi Mawatha, Nuwara-Eliya | Market comparable method | | 72,000 | 63,834 | 82,000 | 71,000 | 10,000 | 7,166 |
| | • Price per perch for land | Rs. 1,000,000 to Rs. 2,000,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 8,750 p.sq.ft. | | | | | | |
| | • Depreciation rate | 20% | | | | | | |

Notes to the Financial Statements

| Name of Professional Valuer/Location and Address | Method of Valuation and Significant Unobservable Inputs | Range of Estimates for Unobservable Inputs | Net Book Value before Revaluation of | | Revalued Amount of | | Revaluation Gain/(Loss) Recognised on | |
|---|--|--|--------------------------------------|-----------|--------------------|-----------|---------------------------------------|-----------|
| | | | Land | Buildings | Land | Buildings | Land | Buildings |
| | | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Mr. Siri Nissanka | | | | | | | | |
| Borella No. 92, D.S. Senanayake Mw., Colombo 08. | Market comparable method | | 70,335 | 55,996 | 156,300 | 198,700 | 85,965 | 142,704 |
| | • Price per perch for land | Rs. 10,000,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 11,000 p.sq.ft. | | | | | | |
| CEO's Bungalow No. 27, Queens Road, Colombo 03 | Market comparable method | | 416,650 | 4,809 | 544,850 | 15,150 | 128,200 | 10,341 |
| | • Price per perch for land | Rs. 8,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 2,750 p.sq.ft. | | | | | | |
| Narahenpita No. 201, Kirula Road, Narahenpita, Colombo 05 | Market comparable method | | 99,225 | 63,714 | 132,300 | 87,700 | 33,075 | 23,986 |
| | • Price per perch for land | Rs. 6,000,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 7,850 p.sq.ft. | | | | | | |
| Pettah-Main Street No. 280, Main Street, Pettah, Colombo 11 | Market comparable method | | 169,370 | 69,299 | 280,000 | 69,299 | 110,630 | – |
| | • Price per perch for land | Rs. 14,000,000 p.p. | | | | | | |
| Union Place No. 1, Union Place, Colombo 02 | Market comparable method | | 360,000 | 576,148 | 450,000 | 750,000 | 90,000 | 173,852 |
| | • 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 | | | | | | | | |
| Ja-Ela No. 140, Negombo Road, Ja-Ela | Market comparable method | | 23,188 | 15,554 | 29,000 | 21,000 | 5,812 | 5,446 |
| | • Price per perch for land | Rs. 2,250,000 p.p. | | | | | | |
| | • 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 People's Park Shopping Complex, Colombo 11 | Investment method | | – | 45,723 | – | 58,000 | – | 12,277 |
| | • Gross monthly rental | Rs. 23,200 to Rs. 160,000 p.m. | | | | | | |
| | • Years purchase (Present value of 1 unit per period) | 18.18 | | | | | | |
| | • Void period | 4 months p.a. | | | | | | |

| Name of Professional Valuer/Location and Address | Method of Valuation and Significant Unobservable Inputs | Range of Estimates for Unobservable Inputs | Net Book Value before Revaluation of | | Revalued Amount of | | Revaluation Gain/(Loss) Recognised on | |
|---|---|---|--------------------------------------|-----------|--------------------|-----------|---------------------------------------|-----------|
| | | | Land | Buildings | Land | Buildings | Land | Buildings |
| | | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Pettah People's Park Shopping Complex, Colombo 11 | Investment method • Gross monthly rental • Years purchase (Present value of 1 unit per period) • Void period | Rs. 36,000 p.m. 18.18 4 months p.a. | – | 3,521 | – | 4,800 | – | 1,279 |
| Wennappuwa No. 262, 264, Colombo Road, Wennappuwa | Market comparable method • Price per perch for land • Price per square foot for building • Depreciation rate | Rs. 1,400,000 p.p. Rs. 3,250 to Rs. 4,500 p.sq.ft. 25% | 37,500 | 20,815 | 42,000 | 28,000 | 4,500 | 7,185 |
| Mr. W.S. Pematatne Galewela No. 49/57, Matale Road, Galewela | Market comparable method • Price per perch for land • Price per square foot for building • Depreciation rate | Rs. 225,000 p.p. Rs. 2,250 to Rs. 3,500 p.sq.ft. 15% | 19,800 | 12,212 | 22,275 | 15,225 | 2,475 | 3,013 |
| Kurunegala No. 4, Suratissa Mw., Kurunegala | Market comparable method • Price per perch for land • Price per square foot for building • Depreciation rate | Rs. 3,500,000 to 4,150,000 p.p. Rs. 3,000 to Rs. 4,250 p.sq.ft. 10% | 140,000 | 78,636 | 199,325 | 34,675 | 59,325 | (43,961) |
| Narammala No. 55, Negombo Road, Narammala | Market comparable method • Price per perch for land • Price per square foot for building • Depreciation rate | Rs. 1,300,000 p.p. Rs. 3,500 p.sq.ft. 5% | 44,550 | 14,293 | 53,391 | 16,609 | 8,841 | 2,316 |
| 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

Notes to the Financial Statements

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 | Estimated fair value would increase (decrease) if; Price per perch increases (decreases) |
| | Price per square foot for building | Price per square feet increases (decreases) |
| | Depreciation rate for building | Depreciation rate for building (decreases)/increases |
| | | |
| Investment method | | |
| This method involves capitalisation of the expected rental income at an appropriate rate of years purchase currently characterised by the real estate market. | Gross Annual Rentals | Estimated fair value would increase (decrease) if; Gross Annual Rentals increases (decreases) |
| | Years purchase (Present value of 1 unit per period) | Years purchase increases (decreases) |
| | Void period | Void period (decreases)/increases |
| | | |

36.6 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.

36.7 Property, Plant & Equipment Pledged as Security for Liabilities

There were no items of Property, Plant & Equipment pledged as securities for liabilities of the Group/Bank as at the reporting date.

36.8 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, | 2014 Rs. '000 | 2013 Rs. '000 |
|-------------------------|------------------|------------------|
| Total claims lodged | 4,299 | 1,989 |
| Total claims received | (2,276) | (1,008) |
| Total claims rejected | (985) | (981) |
| Total claims receivable | 1,038 | - |

36.9 Fully Depreciated Property, Plant & Equipment

The cost of fully-depreciated Property, Plant & Equipment of the Bank which are still in use is as follows:

| <i>As at December 31,</i> | 2014 Rs. '000 | 2013 Rs. '000 |
|--|------------------|------------------|
| Computer equipment | 1,965,926 | 1,794,881 |
| Office equipment, furniture and fixtures | 1,550,010 | 1,127,494 |
| Motor vehicles | 26,477 | 38,486 |

36.10 Temporarily Idle Property, Plant & Equipment

Following Property, Plant & Equipment of the Bank were temporarily idle (until the assets issued to business units).

| <i>As at December 31,</i> | 2014 Rs. '000 | 2013 Rs. '000 |
|--|------------------|------------------|
| Computer equipment | 112,246 | 70,862 |
| Office equipment, furniture and fixtures | 69,729 | 80,490 |

36.11 Property, Plant & Equipment Retired from Active Use

Following Property, Plant & Equipment of the Bank were retired from active use.

| <i>As at December 31,</i> | 2014 Rs. '000 | 2013 Rs. '000 |
|--|------------------|------------------|
| Computer equipment | 89,833 | 32,726 |
| Office equipment, furniture and fixtures | 58,413 | 16,300 |
| Motor vehicles | 214 | 214 |

36.12 Borrowing Costs

There were no capitalised borrowing costs related to the acquisition of Property, Plant & Equipment during the year 2014 (2013 - Nil).

37. Intangible Assets

| | GROUP | | BANK | |
|--|------------------|------------------|------------------|------------------|
| | 2014 Rs. '000 | 2013 Rs. '000 | 2014 Rs. '000 | 2013 Rs. '000 |
| Computer Software [Refer Note 37.1] | 397,644 | 423,233 | 389,096 | 422,668 |
| Software under development [Refer Note 37.2] | 58,541 | 54,495 | 50,032 | 44,925 |
| Goodwill arising on business combination [Refer Note 34.2.3] | 400,045 | - | - | - |
| Total | 856,230 | 477,728 | 439,128 | 467,593 |

Notes to the Financial Statements

37.1 Computer Software

| <i>As at December 31,</i> | GROUP | | BANK | |
|--|------------------|------------------|------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Cost/Valuation | | | | |
| Balance as at January 01, | 1,479,951 | 1,262,607 | 1,479,171 | 1,262,281 |
| Computer software acquired on business combination | 9,800 | – | – | – |
| Additions during the year | 139,387 | 216,162 | 139,310 | 215,708 |
| Disposals during the year | – | – | – | – |
| Exchange rate variance | (52) | 1,182 | (52) | 1,182 |
| Transfers/adjustments | – | – | – | – |
| Balance as at December 31, | 1,629,086 | 1,479,951 | 1,618,429 | 1,479,171 |
| Accumulated amortisation and impairment losses | | | | |
| Balance as at January 01, | 1,056,718 | 906,586 | 1,056,503 | 906,427 |
| Accumulated amortisation assumed on business combination | 1,395 | – | – | – |
| Amortisation for the year [Refer Note 19] | 173,373 | 149,347 | 172,874 | 149,291 |
| Impairment loss | – | – | – | – |
| Disposals during the year | – | – | – | – |
| Exchange rate variance | (44) | 785 | (44) | 785 |
| Transfers/adjustments | – | – | – | – |
| Balance as at December 31, | 1,231,442 | 1,056,718 | 1,229,333 | 1,056,503 |
| Net book value as at December 31, | 397,644 | 423,233 | 389,096 | 422,668 |

37.2 Software Under Development

| Cost/Valuation | | | | |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Balance as at January 01, | 54,495 | 150,140 | 44,925 | 141,184 |
| Additions during the year | 43,676 | 77,850 | 43,676 | 77,850 |
| Transfers/adjustments during the year | (38,569) | (174,109) | (38,569) | (174,109) |
| Exchange rate variance | (1,061) | 614 | – | – |
| Disposals during the year | – | – | – | – |
| Balance as at December 31, | 58,541 | 54,495 | 50,032 | 44,925 |

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 2014 (2013 - Nil).

The maturity analysis of Intangible Assets is given in Note 58.

38. Leasehold Property

| As at December 31, | GROUP | | BANK | |
|---|----------------|----------------|---------------|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| | 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, | 18,376 | 16,924 | 8,478 | 7,536 |
| Amortisation for the year [Refer Note 19] | 1,452 | 1,452 | 942 | 942 |
| Balance as at December 31, | 19,828 | 18,376 | 9,420 | 8,478 |
| Net book value as at December 31, | 108,872 | 110,324 | 75,420 | 76,362 |

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:

| As at December 31, 2014 | GROUP | | | BANK | | |
|-------------------------|---------------|--------------------------|----------------|---------------|--------------------------|----------------|
| | 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 |
| Class of Asset | | | | | | |
| Leasehold Land | 23,715 | 6,109 | 17,606 | 14,846 | 3,333 | 11,513 |
| Total | 23,715 | 6,109 | 17,606 | 14,846 | 3,333 | 11,513 |

The maturity analysis of Leasehold Property is given in Note 58.

39. Other Assets

| As at December 31, | GROUP | | BANK | |
|--|-------------------|------------------|-------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Receivables | 19,709 | 22,335 | 19,709 | 22,335 |
| Deposits and prepayments | 1,399,469 | 1,518,412 | 1,402,587 | 1,521,526 |
| Clearing account balance | 4,078,542 | 2,999,575 | 4,078,542 | 2,999,575 |
| Unamortised cost on staff loans (Day 1 difference) | 2,857,759 | 2,757,193 | 2,857,759 | 2,757,103 |
| Other accounts | 2,204,951 | 2,126,733 | 2,183,220 | 2,126,191 |
| Total | 10,560,430 | 9,424,248 | 10,541,817 | 9,426,730 |

The maturity analysis of Other Assets is given in Note 58.

Notes to the Financial Statements

40. Due to Banks

| As at December 31, | GROUP | | BANK | |
|--|-------------------|------------------|-------------------|------------------|
| | 2014 Rs. '000 | 2013 Rs. '000 | 2014 Rs. '000 | 2013 Rs. '000 |
| Borrowings | 23,326,066 | 7,915,406 | 22,918,017 | 7,915,406 |
| Local currency borrowings | 407,187 | – | – | – |
| Foreign currency borrowings | 22,918,879 | 7,915,406 | 22,918,017 | 7,915,406 |
| Securities sold under repurchase (repo) agreements | 2,342,959 | 6,278,813 | 2,342,959 | 6,278,813 |
| Total | 25,669,025 | 14,194,219 | 25,260,976 | 14,194,219 |

The maturity analysis of Due to Banks is given in Note 58.

41. Derivative Financial Liabilities

Foreign currency derivatives

| | | | | |
|-------------------|------------------|-----------|------------------|-----------|
| Currency swaps | 823,596 | – | 823,596 | – |
| Forward contracts | 368,886 | 1,406,553 | 368,886 | 1,406,553 |
| Spot contracts | 657 | 5,363 | 657 | 5,363 |
| Total | 1,193,139 | 1,411,916 | 1,193,139 | 1,411,916 |

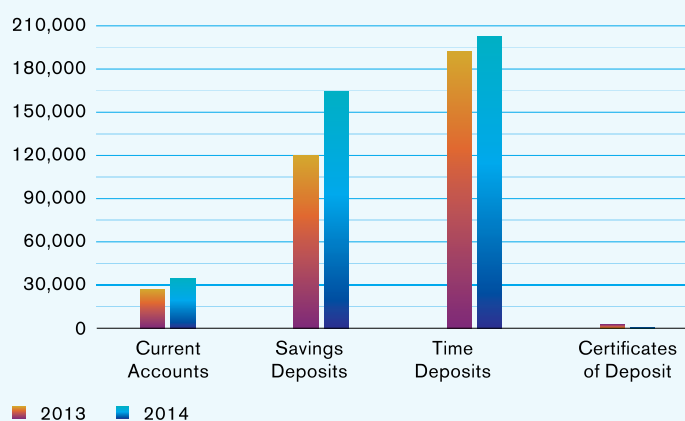
The maturity analysis of Derivative Financial Liabilities is given in Note 58.

42. Due to Other Customers/Deposits from Customers

| | | | | |
|----------------------------------|--------------------|-------------|--------------------|-------------|
| Local currency deposits | 401,872,201 | 342,766,248 | 401,967,097 | 342,820,225 |
| Current account balances | 34,311,477 | 27,775,664 | 34,317,565 | 27,775,704 |
| Savings deposits | 164,462,225 | 119,800,612 | 164,521,655 | 119,827,302 |
| Time deposits | 202,162,715 | 191,623,969 | 202,192,093 | 191,651,216 |
| Certificates of deposit | 935,784 | 3,566,003 | 935,784 | 3,566,003 |
| Foreign currency deposits | 127,394,387 | 108,332,698 | 127,394,387 | 108,332,698 |
| Current account balances | 10,809,389 | 9,111,749 | 10,809,389 | 9,111,749 |
| Savings deposits | 46,467,745 | 39,594,657 | 46,467,745 | 39,594,657 |
| Time deposits | 70,117,253 | 59,626,292 | 70,117,253 | 59,626,292 |
| Certificates of deposit | – | – | – | – |
| Total | 529,266,588 | 451,098,946 | 529,361,484 | 451,152,923 |

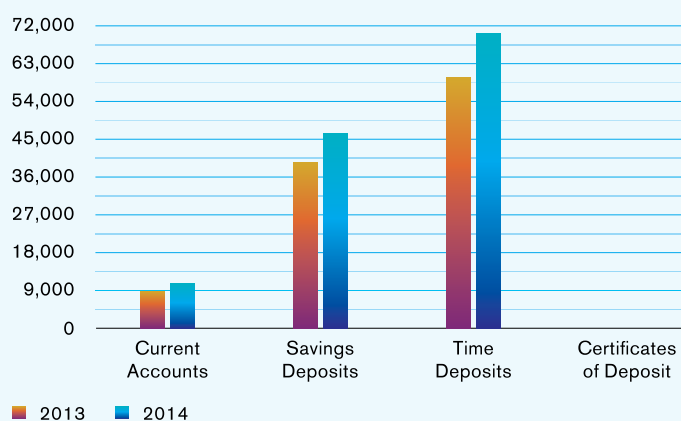
Deposits - Local Currency - Bank

(Rs. Mn.)



Deposits - Foreign Currency - Bank

(Rs. Mn.)



42.1 Analysis of due to Customers/Deposits from Customers

| <i>As at December 31,</i> | GROUP | | BANK | |
|-------------------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| (a) By product | | | | |
| Current account balances | 45,120,866 | 36,887,413 | 45,126,954 | 36,887,453 |
| Savings deposits | 210,929,970 | 159,395,269 | 210,989,400 | 159,421,959 |
| Time deposits | 272,279,968 | 251,250,261 | 272,309,346 | 251,277,508 |
| Certificates of deposit | 935,784 | 3,566,003 | 935,784 | 3,566,003 |
| Sub total | 529,266,588 | 451,098,946 | 529,361,484 | 451,152,923 |
| (b) By currency | | | | |
| Sri Lankan Rupee | 401,872,201 | 342,766,248 | 401,967,097 | 342,820,225 |
| United States Dollar | 78,352,927 | 59,873,351 | 78,352,927 | 59,873,351 |
| Great Britain Pound | 7,567,161 | 7,437,142 | 7,567,161 | 7,437,142 |
| Euro | 25,425,565 | 27,698,162 | 25,425,565 | 27,698,162 |
| Australian Dollar | 7,935,496 | 5,474,369 | 7,935,496 | 5,474,369 |
| Bangladesh Taka | 6,800,927 | 6,556,111 | 6,800,927 | 6,556,111 |
| Other currencies | 1,312,311 | 1,293,563 | 1,312,311 | 1,293,563 |
| Sub total | 529,266,588 | 451,098,946 | 529,361,484 | 451,152,923 |
| (c) By institution/customers | | | | |
| Deposits from banks | 766,916 | 1,704,408 | 766,916 | 1,704,408 |
| Deposits from finance companies | 5,406,461 | 3,736,661 | 5,406,461 | 3,736,661 |
| Deposits from other customers | 523,093,211 | 445,657,877 | 523,188,107 | 445,711,854 |
| Sub total | 529,266,588 | 451,098,946 | 529,361,484 | 451,152,923 |

The maturity analysis of Deposits from Customers is given in Note 58.

| <i>As at December 31,</i> | GROUP | | BANK | |
|---|--------------------|-------------------|--------------------|-------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| 43. Other Borrowings | | | | |
| Refinance borrowings | 4,857,361 | 6,427,536 | 4,857,361 | 6,427,536 |
| Securities sold under repurchase (repo) agreements | 124,391,042 | 39,054,967 | 124,564,499 | 39,230,639 |
| Borrowings from International Finance Corporation (IFC) | 6,779,222 | 8,515,000 | 6,779,222 | 8,515,000 |
| Total | 136,027,625 | 53,997,503 | 136,201,082 | 54,173,175 |

The maturity analysis of Other Borrowings is given in Note 58.

Notes to the Financial Statements

44. Current Tax Liabilities

| As at December 31, | GROUP | | BANK | |
|---|-------------|-------------|-------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Balance as at January 01, | 1,780,867 | 2,821,975 | 1,758,574 | 2,801,541 |
| Tax payable assumed on business combination | 7,200 | - | - | - |
| Provision for the year | 4,484,017 | 4,068,507 | 4,424,113 | 4,030,734 |
| Reversal of (over)/under provision | 10,920 | (167,169) | 11,041 | (169,789) |
| Self-assessment payments | (3,036,746) | (3,998,722) | (2,988,916) | (3,962,673) |
| Notional tax credits | (1,080,686) | (905,407) | (1,079,038) | (903,649) |
| Withholding tax/other credits | (126,348) | (81,089) | (125,948) | (80,362) |
| Exchange rate variance | (1,836) | 42,772 | (1,836) | 42,772 |
| Balance as at December 31, | 2,037,388 | 1,780,867 | 1,997,990 | 1,758,574 |

The maturity analysis of Current Tax Liabilities is given in Note 58.

45. Deferred Tax Assets and Liabilities

45.1 Summary of Net Deferred Tax Liability

| | GROUP | | | | BANK | | | |
|--|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|
| | 2014 | | 2013 | | 2014 | | 2013 | |
| | Temporary Difference | Tax Effect | Temporary Difference | Tax Effect | Temporary Difference | Tax Effect | 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, | 6,407,851 | 1,763,414 | 5,191,693 | 1,431,725 | 5,692,341 | 1,563,070 | 4,541,132 | 1,249,567 |
| Deferred tax liabilities assumed on business combination | 168,900 | 47,293 | - | - | - | - | - | - |
| Amount originating/(reversing) to Income Statement | 490,269 | 122,187 | 755,857 | 206,506 | 485,610 | 120,881 | 747,134 | 204,063 |
| Amount originating/(reversing) to Statement of Profit or Loss and Other Comprehensive Income | 3,368,207 | 943,098 | (27,425) | (7,679) | 3,177,150 | 889,602 | (28,704) | (8,037) |
| Tax effect on pre-acquisition reserves | - | - | 54,947 | 15,385 | - | - | - | - |
| Unwinding of the deferred tax effect on revaluation surplus on freehold buildings | - | - | 432,779 | 121,178 | - | - | 432,779 | 121,178 |
| Exchange rate variance | - | 207 | - | (3,701) | - | 207 | - | (3,701) |
| Balance as at December 31, | 10,435,227 | 2,876,199 | 6,407,851 | 1,763,414 | 9,355,101 | 2,573,760 | 5,692,341 | 1,563,070 |

45.2 Reconciliation of Net Deferred Tax Liability

| | GROUP | | | | | |
|--|---------------------------------|------------------|------------------|------------------|--|----------------|
| | Statement of Financial Position | | Income Statement | | Statement of Profit or Loss and Other Comprehensive Income | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | |
| Deferred Tax Liabilities on: | | | | | | |
| Accelerated depreciation for tax purposes - Own assets | 373,175 | 397,135 | 33,651 | (55,097) | - | - |
| Accelerated depreciation for tax purposes - Leased assets | 1,581,807 | 1,274,209 | (253,603) | (224,950) | - | - |
| Revaluation surplus on freehold buildings | 780,357 | 605,322 | 15,107 | 29,918 | (174,239) | - |
| Tax effect on actuarial gains on defined benefit plans | 3,584 | 2,062 | - | - | (1,522) | (2,062) |
| Unrealised gain/(loss) on Available-for-Sale (AFS) portfolio | 792,513 | - | - | - | (792,513) | - |
| Effective interest rate on deposits | 3,398 | - | (3,398) | - | - | - |
| Effect of exchange rate variance | 9 | 9 | 207 | (3,701) | - | - |
| | 3,534,843 | 2,278,737 | (208,036) | (253,830) | (968,274) | (2,062) |
| Deferred Tax Assets on: | | | | | | |
| Finance leases | 203 | 2,004 | (1,801) | (3,086) | - | - |
| Defined benefit plans | 281,040 | 245,563 | 35,477 | 41,660 | - | - |
| Tax effect on actuarial losses on defined benefit plans | 15,801 | 9,741 | - | - | 6,060 | 9,741 |
| Provision on credit card advances | - | - | - | (18,567) | - | - |
| Specific provision on lease receivable | 56,254 | 56,254 | - | (63,282) | - | - |
| Leave encashment | 160,990 | 153,608 | 7,382 | 42,446 | - | - |
| Tax effect on actuarial losses on leave encashment | 19,116 | - | - | - | 19,116 | - |
| Straight lining on lease rentals | 19,222 | 8,739 | 10,483 | 8,739 | - | - |
| De-recognition of commission income | 70,662 | 39,414 | 31,248 | 39,414 | - | - |
| Impairment provision | 35,356 | - | 4,679 | - | - | - |
| Carried forward tax loss on leasing business | - | - | (1,619) | - | - | - |
| | 658,644 | 515,323 | 85,849 | 47,324 | 25,176 | 9,741 |
| Deferred tax effect on Income Statement and Statement of Profit or Loss and Other Comprehensive Income for the year | | | (122,187) | (206,506) | (943,098) | 7,679 |
| Net deferred tax liability as at December 31, | 2,876,199 | 1,763,414 | | | | |

Notes to the Financial Statements

45.3 Reconciliation of Net Deferred Tax Liability

| | BANK | | | | | |
|--|---------------------------------|------------------|------------------|------------------|--|------------------|
| | Statement of Financial Position | | Income Statement | | Statement of Profit or Loss and Other Comprehensive Income | |
| | 2014 Rs. '000 | 2013 Rs. '000 | 2014 Rs. '000 | 2013 Rs. '000 | 2014 Rs. '000 | 2013 Rs. '000 |
| <i>For the year ended/as at December 31,</i> | | | | | | |
| Deferred Tax Liabilities on: | | | | | | |
| Accelerated depreciation for tax purposes - Own assets | 330,867 | 366,494 | 35,627 | (54,362) | - | - |
| Accelerated depreciation for tax purposes - Leased assets | 1,525,515 | 1,274,208 | (251,307) | (224,949) | - | - |
| Revaluation surplus on freehold buildings | 533,651 | 427,927 | 14,960 | 29,918 | (120,684) | - |
| Tax effect on actuarial gains on defined benefit plans | 3,059 | 1,510 | - | - | (1,549) | (1,510) |
| Unrealised gain/(loss) on Available-for-sale (AFS) portfolio | 792,511 | - | - | - | (792,511) | - |
| Effective interest rate on deposits | 3,398 | - | (3,398) | - | - | - |
| Effect of exchange rate variance | 9 | 9 | 207 | (3,701) | - | - |
| | 3,189,010 | 2,070,148 | (203,911) | (253,094) | (914,744) | (1,510) |
| Deferred Tax Assets on: | | | | | | |
| Finance leases | - | - | - | - | - | - |
| Defined benefit plans | 273,433 | 239,516 | 33,917 | 40,282 | - | - |
| Tax effect on actuarial losses on defined benefit plans | 15,573 | 9,547 | - | - | 6,026 | 9,547 |
| Provision on credit card advances | - | - | - | (18,568) | - | - |
| Specific provision on lease receivable | 56,254 | 56,254 | - | (63,282) | - | - |
| Leave encashment | 160,990 | 153,608 | 7,382 | 42,446 | - | - |
| Tax effect on actuarial losses on leave encashment | 19,116 | - | - | - | 19,116 | - |
| Straight lining of lease rentals | 19,222 | 8,739 | 10,483 | 8,739 | - | - |
| De-recognition of commission income | 70,662 | 39,414 | 31,248 | 39,414 | - | - |
| | 615,250 | 507,078 | 83,030 | 49,031 | 25,142 | 9,547 |
| Deferred tax effect on Income Statement and Statement of Profit or Loss and Other Comprehensive Income for the year | | | (120,881) | (204,063) | (889,602) | 8,037 |
| Net deferred tax liability as at December 31 | 2,573,760 | 1,563,070 | | | | |

The maturity analysis of Deferred Tax Liabilities is given in Note 58.

46. Other Provisions

| | GROUP | | | | BANK | |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2014 | | 2013 | | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| <i>As at December 31,</i> | | | | | | |
| Provision for claims payable | 1,874 | 2,409 | 1,874 | 2,409 | 1,874 | 2,409 |
| Total | 1,874 | 2,409 | 1,874 | 2,409 | 1,874 | 2,409 |

47. Other Liabilities

| | | | | |
|---|-------------------|------------------|-------------------|------------------|
| Accrued expenditure | 1,883,392 | 1,672,283 | 1,869,538 | 1,666,095 |
| Cheques sent on clearing | 4,015,967 | 2,974,099 | 4,015,967 | 2,974,099 |
| Provision for gratuity payable [Refer Note 47.1 (b)] | 748,969 | 624,642 | 720,520 | 604,324 |
| Provision for unfunded pension scheme [Refer Note 47.2 (b)] | 203,458 | 191,541 | 203,458 | 191,541 |
| Provision for Leave Encashment [Refer Note 47.3 (b)] | 643,238 | 548,601 | 643,238 | 548,601 |
| Payable on oil hedging transactions | 819,854 | 812,719 | 819,854 | 812,719 |
| Other payables | 9,355,025 | 3,061,930 | 9,170,956 | 3,029,830 |
| Total | 17,669,903 | 9,885,815 | 17,443,531 | 9,827,209 |

The maturity analysis of Other Liabilities is given in Note 58.

47.1 Provision for Gratuity Payable

An actuarial valuation of the retirement gratuity payable was carried out as at December 31, 2014 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'.

47.1 (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, 2013) to determine the liabilities of the active employees in the gratuity, were used in the actuarial valuation carried out as at December 31, 2014. |
| | 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 | <p>Sri Lankan operation</p> <p>In the absence of a deep market in long term bonds in Sri Lanka, a long term interest rate of 9.50% p.a. (2013 - 10% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.</p> <p>Bangladesh operation</p> <p>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 10% p.a. (2013 - 10% p.a.) has been used to discount considering anticipated long term rate of inflation.</p> |
| | Salary increases | A salary increment of 9% p.a. (2013 - 9% p.a.) has been used in respect of the active employees. |
| | | |

47.1 (b) Movement in the Provision for Gratuity Payable

| | GROUP | | BANK | |
|--|----------------|----------------|----------------|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Balance as at January 01, | 624,642 | 494,507 | 604,324 | 478,506 |
| Gratuity payable assumed on business combination | 1,977 | - | - | - |
| Expense recognised in the Income Statement [Refer Note 47.1 (c)] | 145,284 | 147,378 | 138,533 | 141,700 |
| Exchange rate variance | (381) | 7,294 | (381) | 7,294 |
| Amount paid during the year | (17,245) | (19,528) | (16,423) | (17,784) |
| Expense recognised in other comprehensive income | (5,308) | (5,009) | (5,533) | (5,392) |
| Balance as at December 31, | 748,969 | 624,642 | 720,520 | 604,324 |

47.1 (c) Expense Recognised in the Income Statement - Gratuity

| For the year ended December 31, | GROUP | | BANK | |
|---------------------------------|----------------|----------------|----------------|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Interest cost | 62,456 | 56,118 | 60,340 | 54,470 |
| Current service cost | 82,828 | 91,260 | 78,193 | 87,230 |
| Total | 145,284 | 147,378 | 138,533 | 141,700 |

Notes to the Financial Statements

47.1 (d) Sensitivity Analysis of 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, 2014:

| Variable | GROUP | BANK |
|---------------------------------------|--|--|
| | 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 | (81,183) | (78,974) |
| 1% decrease in discount rate | 98,361 | 95,859 |
| 1% increase in salary escalation rate | 100,896 | 98,408 |
| 1% decrease in salary escalation rate | (84,573) | (82,362) |

47.2 Provision for Un-funded Pension Scheme

An actuarial valuation of the un-funded pension liability was carried out as at December 31, 2014 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'.

47.2 (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 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, 2013) to determine the liabilities of the active employees in the funded scheme, were used in the actuarial valuation carried out as at December 31, 2014. |
| | 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 |
| Salary increases | | A salary increment of 9% p.a. (2013 - 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. |

47.2 (b) Movement in the Provision for Un-funded Pension Scheme

| | GROUP | | BANK | |
|--|------------------|------------------|------------------|------------------|
| | 2014 Rs. '000 | 2013 Rs. '000 | 2014 Rs. '000 | 2013 Rs. '000 |
| Balance as at January 01, | 191,541 | 167,394 | 191,541 | 167,394 |
| Expense recognised in the income statement [Refer Note 47.2 (c)] | 19,154 | 18,413 | 19,154 | 18,413 |
| Amount paid during the year | (28,756) | (28,363) | (28,756) | (28,363) |
| Expense recognised in other comprehensive income | 21,519 | 34,097 | 21,519 | 34,097 |
| Balance as at December 31, | 203,458 | 191,541 | 203,458 | 191,541 |

47.2 (c) Expense Recognised in the Income Statement – Un-funded Pension

| For the year ended December 31, | GROUP | | BANK | |
|---------------------------------|---------------|---------------|---------------|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Interest cost | 19,154 | 18,413 | 19,154 | 18,413 |
| Current service cost | - | - | - | - |
| Total | 19,154 | 18,413 | 19,154 | 18,413 |

47.2 (d) Sensitivity Analysis on Actuarial Valuation – Un-funded Pension Scheme

The following table illustrates the impact of the possible change in the discount rate and salary escalation rate in the un-funded pension scheme valuation of the Bank as at December 31, 2014.

| Variable | GROUP | | BANK | |
|---------------------------------------|--|---------|--|---------|
| | Sensitivity Effect on Statement of Financial Position (Benefit Obligation) | | Sensitivity Effect on Statement of Financial Position (Benefit Obligation) | |
| | Rs. '000 | | Rs. '000 | |
| 1% increase in discount rate | | (9,014) | | (9,014) |
| 1% decrease in discount rate | | 9,949 | | 9,949 |
| 1% increase in salary escalation rate | | - | | - |
| 1% decrease in salary escalation rate | | - | | - |

47.3 Provision for Leave Encashment

An actuarial valuation of the leave encashment liability was carried out as at December 31, 2014 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'.

47.3 (a) Actuarial Assumptions

| Type of Assumption | Criteria | Description |
|--------------------|------------------------|---|
| Demographic | Mortality - In service | A 1967/70 Mortality table issued by the Institute of Actuaries, London |
| | Staff turnover | The probability of a member withdrawing from the scheme within a year of the ages between 20 to 55 years. |
| | Disability | The probability of a member becoming disabled within a year of the ages between 20 to 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 9.5% p.a. (2013 - 10% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation. |
| | Salary increases | A salary increment of 9% p.a. (2013 - 9% p.a.) has been used in respect of the active employees. |

47.3 (b) Movement in the Provision for Leave Encashment

| | GROUP | | BANK | |
|--|----------------|----------------|----------------|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Balance as at January 01, | 548,601 | 397,009 | 548,601 | 397,009 |
| Expense recognised in the income statement [Refer Note 47.3 (c)] | 54,860 | 151,592 | 54,860 | 151,592 |
| Amount paid during the year | (28,496) | - | (28,496) | - |
| Expense recognised in other comprehensive income | 68,273 | - | 68,273 | - |
| Balance as at December 31, | 643,238 | 548,601 | 643,238 | 548,601 |

Notes to the Financial Statements

47.3 (c) Expense Recognised in the Income Statement – Leave Encashment

| | GROUP | | BANK | |
|---------------------------------|---------------|----------------|---------------|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| For the year ended December 31, | | | | |
| Interest cost | 54,860 | 151,592 | 54,860 | 151,592 |
| Current service cost | - | - | - | - |
| Total | 54,860 | 151,592 | 54,860 | 151,592 |

47.3 (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, 2014:

| Variable | GROUP | | BANK | |
|---------------------------------------|--|----------|--|----------|
| | Sensitivity effect on Statement of Financial Position (Benefit Obligation) | | Sensitivity effect on Statement of Financial Position (Benefit Obligation) | |
| | Rs. '000 | | Rs. '000 | |
| 1% increase in discount rate | | (53,487) | | (53,487) |
| 1% decrease in discount rate | | 63,352 | | 63,352 |
| 1% increase in salary escalation rate | | 66,111 | | 66,111 |
| 1% decrease in salary escalation rate | | (56,724) | | (56,724) |

47.4 Employee Retirement Benefit

Pension Fund - Defined Benefit Plan

An actuarial valuation of the Retirement Pension Fund was carried out as at December 31, 2014 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.

47.4 (a) Actuarial Assumptions – Demographic

| 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, 2013) 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, 2014. |
| | 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 9.50% p.a. (2013 - 10% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation. |
| | Salary increases | A salary increment of 9% p.a. (2013 - 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. |

47.4 (b) Movement in the Present Value of Defined Benefit Obligation – Bank

| | 2014 Rs.'000 | 2013 Rs.'000 |
|-----------------------------------|-----------------|-----------------|
| Balance as at January 01, | 124,678 | 112,014 |
| Interest cost | 12,468 | 12,321 |
| Current service cost | 2,575 | 2,102 |
| Benefits paid during the year | (10,003) | (8,119) |
| Actuarial loss | 10,593 | 6,360 |
| Balance as at December 31, | 140,311 | 124,678 |

47.4. (c) Movement in the Fair Value of Plan Assets

| | | |
|--------------------------------------|----------------|----------------|
| Fair value as at January 01, | 117,900 | 94,899 |
| Expected return on plan assets | 11,790 | 10,439 |
| Contribution paid into plan | 1,296 | 1,411 |
| Benefits paid by the plan | (10,003) | (8,119) |
| Actuarial gain on plan assets | 4,725 | 19,270 |
| Fair value as at December 31, | 125,708 | 117,900 |

| | 2014 Rs.'000 | 2013 Rs.'000 |
|--|-----------------|-----------------|
| 47.4 (d) Liability Recognised in the Statement of Financial Position | | |
| Present value of defined benefit obligations as at January 01, | 140,311 | 124,678 |
| Fair value of plan assets | (125,708) | (117,900) |
| Unrecognised actuarial gains/(losses) | - | - |
| Net liability recognised under other liabilities | 14,603 | 6,778 |

47.4 (e) Plan Assets consist of the following

| | | |
|-----------------------------|----------------|----------------|
| Government treasury bills | 1,171 | 42,512 |
| Deposits held with the Bank | 124,537 | 75,388 |
| Total | 125,708 | 117,900 |

48. Due to Subsidiaries

| As at December 31, | GROUP | | BANK | |
|------------------------------------|------------------|------------------|------------------|------------------|
| | 2014 Rs. '000 | 2013 Rs. '000 | 2014 Rs. '000 | 2013 Rs. '000 |
| Local subsidiaries | | | | |
| Commercial Development Company PLC | - | - | 12,079 | 8,934 |
| ONEzero Company Ltd. | - | - | 7,210 | 6,752 |
| Indra Finance Ltd. | - | - | - | - |
| Sub total | - | - | 19,289 | 15,686 |
| Foreign subsidiaries | | | | |
| Commex Sri Lanka S.R.L. - Italy | - | - | - | - |
| Sub total | - | - | - | - |
| Total | - | - | 19,289 | 15,686 |

The maturity analysis of Due to Subsidiaries is given in Note 58.

Notes to the Financial Statements

49. Subordinated Liabilities

| As at December 31, | GROUP | | BANK | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Balance as at January 01, | 10,797,660 | 973,210 | 10,797,660 | 973,210 |
| Subordinated liabilities assumed on business combination | 215,000 | – | – | – |
| Amount borrowed during the year | – | 9,468,750 | – | 9,468,750 |
| Repayments/redemptions during the year | – | (550) | – | (550) |
| Sub total | 11,012,660 | 10,441,410 | 10,797,660 | 10,441,410 |
| Exchange rate variance | 86,250 | 356,250 | 86,250 | 356,250 |
| Balance as at December 31, (before adjusting for amortised interest and transaction cost) [Refer Note 49.1] | 11,098,910 | 10,797,660 | 10,883,910 | 10,797,660 |
| Unamortised transaction cost | (100,225) | (112,435) | (100,225) | (112,435) |
| Net effect of amortised interest payable | 263,888 | 259,187 | 261,090 | 259,187 |
| Adjusted balance as at December 31, | 11,262,573 | 10,944,412 | 11,044,775 | 10,944,412 |

Outstanding subordinated liabilities of the Bank as at December 31, 2014 consisted of 972,660 (2013 - 972,660) unsecured subordinated redeemable debentures of Rs. 1,000/- each and a subordinated loan of US\$ 75.0 Mn. (2013 - US\$ 75.0 Mn.) from International Finance Corporation (IFC).

49.1 Categories of Subordinated Liabilities

| Categories | Colombo Stock Exchange Listing | Interest Payable Frequency | Allotment Date | Maturity Date | Effective Annual Yield | | GROUP | | BANK | |
|---|--------------------------------|----------------------------|----------------|---------------|------------------------|---------------|-------------------|-------------------|-------------------|-------------------|
| | | | | | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | | | | | Rs. '000 | Rs. '000 | 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 | 10.21% | 13.99% | 400 | 400 | 400 | 400 |
| Floating Rate Subordinated Loans | | | | | | | | | | |
| IFC Borrowings - LIBOR + 5.75% | | Biannually | 13.03.2013 | 14.03.2023 | LIBOR + 6.16% | LIBOR + 6.21% | 9,911,250 | 9,825,000 | 9,911,250 | 9,825,000 |
| Subsidiaries | | | | | | | | | | |
| Fixed Rate Debentures | | | | | | | | | | |
| 2011/2016 - 14.15% p.a. | Not listed | Monthly | 25.08.2011 | 25.08.2016 | 15.10% | – | 10,000 | – | – | – |
| 2011/2016 - 14.15% p.a. | Not listed | Monthly | 25.08.2011 | 25.08.2016 | 15.10% | – | 5,000 | – | – | – |
| 2012/2015 - 18.65% p.a. | Not listed | Quarterly | 01.12.2012 | 01.12.2015 | 20.00% | – | 200,000 | – | – | – |
| Total | | | | | | | 11,098,910 | 10,797,660 | 10,883,910 | 10,797,660 |

(*) 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.

49.2 Subordinated Liabilities by Maturity

| As at December 31, | GROUP | | BANK | |
|-------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Payable within one year | 200,000 | – | – | – |
| Payable after one year | 10,898,910 | 10,797,660 | 10,883,910 | 10,797,660 |
| Total | 11,098,910 | 10,797,660 | 10,883,910 | 10,797,660 |

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, 2014.

The maturity analysis of Subordinated Liabilities is given in Note 58.

50. Stated Capital

| | GROUP | | BANK | |
|---|------------|------------|------------|------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Balance as at January 01, | 19,586,813 | 18,008,796 | 19,586,813 | 18,008,796 |
| Issue of ordinary voting shares under the Employee Share Option Plan | 340,763 | 76,074 | 340,763 | 76,074 |
| Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares | 1,529,925 | 1,501,943 | 1,529,925 | 1,501,943 |
| Ordinary voting shares | 1,431,747 | 1,405,690 | 1,431,747 | 1,405,690 |
| Ordinary non-voting shares | 98,178 | 96,253 | 98,178 | 96,253 |
| Balance as at December 31, | 21,457,501 | 19,586,813 | 21,457,501 | 19,586,813 |

50.1 Movement in Number of Shares

| | No. of Ordinary Voting Shares | | No. of Ordinary Non-Voting Shares | |
|---|-------------------------------|-------------|-----------------------------------|------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Balance as at January 01, | 794,535,819 | 780,014,232 | 54,543,222 |
| Issue of ordinary voting shares under the Employee Share Option Plan | 3,237,566 | 1,445,398 | – | – |
| Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares | 12,504,344 | 13,076,189 | 1,036,724 | 1,069,474 |
| Balance as at December 31, | 810,277,729 | 794,535,819 | 55,579,946 | 54,543,222 |

The ordinary 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 50.2 below for details.

Notes to the Financial Statements

50.2 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:

| Date granted | Tranche I | | | Total |
|--|-------------------------------------|-------------------------------------|-------------------------------------|----------------|
| | April 30, 2008 | April 30, 2008 | April 30, 2008 | |
| Price (Rs.) - (*) | 46.91 | 46.91 | 46.91 | |
| Exercisable between | 1/3 of Options | 1/3 of Options | 1/3 of Options | |
| | 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 | 1,056,943 | 2,538,358 |
| Number of options cancelled before vesting | (52,943) | (52,943) | (52,943) | (158,829) |
| Number of options vested | 1,416,460 | 1,513,685 | 1,781,308 | 4,711,453 |
| Number of options exercised up to December 31, 2014 | (1,416,460) | (1,513,685) | (1,560,352) | (4,490,497) |
| Number of options to be exercised as at December 31, 2014 | - | - | 220,956 | 220,956 |

(*) 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.

| Date granted | Tranche II | | | Total |
|--|-------------------------------------|-------------------------------------|-------------------------------------|------------------|
| | April 30, 2011 | April 30, 2011 | April 30, 2011 | |
| Price (Rs.) | 132.23 | 132.23 | 132.23 | |
| Exercisable between | 1/3 of Options | 1/3 of Options | 1/3 of Options | |
| | April 30, 2012 to April 29, 2016 | April 30, 2013 to April 29, 2017 | April 30, 2014 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 | (45,896) | (41,307) | (95,236) | (182,439) |
| Number of options vested | 2,380,872 | 2,385,461 | 2,331,532 | 7,097,865 |
| Number of options exercised up to December 31, 2014 | (420,445) | (253,578) | (126,038) | (800,061) |
| Number of options to be exercised as at December 31, 2014 | 1,960,427 | 2,131,883 | 2,205,494 | 6,297,804 |

| Date granted | Tranche III | | | Total |
|--|-------------------------------------|-------------------------------------|-------------------------------------|------------------|
| | April 30, 2012 | April 30, 2012 | April 30, 2012 | |
| Price (Rs.) | 104.63 | 104.63 | 104.63 | |
| Exercisable between | 1/3 of Options | 1/3 of Options | 1/3 of Options | |
| | April 30, 2013 to April 29, 2017 | April 30, 2014 to April 29, 2018 | April 30, 2015 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, 2014 | (1,225,627) | (718,575) | (266,905) | (2,211,107) |
| Number of options to be exercised as at December 31, 2014 | 1,370,995 | 1,828,343 | 2,249,734 | 5,449,072 |

51. Statutory Reserves

| As at December 31, | GROUP | | BANK | |
|---|------------------|------------------|------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Statutory reserve fund [Refer Note 51.1] | 4,327,103 | 3,768,094 | 4,327,103 | 3,768,094 |
| Primary dealer special risk reserve [Refer Note 51.2] | - | 266,520 | - | 266,520 |
| Sub total | 4,327,103 | 4,034,614 | 4,327,103 | 4,034,614 |

51.1 Statutory Reserve Fund

| | GROUP | | BANK | |
|-----------------------------------|------------------|------------------|------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Balance as at January 01, | 3,768,094 | 3,245,818 | 3,768,094 | 3,245,818 |
| Transfers during the year | 559,009 | 522,276 | 559,009 | 522,276 |
| Balance as at December 31, | 4,327,103 | 3,768,094 | 4,327,103 | 3,768,094 |

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 balance in the reserve fund is equal to 50% of the Bank's stated capital and thereafter a further sum equivalent to 2% of such profit until the amount in 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.

51.2 Primary Dealer Special Risk Reserve

| | GROUP | | BANK | |
|--|-----------|----------------|-----------|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Balance as at January 01, | 266,520 | 187,577 | 266,520 | 187,577 |
| Transfers during the year | - | 78,943 | - | 78,943 |
| Transferred to general reserve [Refer Note 53.2] | (266,520) | - | (266,520) | - |
| Balance as at December 31, | - | 266,520 | - | 266,520 |

As per the Direction issued by the Public Debt - Department of the 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.

Notes to the Financial Statements

52. Retained Earnings

| | GROUP | | BANK | |
|---|------------------|------------------|------------------|------------------|
| | 2014 Rs. '000 | 2013 Rs. '000 | 2014 Rs. '000 | 2013 Rs. '000 |
| Balance as at January 01, | 4,359,632 | 4,172,814 | 4,233,364 | 4,178,080 |
| Total Comprehensive Income | 11,184,470 | 10,541,957 | 11,119,514 | 10,424,843 |
| Profit for the year | 11,238,892 | 10,563,378 | 11,180,181 | 10,445,511 |
| Other comprehensive income, net of tax | (54,422) | (21,421) | (60,667) | (20,668) |
| Dividends paid | (5,547,136) | (5,444,752) | (5,547,136) | (5,444,752) |
| Deferred tax effect on pre-acquisition reserves | - | (14,547) | - | - |
| Re-classification of retained earnings to/from available for sale reserve | (31,099) | 28,967 | - | - |
| Transfers to other reserves | (5,547,455) | (4,924,807) | (5,547,455) | (4,924,807) |
| Balance as at December 31, | 4,418,412 | 4,359,632 | 4,258,287 | 4,233,364 |

53. Other Reserves

| | 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 |
| 53 (a) Current Year – 2014 | | | | | | |
| Revaluation reserve [Refer Note 53.1] | 4,615,947 | 1,631,013 | 6,246,960 | 4,222,054 | 1,500,805 | 5,722,859 |
| General reserve [Refer Note 53.2] | 22,380,819 | 10,093,659 | 32,474,478 | 22,380,819 | 10,093,659 | 32,474,478 |
| Available-for-sale reserve [Refer Note 53.3] | 2,023,468 | 712,101 | 2,735,569 | 2,054,567 | 681,011 | 2,735,578 |
| Foreign currency translation reserve [Refer Note 53.4] | (393,758) | (60,430) | (454,188) | (406,925) | (57,151) | (464,076) |
| Investment fund reserve [Refer Note 53.5] | 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 |

53 (b) Previous Year – 2013

| | 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 53.1] | 4,737,125 | (121,178) | 4,615,947 | 4,343,232 | (121,178) | 4,222,054 |
| General reserve [Refer Note 53.2] | 20,048,989 | 2,331,830 | 22,380,819 | 20,048,989 | 2,331,830 | 22,380,819 |
| Available-for-sale reserve [Refer Note 53.3] | 475,467 | 1,548,001 | 2,023,468 | 475,467 | 1,579,100 | 2,054,567 |
| Foreign currency translation reserve [Refer Note 53.4] | (755,101) | 361,343 | (393,758) | (757,894) | 350,969 | (406,925) |
| Investment fund reserve [Refer Note 53.5] | 2,846,935 | 1,991,758 | 4,838,693 | 2,846,935 | 1,991,758 | 4,838,693 |
| Total | 27,353,415 | 6,111,754 | 33,465,169 | 26,956,729 | 6,132,479 | 33,089,208 |

53.1 Revaluation Reserve

| | GROUP | | BANK | |
|--|-----------|-----------|-----------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Balance as at January 01, | 4,615,947 | 4,737,125 | 4,222,054 | 4,343,232 |
| Surplus on revaluation of freehold land and buildings | 1,802,333 | – | 1,621,489 | – |
| Deferred tax effect on revaluation surplus on freehold buildings | (171,320) | (121,178) | (120,684) | (121,178) |
| Balance as at December 31, | 6,246,960 | 4,615,947 | 5,722,859 | 4,222,054 |

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.

53.2 General Reserve

| | GROUP | | BANK | |
|---|------------|------------|------------|------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Balance as at January 01, | 22,380,819 | 20,048,989 | 22,380,819 | 20,048,989 |
| Transfer of primary dealer special risk reserve [Refer Note 51.2] | 266,520 | – | 266,520 | – |
| Transfer of investment fund account [Refer Note 53.5] | 5,227,139 | – | 5,227,139 | – |
| Transfers during the year | 4,600,000 | 2,331,830 | 4,600,000 | 2,331,830 |
| Balance as at December 31, | 32,474,478 | 22,380,819 | 32,474,478 | 22,380,819 |

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.

53.3 Available-for-Sale Reserve

| | GROUP | | BANK | |
|--|-----------|-----------|-----------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Balance as at January 01, | 2,023,468 | 475,467 | 2,054,567 | 475,467 |
| Net fair value gains/(losses) on re-measuring financial investments available-for-sale | 681,002 | 1,576,968 | 681,011 | 1,579,100 |
| Re-classification of retained earnings to/from available for sale reserve | 31,099 | (28,967) | – | – |
| Balance as at December 31, | 2,735,569 | 2,023,468 | 2,735,578 | 2,054,567 |

The available-for-sale reserve comprises the cumulative net change in fair value of financial investment available-for-sale, until such investments are derecognised or impaired.

Notes to the Financial Statements

53.4 Foreign Currency Translation Reserve

| | GROUP | | BANK | |
|---|------------------|------------------|------------------|------------------|
| | 2014 Rs. '000 | 2013 Rs. '000 | 2014 Rs. '000 | 2013 Rs. '000 |
| Balance as at January 01, | (393,758) | (755,101) | (406,925) | (757,894) |
| Net gains/(losses) arising from translating the Financial Statements of the foreign operation | (60,430) | 361,343 | (57,151) | 350,969 |
| Balance as at December 31, | (454,188) | (393,758) | (464,076) | (406,925) |

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 date of the Statement of Financial Position 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 directly to foreign currency translation reserve which is classified as a part of equity.

53.5 Investment Fund Reserve

| | GROUP | | BANK | |
|--|--------------------|------------------|--------------------|------------------|
| | 2014 Rs. '000 | 2013 Rs. '000 | 2014 Rs. '000 | 2013 Rs. '000 |
| Balance as at January 01, | 4,838,693 | 2,846,935 | 4,838,693 | 2,846,935 |
| Transfers during the year | 388,446 | 1,991,758 | 388,446 | 1,991,758 |
| Transfers to general reserve [Refer Note 53.2] | (5,227,139) | - | (5,227,139) | - |
| Balance as at December 31, | - | 4,838,693 | - | 4,838,693 |

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.

54. Non-Controlling Interest

| | Commercial Development Company PLC | |
|---|------------------------------------|------------------|
| | 2014 Rs. '000 | 2013 Rs. '000 |
| Balance as at January 01, | 38,778 | 32,141 |
| Profit for the year | 3,901 | 10,079 |
| Other comprehensive income, net of tax | 7,501 | 12 |
| Dividends paid for the year | (2,616) | (2,616) |
| Deferred tax effect on pre-acquisition reserves | - | (838) |
| Balance as at December 31, | 47,564 | 38,778 |

55. Contingent Liabilities and Commitments

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.

| As at December 31, | GROUP | | BANK | |
|---------------------------------------|--------------------|------------------|--------------------|------------------|
| | 2014 Rs. '000 | 2013 Rs. '000 | 2014 Rs. '000 | 2013 Rs. '000 |
| Contingencies | 244,635,833 | 223,122,029 | 244,635,833 | 223,122,029 |
| Guarantees | 31,068,055 | 26,393,171 | 31,068,055 | 26,393,171 |
| Performance Bonds | 12,038,017 | 8,975,403 | 12,038,017 | 8,975,403 |
| Documentary Credits | 25,286,563 | 20,795,460 | 25,286,563 | 20,795,460 |
| Other contingencies [Refer Note 55.1] | 176,243,198 | 166,957,995 | 176,243,198 | 166,957,995 |
| Commitments | 107,817,619 | 72,329,926 | 107,817,619 | 72,329,926 |
| Undrawn commitments [Refer Note 55.2] | 106,560,178 | 71,240,051 | 106,560,178 | 71,240,051 |
| Capital commitments [Refer Note 55.3] | 1,257,441 | 1,089,875 | 1,257,441 | 1,089,875 |
| Total | 352,453,452 | 295,451,955 | 352,453,452 | 295,451,955 |

55.1 Other Contingencies

| As at December 31, | GROUP | | BANK | |
|--|--------------------|------------------|--------------------|------------------|
| | 2014 Rs. '000 | 2013 Rs. '000 | 2014 Rs. '000 | 2013 Rs. '000 |
| Forward exchange contracts: | 32,246,624 | 84,411,886 | 32,246,624 | 84,411,886 |
| Forward exchange sales | 12,240,936 | 32,057,314 | 12,240,936 | 32,057,314 |
| Forward exchange purchases | 20,005,688 | 52,354,572 | 20,005,688 | 52,354,572 |
| Interest Rate Swap agreements/Currency Options: | 97,645,723 | 50,592,865 | 97,645,723 | 50,592,865 |
| Interest Rate Swaps | — | — | — | — |
| Currency Options | 97,645,723 | 50,592,865 | 97,645,723 | 50,592,865 |
| Others: | 46,350,851 | 31,953,244 | 46,350,851 | 31,953,244 |
| Acceptances | 20,880,240 | 17,682,089 | 20,880,240 | 17,682,089 |
| Bills Sent for Collection | 24,899,607 | 14,012,211 | 24,899,607 | 14,012,211 |
| Stock of Travelers' Cheques | 476,369 | 258,944 | 476,369 | 258,944 |
| Bullion on Consignment | 94,635 | — | 94,635 | — |
| Sub total | 176,243,198 | 166,957,995 | 176,243,198 | 166,957,995 |

55.2 Undrawn Commitments

| As at December 31, | GROUP | | BANK | |
|----------------------|--------------------|------------------|--------------------|------------------|
| | 2014 Rs. '000 | 2013 Rs. '000 | 2014 Rs. '000 | 2013 Rs. '000 |
| On direct advances | 72,366,848 | 54,249,566 | 72,366,848 | 54,249,566 |
| On indirect advances | 34,193,330 | 16,990,485 | 34,193,330 | 16,990,485 |
| Sub total | 106,560,178 | 71,240,051 | 106,560,178 | 71,240,051 |

Notes to the Financial Statements

55.3 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:

| As at December 31, | GROUP | | BANK | |
|---|------------------|------------------|------------------|------------------|
| | 2014 Rs. '000 | 2013 Rs. '000 | 2014 Rs. '000 | 2013 Rs. '000 |
| Commitments in relation to property, plant & equipment | 1,226,843 | 1,021,392 | 1,226,843 | 1,021,392 |
| Approved and contracted for | 344,026 | 496,260 | 344,026 | 496,260 |
| Approved but not contracted for | 882,817 | 525,132 | 882,817 | 525,132 |
| Commitments in relation to intangible assets | 30,598 | 68,483 | 30,598 | 68,483 |
| Approved and contracted for | 30,598 | 68,483 | 30,598 | 68,483 |
| Approved but not contracted for | - | - | - | - |
| Sub total | 1,257,441 | 1,089,875 | 1,257,441 | 1,089,875 |

55.4 Commitments of Subsidiaries and Associates**55.4 (a) Contingencies of Subsidiaries**

The Subsidiaries of the Group do not have any contingencies as at the Reporting date.

55.4 (b) Contingencies of Associates

The Associates of the Group do not have any contingencies as at the Reporting date.

56. Net Assets Value Per Ordinary Share

| As at December 31, | GROUP | | BANK | |
|--|--------------|--------------|--------------|--------------|
| | 2014 | 2013 | 2014 | 2013 |
| Amounts used as the Numerator: | | | | |
| Total equity attributable to equity holders of the Bank (Rs. '000) | 71,205,835 | 61,446,228 | 70,511,730 | 60,943,999 |
| Number of Ordinary Shares used as the Denominator: | | | | |
| Total number of shares | 865,857,675 | 849,079,041 | 865,857,675 | 849,079,041 |
| Net Assets Value per share (Rs.) | 82.24 | 72.37 | 81.44 | 71.78 |

57. Litigation Against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Pending legal claims where the Bank had already made provisions for possible losses in its Financial Statements or has a realisable security to cover the damages are not included below as the Bank does not expect cash outflows from such claims. However, further adjustments are made to Financial Statements if necessary on the adverse effects of legal claims based on the professional advice obtained on the certainty of the outcome and also based on a reasonable estimate.

Set out below are unresolved legal claims against the Bank as at December 31, 2014 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 third party in District Court, Colombo proceeding number 0122/2009/DLM to claim the title of a property which has been mortgaged to the Bank by the present owner who is our customer, for several facilities granted. The value of action is Rs. 85.000 Mn. Court granted permission to proceed and thereafter the plaint was amended by the plaintiff. The plaintiff gave evidence in two trial sessions in 2014. Submissions of other parties are due on March 4, 2015 and trial is fixed accordingly.
- (ii) 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 June 18, 2015.

- (iii) Court action has been initiated by a customer in proceeding number 25831/MR to claim a sum of Rs. 2.880 Mn including the interest of an overdraft facility. The judgment was entered against the Bank in the District Court for Rs. 1.874 Mn. The Bank has appealed (Appeal No. 133/2010) to the Supreme Court. Argument fixed for May 06, 2015.
- (iv) 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 judgment 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 June 25, 2015.
- (v) 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 her which were held under lien to the Bank. Plaintiff alleges that the transaction has taken place without obtaining her consent. Judgment was delivered in favour of the Plaintiff. Bank has appealed to the Supreme Court (Appeal No. 09/2010) against the judgment 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.
- (vi) 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. on account of a forward exchange contract. Judgment was delivered in favour of the Bank dismissing the plaintiff's action, but the plaintiff has appealed against the judgment in the Supreme Court (Appeal No. 38/2006). The appeal is fixed for argument on March 18, 2015.
- (vii) Court action has been initiated by a customer for Rs. 14.000 Mn. in District Court, Colombo proceeding number DMR 3/2014 to recover a sum of Rs. 13.063 Mn. including interest on cheques paid with a fraudulent signature. Trial fixed for April 27, 2015.
- (viii) Court action has been initiated by a customer in proceedings number 52/10 to claim a sum of BDT 35.328 Mn. (approx. Rs. 59.514 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 May 4, 2015.

58. 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:

| | Up to 3 Months Rs. '000 | 3 to 12 Months Rs. '000 | 1 to 3 Years Rs. '000 | 3 to 5 Years Rs. '000 | More than 5 Years Rs. '000 | Total as at 31.12.2014 Rs. '000 | Total as at 31.12.2013 Rs. '000 |
|---|-------------------------------|-------------------------------|-----------------------------|-----------------------------|----------------------------------|---------------------------------------|---------------------------------------|
| Interest earning assets: | | | | | | | |
| Financial Assets | | | | | | | |
| Cash and cash equivalents | 3,601,722 | - | - | - | - | 3,601,722 | 135,564 |
| Balances with Central Banks | 142,927 | 24,569 | - | - | - | 167,496 | 807 |
| Placements with banks | 13,450,661 | 1,057,200 | - | - | - | 14,507,861 | 4,131,814 |
| Other financial instruments held-for-trading | 5,958,902 | - | - | - | - | 5,958,902 | 6,044,652 |
| Loans and receivables to other customers | 206,471,775 | 92,420,724 | 114,995,160 | 57,546,738 | 26,731,022 | 498,165,419 | 410,935,979 |
| Financial investments - Available-for-sale | 14,825,840 | 43,160,275 | 30,542,371 | 72,261,471 | 52,591,431 | 213,381,388 | 131,707,597 |
| 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 | - |
| Total interest earning assets as at 31.12.2013 | 222,769,321 | 128,182,669 | 124,440,085 | 53,925,344 | 23,638,995 | | 552,956,413 |

Notes to the Financial Statements

| | Up to 3 Months Rs. '000 | 3 to 12 Months Rs. '000 | 1 to 3 Years Rs. '000 | 3 to 5 Years Rs. '000 | More than 5 Years Rs. '000 | Total as at 31.12.2014 Rs. '000 | Total as at 31.12.2013 Rs. '000 |
|---|-------------------------------|-------------------------------|-----------------------------|-----------------------------|----------------------------------|---------------------------------------|---------------------------------------|
| Non-interest earning assets: | | | | | | | |
| Financial Assets | | | | | | | |
| Cash and cash equivalents | 17,020,056 | - | - | - | - | 17,020,056 | 14,127,969 |
| Balances with Central Banks | 13,455,116 | 4,963,785 | 428,783 | 276,983 | 341,583 | 19,466,250 | 18,431,129 |
| Derivative financial instruments | 193,541 | 265,472 | 497 | - | - | 459,510 | 837,694 |
| Other financial instruments held-for-trading | 367,734 | - | - | - | - | 367,734 | 334,406 |
| Loans and receivables to banks | - | - | 551,066 | - | - | 551,066 | 546,270 |
| Financial investments - Available-for-sale | 613,440 | - | - | 15,864 | 214,325 | 843,629 | 48,928 |
| Non-Financial Assets | | | | | | | |
| Investments in associates | - | - | - | - | 106,287 | 106,287 | 94,173 |
| Property, plant & equipment | - | - | - | - | 11,134,861 | 11,134,861 | 9,175,225 |
| Intangible assets | - | - | - | - | 856,230 | 856,230 | 477,728 |
| Leasehold property | - | - | - | - | 108,872 | 108,872 | 110,324 |
| Other assets | 6,567,455 | 206,471 | 481,335 | 987,110 | 2,318,059 | 10,560,430 | 9,424,248 |
| 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 non-interest earning assets as at 31.12.2013 | 32,736,057 | 5,886,851 | 1,337,899 | 730,707 | 12,916,580 | | 53,608,094 |
| Total assets - as at 31.12.2014 | 282,669,167 | 142,098,496 | 146,999,212 | 131,088,166 | 94,402,670 | 797,257,713 | |
| Total assets - as at 31.12.2013 | 255,505,378 | 134,069,520 | 125,777,984 | 54,656,051 | 36,555,575 | | 606,564,507 |
| Percentage - as at 31.12.2014(*) | 35.46 | 17.82 | 18.44 | 16.44 | 11.84 | 100.00 | |
| Percentage - as at 31.12.2013(*) | 42.12 | 22.10 | 20.74 | 9.01 | 6.03 | | 100.00 |

(*) 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 Months Rs. '000 | 3 to 12 Months Rs. '000 | 1 to 3 Years Rs. '000 | 3 to 5 Years Rs. '000 | More than 5 Years Rs. '000 | Total as at 31.12.2014 Rs. '000 | Total as at 31.12.2013 Rs. '000 |
|--|-------------------------------|-------------------------------|-----------------------------|-----------------------------|----------------------------------|---------------------------------------|---------------------------------------|
| Interest-bearing liabilities: | | | | | | | |
| Financial Liabilities | | | | | | | |
| Due to banks | 2,595,675 | 4,893,632 | 20,097 | | – | 7,509,404 | 12,195,006 |
| Due to other customers/Deposits from customers | 322,082,257 | 134,418,721 | 12,675,981 | 6,566,010 | 8,602,013 | 484,344,982 | 415,328,039 |
| Other borrowings | 84,265,796 | 41,433,870 | 6,907,267 | 2,244,110 | 1,176,582 | 136,027,625 | 53,997,503 |
| Subordinated liabilities | 132,371 | 331,323 | 987,855 | – | 9,811,024 | 11,262,573 | 10,944,412 |
| Total interest-bearing liabilities as at 31.12.2014 | 409,076,099 | 181,077,546 | 20,591,200 | 8,810,120 | 19,589,619 | 639,144,584 | – |
| Total interest-bearing liabilities as at 31.12.2013 | 304,889,324 | 141,552,936 | 14,342,812 | 11,467,136 | 20,222,752 | | 492,464,960 |
| Non-interest-bearing liabilities: | | | | | | | |
| Financial Liabilities | | | | | | | |
| Due to banks | 18,159,621 | – | – | – | – | 18,159,621 | 1,999,213 |
| Derivative financial instruments | 733,669 | 459,470 | – | – | – | 1,193,139 | 1,411,916 |
| Due to other customers/Deposits from customers | 44,921,666 | – | – | – | – | 44,921,606 | 35,770,907 |
| Non-Financial Liabilities | | | | | | | |
| Current tax liabilities | 1,054,008 | 974,709 | 8,671 | – | – | 2,037,388 | 1,780,867 |
| Deferred tax liabilities | 241,710 | 229,570 | 722,301 | 1,209,746 | 472,872 | 2,876,199 | 1,763,414 |
| Other provisions | 1,874 | – | – | – | – | 1,874 | 2,409 |
| Other liabilities | 9,276,201 | 4,504,379 | 2,381,158 | 558,205 | 949,960 | 17,669,903 | 9,885,815 |
| Equity | | | | | | | |
| Stated capital | – | – | – | – | 21,457,501 | 21,457,501 | 19,586,813 |
| Statutory reserves | – | – | – | – | 4,327,103 | 4,327,103 | 4,034,614 |
| Retained earnings | – | – | – | – | 4,418,412 | 4,418,412 | 4,359,632 |
| Other reserves | – | – | – | – | 41,002,819 | 41,002,819 | 33,465,169 |
| Non-controlling interest | – | – | – | – | 47,564 | 47,564 | 38,778 |
| 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 | 158,113,129 | |
| Total non-interest-bearing liabilities as at 31.12.2013 | 46,840,608 | 2,180,945 | 1,639,486 | 765,427 | 62,673,081 | | 114,099,547 |
| Total liabilities and equity - as at 31.12.2014 | 483,464,789 | 187,245,674 | 23,703,330 | 10,578,071 | 92,265,850 | 797,257,713 | |
| Total liabilities and equity - as at 31.12.2013 | 351,729,932 | 143,723,881 | 15,982,298 | 12,232,563 | 82,895,833 | | 606,564,507 |
| Percentage - as at 31.12.2014(*) | 60.64 | 23.49 | 2.97 | 1.33 | 11.57 | 100.00 | |
| Percentage - as at 31.12.2013(*) | 57.99 | 23.69 | 2.63 | 2.02 | 13.67 | | 100.00 |

(*) Total percentage of each maturity bucket out of total liabilities and shareholders' funds employed by the Group.

(b) Bank

Maturity analysis of the asset and liabilities of the Bank is given in Note 65 on 'Financial Risk Review' on page 394.

Notes to the Financial Statements

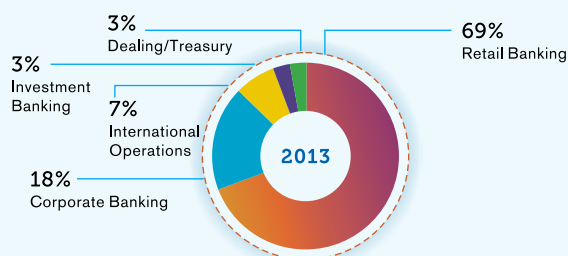
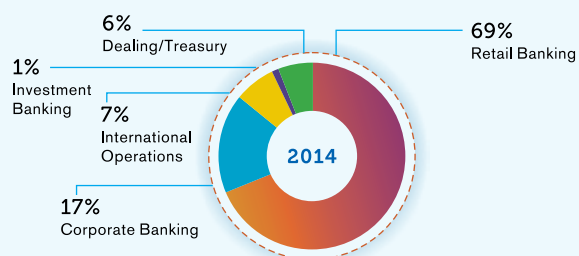
59. Operating Segments

The Group has the following strategic business divisions which are reportable segments. These divisions offer different products and services and are managed separately based on the Group's management and internal reporting structure.

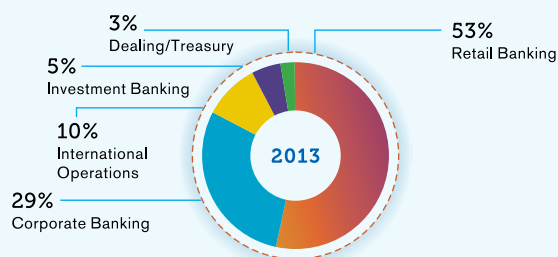
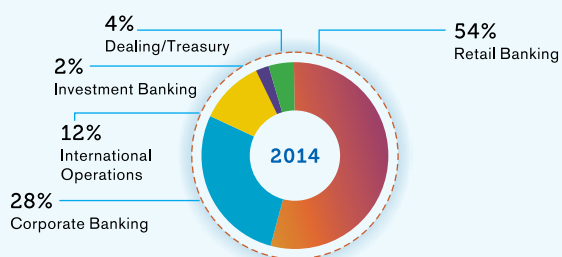
The following table presents the income, profit and asset and liability information on the group's strategic business divisions for the year ended December 31, 2014 and comparative figures for the year ended December 31, 2013.

| For the year ended December 31, | Retail Banking | | Corporate Banking | | International Operations | | Investment Banking | | Dealing/Treasury | | Total/Consolidated | |
|--|-------------------|-------------------|-------------------|------------------|--------------------------|------------------|--------------------|------------------|------------------|------------------|--------------------|-------------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | 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 income: | | | | | | | | | | | | |
| Net interest income | 21,439,625 | 20,197,758 | 4,853,574 | 4,820,251 | 1,678,943 | 1,452,620 | 301,842 | 231,542 | (954,160) | (803,228) | 27,319,824 | 25,898,943 |
| Foreign exchange profit | 186,537 | 319,911 | 169,464 | 145,046 | 452,274 | 455,442 | - | - | 672,898 | 1,075,217 | 1,481,173 | 1,995,616 |
| Net fees and commission income | 2,897,758 | 2,490,385 | 1,423,382 | 1,281,801 | 522,241 | 471,843 | - | - | 5,981 | 8,829 | 4,849,362 | 4,252,858 |
| Other income | 2,180,092 | 1,835,798 | 217,483 | 233,536 | 88,717 | 72,619 | 152,487 | 830,318 | 2,523,845 | 759,659 | 5,162,624 | 3,731,930 |
| Eliminations/unallocated | | | | | | | | | | | 347,575 | 342,730 |
| Total operating income | 26,704,012 | 24,843,852 | 6,663,903 | 6,480,634 | 2,742,175 | 2,452,524 | 454,329 | 1,061,860 | 2,248,564 | 1,040,477 | 39,160,558 | 36,222,077 |
| Credit loss expenses | (3,447,804) | (4,048,513) | (1,111,385) | (1,093,363) | (339,060) | (35,143) | - | - | - | - | (4,898,249) | (5,177,019) |
| Net operating income | 23,256,208 | 20,795,339 | 5,552,518 | 5,387,271 | 2,403,115 | 2,417,381 | 454,329 | 1,061,860 | 2,248,564 | 1,040,477 | 34,262,309 | 31,045,058 |
| Segment result | 11,372,329 | 10,073,230 | 5,829,292 | 5,606,741 | 2,457,544 | 1,911,800 | 398,534 | 948,090 | 920,663 | 495,852 | 20,978,362 | 19,035,713 |
| Unallocated operating expenses | | | | | | | | | | | (5,125,008) | (4,350,080) |
| Profit from operations | | | | | | | | | | | 15,853,354 | 14,685,633 |
| Share of profit of associates, net of tax | | | | | | | | | | | 6,563 | 5,285 |
| Income tax expense | | | | | | | | | | | (4,617,124) | (4,117,461) |
| Non-controlling interest | | | | | | | | | | | (3,901) | (10,079) |
| Net profit for the year, attributable to Equity holders of the parent | | | | | | | | | | | 11,238,892 | 10,563,378 |

Total Operating Income



Segment Result



| As at December 31, | Retail Banking | | Corporate Banking | | International Operations | | Investment Banking | | Dealing/Treasury | | Total/Consolidated | |
|--|--------------------|--------------------|--------------------|--------------------|--------------------------|-------------------|--------------------|------------------|--------------------|--------------------|--------------------|--------------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | 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 | 211,546,670 | 181,619,318 | 182,635,036 | 152,747,967 | 51,555,583 | 46,175,311 | 10,184,101 | 4,902,005 | 311,035,860 | 192,541,792 | 766,957,250 | 577,986,393 |
| Investment in associates | - | - | - | - | - | - | 106,287 | 94,173 | - | - | 106,287 | 94,173 |
| Unallocated Assets | - | - | - | - | - | - | - | - | - | - | 30,194,176 | 28,483,941 |
| Total assets | 211,546,670 | 181,619,318 | 182,635,036 | 152,747,967 | 51,555,583 | 46,175,311 | 10,290,388 | 4,996,178 | 311,035,860 | 192,541,792 | 797,257,713 | 606,564,507 |
| Segment liabilities | 254,588,314 | 219,338,258 | 102,815,075 | 87,885,244 | 42,361,090 | 36,258,425 | 10,290,388 | 4,996,178 | 311,035,860 | 192,541,792 | 721,090,727 | 541,019,897 |
| Unallocated liabilities | - | - | - | - | - | - | - | - | - | - | 4,913,587 | 4,059,604 |
| Total liabilities | 254,588,314 | 219,338,258 | 102,815,075 | 87,885,244 | 42,361,090 | 36,258,425 | 10,290,388 | 4,996,178 | 311,035,860 | 192,541,792 | 726,004,314 | 545,079,501 |
| Information on cash flows | | | | | | | | | | | | |
| Cash flows from operating activities | 111,174,633 | 66,345,141 | (6,853,886) | (10,528,327) | 2,459,720 | 1,421,827 | 887,815 | (623,719) | (88,902,894) | (65,138,079) | 18,765,388 | (8,523,157) |
| Cash flows from investing activities | - | - | - | - | - | - | (6,795,464) | (1,025,995) | - | - | (6,795,464) | (1,025,995) |
| Cash flows from financing activities | (618,493) | 9,108,100 | - | - | - | - | - | - | (130,697) | (132,645) | (749,190) | 8,975,455 |
| Capital expenditure | | | | | | | | | | | - | - |
| Property, plant & equipment | | | | | | | | | | | (1,038,931) | (925,721) |
| Intangible assets | | | | | | | | | | | (144,494) | (119,903) |
| Eliminations/unallocated | | | | | | | | | | | (3,679,064) | (3,869,351) |
| Net cash flow generated during the year | | | | | | | | | | | 6,358,245 | (5,488,672) |

Total Assets



Total Liabilities



Notes to the Financial Statements

60. 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 (KMPs) have availed under schemes uniformly applicable to all staff at concessionary rates.

60.1 Parent and Ultimate Controlling Party

The Bank does not have an identifiable parent of its own.

60.2 Transactions with Key Management Personnel (KMPs)

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly.

KMPs of the Bank

The Board of Directors (including executive and non-executive) of the Bank has been classified as KMPs of the Bank.

KMPs of the Group

As the Bank is the ultimate parent of the Subsidiaries listed out on page 408, the Board of Directors of the Bank has 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) is also KMPs of the Group. Therefore, officers who are only Directors of the subsidiaries and not of the Bank have been classified as KMPs of that respective subsidiary only.

| <i>For the year ended December 31,</i> | 2014 | 2013 |
|--|-----------------|-----------------|
| | Rs. '000 | Rs. '000 |
| 60.2.1.1 Compensation of KMPs – Bank | | |
| Short term employment benefits | 110,065 | 96,115 |
| Post-employment benefits | 7,010 | 5,463 |
| Total | 117,075 | 101,578 |
| 60.2.1.2 Compensation of KMPs – Group | | |
| Short term employment benefits | 110,505 | 96,437 |
| Post-employment benefits | 7,010 | 5,463 |
| Total | 117,515 | 101,900 |

In addition to the above, the Bank/Group provide non-cash benefits to the KMPs.

60.2.2 Transactions, Arrangements and Agreements Involving KMPs, and their CFMs

CFMs 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 KMPs domestic partner and children, children of the KMPs domestic partner and dependents of the KMP or the KMPs domestic partner.

60.2.2.1 Statement of Financial Position – Bank

| As at December 31, | Year-end Balance | | Average Balance | |
|--|------------------|---------------|-----------------|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Assets | | | | |
| Loans and advances | 7,750 | 3,135 | 4,622 | 4,348 |
| Credit cards | 2 | 8 | 249 | 296 |
| Total | 7,752 | 3,143 | 4,871 | 4,644 |
| Liabilities | | | | |
| Deposits | 52,134 | 70,653 | 63,999 | 64,168 |
| Securities sold under re-purchase agreements | 27,630 | 17,174 | 25,610 | 18,307 |
| Total | 79,764 | 87,827 | 89,609 | 82,475 |

60.2.2.2 Commitments and Contingencies – Bank

| | | | | |
|--------------------|---------------|--------------|--------------|--------------|
| Undrawn facilities | 10,089 | 4,564 | 6,086 | 5,643 |
| Total | 10,089 | 4,564 | 6,086 | 5,643 |

60.2.2.3 Direct and Indirect Accommodation – Bank

| | | | |
|--|--|-------|-------|
| Direct and indirect accommodation as a percentage of the Bank's Regulatory Capital | | 0.02% | 0.01% |
|--|--|-------|-------|

No impairment losses have been recorded against balances outstanding with KMPs and CFMs.

60.2.2.4 Income Statement

| For the Year Ended December 31, | 2014 | 2013 |
|--|----------|----------|
| | Rs. '000 | Rs. '000 |
| Interest income | 291 | 424 |
| Interest expenses | 6,553 | 8,490 |
| Other income | 80 | 69 |
| Compensation to KMPs [Refer Notes 60.2.1.1 and 60.2.1.2] | 117,075 | 101,578 |

60.2.2.5 Share-Based Benefits to KMPs

| As at the Year End | 2014 | 2013 |
|---|---------|-----------|
| Number of ordinary shares held | 619,454 | 1,114,056 |
| Dividends paid (in Rs. '000) | 7,741 | 7,120 |
| Number of cumulative exercisable options under the Employee Share Option Plan (ESOP) 2008 - Tranche I | 50,231 | 101,087 |
| Tranche II | 148,016 | 55,076 |
| Tranche III | 103,736 | 60,512 |

Notes to the Financial Statements

60.3 Transactions with Group Entities

The Group entities include the Subsidiaries and Associates of the Bank.

60.3.1 Transactions with Subsidiaries**60.3.1.1 Statement of Financial Position**

| | Year-end balance | | Average balance | |
|--|------------------|----------------|-----------------|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Assets | | | | |
| Loans and advances | 586,800 | – | 213,738 | 1,478 |
| Lease receivable | 2,205 | 16,965 | 7,128 | 32,736 |
| Other receivables | 85,685 | 75,540 | 80,613 | 70,813 |
| Impairment for other receivables | (51,398) | (41,036) | (46,217) | (34,632) |
| Total | 623,292 | 51,469 | 255,262 | 70,395 |
| Liabilities | | | | |
| Deposits | 94,896 | 53,937 | 80,391 | 60,395 |
| Securities sold under re-purchase agreements | 173,457 | 175,672 | 161,516 | 174,998 |
| Other | 19,289 | 15,686 | 17,487 | 18,975 |
| Total | 287,642 | 245,295 | 259,394 | 254,368 |

60.3.1.2 Commitments and Contingencies

| | | | | |
|--------------------|----------------|----------|---------------|---------------|
| Undrawn facilities | 100,000 | – | 25,339 | 15,638 |
| Total | 100,000 | – | 25,339 | 15,638 |

60.3.1.3 Direct and Indirect Accommodation

| | | |
|--|-------|-------|
| Direct and indirect accommodation as a percentage of the Bank's Regulatory Capital | 1.00% | 0.03% |
|--|-------|-------|

60.3.1.4 Income Statement

| | 2014 | 2013 |
|--------------------|----------|----------|
| | Rs. '000 | Rs. '000 |
| Interest income | 17,608 | 7,244 |
| Interest expenses | 35,080 | 23,550 |
| Other income | 70,482 | 70,465 |
| Impairment charges | 10,362 | 12,809 |
| Expenses paid | 379,463 | 345,007 |

60.3.1.5 Other Transactions

| | | |
|---|--------|--------|
| Payments made to ONEzero Company Ltd. in relation to purchase of computer hardware and software | 30,312 | 29,327 |
|---|--------|--------|

60.3.2 Transactions with Associates

60.3.2.1 Statement of Financial Position

| | Year-end Balance | | Average Balance | |
|---|------------------|---------------|-----------------|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Assets | | | | |
| Loans and advances | - | 11 | 227 | 22 |
| Lease receivables | 127 | 1,010 | 393 | 3,988 |
| Total | 127 | 1,021 | 620 | 4,010 |
| Liabilities | | | | |
| Deposits | 22,331 | 78,600 | 25,900 | 43,087 |
| Securities sold under repurchase agreements | 5,771 | 6,840 | 490 | 14,300 |
| Total | 28,102 | 85,440 | 26,390 | 57,387 |

60.3.2.2 Direct and Indirect Accommodation

| | | |
|---|-------|-------|
| Direct and Indirect Accommodation as a % of the Bank's Regulatory Capital | 0.00% | 0.00% |
|---|-------|-------|

60.3.2.3 Income Statement

For the Year Ended December 31,

| | 2014 | 2013 |
|-------------------|----------|----------|
| | Rs. '000 | Rs. '000 |
| Interest income | 104 | 615 |
| Interest expenses | 1,627 | 6,112 |
| Other income | 19,003 | 20,975 |

60.3.2.4 Other Transactions

| | | |
|---|-------|-------|
| Number of ordinary shares of the Bank held by the associates as at the year end | 4,485 | 4,408 |
| Dividend paid (Rs. '000) | 29 | 28 |

60.4 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.

60.4.1 Transactions with the Post-Employment Benefit Plans for the Employees of the Bank

60.4.1.1 Statement of Financial Position

| | Year-end Balance | | Average Balance | |
|--|------------------|------------------|------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Assets | | | | |
| Loans and Advances | - | - | - | - |
| Total | - | - | - | - |
| Liabilities | | | | |
| Deposits | 4,293,158 | 2,296,724 | 2,559,011 | 1,512,629 |
| Securities sold under re-purchase agreements | 1,171 | 60,042 | 769 | 11,906 |
| Total | 4,294,329 | 2,356,766 | 2,559,780 | 1,524,535 |

Notes to the Financial Statements

60.4.1.2 Income Statement

For the Year Ended December 31,

| | 2014 Rs. '000 | 2013 Rs. '000 |
|--|------------------|------------------|
| Interest income | - | - |
| Interest expenses | 280,831 | 197,602 |
| Contribution made/taxes paid by the Bank | 901,433 | 795,675 |

61. Non-Cash Items Included in Profit Before Tax

As at December 31,

| | GROUP | | BANK | |
|---|------------------|------------------|------------------|------------------|
| | 2014 Rs. '000 | 2013 Rs. '000 | 2014 Rs. '000 | 2013 Rs. '000 |
| Depreciation of property, plant and equipment | 1,087,175 | 717,583 | 1,026,730 | 786,024 |
| Amortisation of leasehold property | 1,452 | 1,452 | 942 | 942 |
| Amortisation of intangible assets | 173,373 | 149,347 | 172,874 | 149,291 |
| Impairment losses on loans and advances | 4,898,249 | 5,177,019 | 4,879,606 | 5,177,019 |
| Other impairment | - | - | 39,149 | 26,993 |
| Contributions to defined benefit plans - Unfunded schemes | 164,438 | 165,791 | 157,687 | 160,113 |
| Provision made o/a of leave encashment | 54,860 | 151,592 | 54,860 | 151,592 |
| Effect of exchange rate variances on property, plant and equipment | 1,833 | (9,091) | 311 | (7,607) |
| Effect of exchange rate variances on intangible assets | 1,069 | (1,011) | 8 | (397) |
| Effect of exchange rate variances on defined benefit plans | (381) | 7,294 | (381) | 7,294 |
| Effect of exchange rate variances on subordinated liabilities | 86,250 | 356,250 | 86,250 | 356,250 |
| Net effect of exchange rate variances on net deferred tax liability | 207 | (3,701) | 207 | (3,701) |
| Net effect of exchange rate variances on income tax liability | (1,836) | 42,772 | (1,836) | 42,772 |
| Notional tax and withholding tax credits | (1,207,034) | (986,496) | (1,204,986) | (984,011) |
| Total | 5,259,655 | 5,768,801 | 5,211,421 | 5,862,574 |

62. Change in Operating Assets

| | | | | |
|---|--------------------|--------------------|--------------------|--------------------|
| Net (increase)/decrease in derivative financial instruments | (378,184) | (513,401) | (378,184) | (513,401) |
| Net (increase)/decrease in balances with Central Banks | 1,201,810 | 263,897 | 1,201,810 | 263,897 |
| Net (increase)/decrease in placements with banks | 10,376,047 | (12,031,156) | 10,376,047 | (12,031,156) |
| Net (increase)/decrease in other financial assets-held-for-trading | (85,750) | 326,419 | (85,750) | 326,419 |
| Net (increase)/decrease in loans and receivables to banks | 3,303 | (82,490) | 4,796 | (82,490) |
| Net (increase)/decrease in loans and receivables to customers | 85,148,527 | 50,191,461 | 85,666,925 | 42,180,694 |
| Net (increase)/decrease in financial investments - available-for-sale | 80,435,091 | 64,263,967 | 80,434,686 | 72,232,451 |
| Net (increase)/decrease in other assets | 1,111,827 | 357,539 | 1,125,449 | 363,768 |
| Total | 177,812,671 | 102,776,236 | 178,345,779 | 102,740,182 |

63. Change in Operating Liabilities

| As at December 31, | GROUP | | BANK | |
|--|--------------------|-------------------|--------------------|-------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Net increase/(decrease) in due to banks | 10,436,070 | 9,300,274 | 11,066,757 | 9,300,274 |
| Net increase/(decrease) in derivative financial instruments | (218,777) | 1,327,625 | (218,777) | 1,327,625 |
| Net increase/(decrease) in deposits from banks, customers and debt securities issued | 78,167,642 | 60,530,264 | 78,208,561 | 60,541,375 |
| Net increase/(decrease) in other borrowings | 82,030,122 | 6,561,938 | 82,027,907 | 6,590,356 |
| Net increase/(decrease) in other provisions | (535) | - | (535) | - |
| Net increase/(decrease) in other liabilities | 7,453,105 | (837,271) | 7,393,572 | (837,156) |
| Net increase/(decrease) in due to Subsidiaries | - | - | 3,603 | (6,578) |
| Total | 177,867,627 | 76,882,830 | 178,481,088 | 76,915,896 |

64. Operating Leases

64.1 Operating Lease Commitments (Payables)

The Group has leased a number of office premises under operating leases. These leases have an average life of between three to five 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:

| As at December 31, | GROUP | | BANK | |
|----------------------------|------------------|------------------|------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Less than one year | 510,968 | 470,050 | 507,386 | 572,831 |
| Between one and five years | 1,400,091 | 1,380,118 | 1,395,852 | 1,380,118 |
| More than five years | 686,146 | 789,219 | 686,146 | 789,219 |
| Total | 2,597,205 | 2,639,387 | 2,589,384 | 2,742,168 |

64.2 Operating lease commitments (Receivables)

The Group has entered into commercial property leases on its own properties, mainly consisting of areas not currently occupied by the branches. 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:

| As at December 31, | GROUP | | BANK | |
|----------------------------|---------------|---------------|---------------|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Less than one year | 7,579 | 11,250 | 6,679 | 8,680 |
| Between one and five years | 7,940 | 15,519 | 7,445 | 14,124 |
| More than five years | - | - | - | - |
| Total | 15,519 | 26,769 | 14,124 | 22,804 |

Notes to the Financial Statements

65. Financial Risk Review

As required by the provisions of the SLFRS 07 on 'Financial Instrument: Disclosure', this Note presents information about the Bank's exposure to financial risks and the Bank's management of capital.

| For Information on the Bank's Financial Risk Management Framework | | Page No. |
|---|---|----------|
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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 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 page 281 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 defense in managing the risk. The IRMD through Chief Manager - Risk reports to 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 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.

65.1 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 Bank's 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 obligor default risk, country and sector concentration risks) to ensure stringent credit risk management.

65.1.1 Credit Quality Analysis

65.1.1 (a) Maximum Exposure to Credit Risk

The table below set out information about the maximum exposure to credit risk (including off-balance sheet exposure) broken down by risk grades and the related provision for impairment made by the Bank against those assets.

| As at December 31, | Note | Loans and Receivables to Other Customers | | Loans and Receivables to Banks | | Financial Investments | | Lending Commitments and Financial Guarantees | |
|--|-----------|--|-------------|--------------------------------|----------|-----------------------|-------------|--|-------------|
| | | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Maximum Exposure to Credit Risk | | | | | | | | | |
| Carrying amount | 30-33, 55 | 497,065,787 | 410,951,440 | 551,066 | 546,270 | 220,535,006 | 138,135,583 | - | - |
| Amount Committed/ Guarantees | | - | - | - | - | - | - | 351,196,011 | 294,362,080 |
| At Amortised Cost | | | | | | | | | |
| Government Securities (Risk Free Investments) | | 82,048,277 | 52,055,196 | - | - | - | - | - | - |
| Rating 0-4: Investment Grade(*) | | 232,627,091 | 189,905,906 | 551,066 | 546,270 | - | - | - | - |
| Rating 5-6: Moderate Risk | | 177,468,590 | 164,685,855 | - | - | - | - | - | - |
| Rating S: High Risk | | 2,791,464 | 2,142,597 | - | - | - | - | - | - |
| Rating 7-9: Extreme Risk | | 19,086,939 | 17,949,054 | - | - | - | - | - | - |
| Gross carrying amount | | 514,022,361 | 426,738,608 | 551,066 | 546,270 | - | - | - | - |
| Less: Provision for impairment (individual and collective) | | 16,956,574 | 15,787,168 | - | - | - | - | - | - |
| Net carrying amount | 31, 32 | 497,065,787 | 410,951,440 | 551,066 | 546,270 | - | - | - | - |

(*) Investment grade also includes Cash, Gold.

Notes to the Financial Statements

| As at December 31, | Note | Loans and Receivables to Other Customers | | Loans and Receivables to Banks | | Financial Investments | | Lending Commitments and Financial Guarantees | |
|---|------|--|-------------|--------------------------------|----------|-----------------------|-------------|--|-------------|
| | | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Available-for-sale | | | | | | | | | |
| Government Securities (Risk Free Investments) | | - | - | - | - | 205,160,033 | 123,597,457 | - | - |
| Rating 0-4: Investment Grade | | - | - | - | - | 843,630 | 190,584 | - | - |
| Rating 5-6: Moderate Risk | | - | - | - | - | 8,204,707 | 7,968,484 | - | - |
| Rating S: High Risk | | - | - | - | - | - | - | - | - |
| Rating 7-9: Extreme Risk | | - | - | - | - | - | - | - | - |
| Gross/net carrying amount | 33 | - | - | - | - | 214,208,370 | 131,756,525 | - | - |
| At Fair Value through Profit or Loss | | | | | | | | | |
| Government Securities (Risk Free Investments) | | - | - | - | - | 2,423,272 | 4,058,644 | - | - |
| Rating 0-4: Investment Grade | | - | - | - | - | 367,732 | 334,407 | - | - |
| Rating 5-6: Moderate Risk | | - | - | - | - | 3,535,632 | 1,986,007 | - | - |
| Rating S: High Risk | | - | - | - | - | - | - | - | - |
| Rating 7-9: Extreme Risk | | - | - | - | - | - | - | - | - |
| Gross/net carrying amount | 30 | - | - | - | - | 6,326,636 | 6,379,058 | - | - |
| Total net carrying amount | | 497,065,787 | 410,951,440 | 551,066 | 546,270 | 220,535,006 | 138,135,583 | - | - |
| Off-Balance Sheet(**) | | | | | | | | | |
| Maximum Exposure | | | | | | | | | |
| Lending Commitments | | | | | | | | | |
| Rating 0-6: Investment Grade to Moderate Risk | | - | - | - | - | - | - | 106,560,178 | 71,240,051 |
| Financial Guarantees | | | | | | | | | |
| Rating 0-6: Investment Grade to Moderate Risk | | - | - | - | - | - | - | 244,635,833 | 223,122,029 |
| Total exposure | 55 | - | - | - | - | - | - | 351,196,011 | 294,362,080 |

(**) Amounts reported above do not include Capital Commitments Disclosed in the Note 55 on 'Contingent Liabilities and Commitments' on page 367.

65.1.1 (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:

| As at December 31, | Loans and Receivables to Other Customers | | Loans and Receivables to Banks | | Financial Investment | | Lending Commitments and Financial Guarantees | |
|--|---|-------------|-----------------------------------|----------|----------------------|-------------|---|-------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Government Securities (Risk Free investments) | 82,048,277 | 52,055,196 | - | - | 207,583,305 | 127,656,101 | - | - |
| Gross carrying amount | 82,048,277 | 52,055,196 | - | - | 207,583,305 | 127,656,101 | - | - |
| Neither Past Due Nor Individually Impaired | | | | | | | | |
| Rating 0-4: Investment grade | 232,483,081 | 189,803,544 | 551,066 | 546,270 | 1,211,362 | 524,991 | 141,026,873 | 122,187,912 |
| Rating 5-6: Moderate risk | 176,917,981 | 164,134,382 | - | - | 11,740,339 | 9,954,491 | 210,169,138 | 172,174,168 |
| Gross carrying amount | 409,401,062 | 353,937,926 | 551,066 | 546,270 | 12,951,701 | 10,479,482 | 351,196,011 | 294,362,080 |
| Past Due But Not Individually Impaired | | | | | | | | |
| Less than 3 months | 3,705,964 | 3,573,745 | - | - | - | - | - | - |
| 3 to 6 months | 1,868,823 | 1,047,562 | - | - | - | - | - | - |
| 6 to 12 months | 1,297,997 | 1,699,939 | - | - | - | - | - | - |
| 12 to 18 months | 1,326,904 | 1,177,750 | - | - | - | - | - | - |
| More than 18 months | 7,824,652 | 6,443,466 | - | - | - | - | - | - |
| Gross carrying amount | 16,024,340 | 13,942,462 | - | - | - | - | - | - |
| Individually Impaired | | | | | | | | |
| Less than 3 months | 266,435 | 274,438 | - | - | - | - | - | - |
| 3 to 6 months | 1,007,795 | 611,771 | - | - | - | - | - | - |
| 6 to 12 months | 148,659 | 1,121,260 | - | - | - | - | - | - |
| 12 to 18 months | 734,831 | 417,687 | - | - | - | - | - | - |
| More than 18 months | 4,390,962 | 4,377,868 | - | - | - | - | - | - |
| Gross carrying amount | 6,548,682 | 6,803,024 | - | - | - | - | - | - |
| Total gross carrying amount | 514,022,361 | 426,738,608 | 551,066 | 546,270 | 220,535,006 | 138,135,583 | 351,196,011 | 294,362,080 |
| Provisional for Impairment | | | | | | | | |
| Individual | 4,334,587 | 4,204,654 | - | - | - | - | - | - |
| Collective | 12,621,987 | 11,582,514 | - | - | - | - | - | - |
| Total Provision for impairment | 16,956,574 | 15,787,168 | - | - | - | - | - | - |
| Total net carrying amount | 497,065,787 | 410,951,440 | 551,066 | 546,270 | 220,535,006 | 138,135,583 | 351,196,011 | 294,362,080 |

The methodology of the impairment assessment is explained in the Note 5.3.10 on page 291.

Notes to the Financial Statements

65.1.1 (c) Credit Risk Exposure for Each Internal Credit Rating

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 rating framework consists of several ratings of varying degrees of risk as an indicator for Lending Officers to evaluate the overall risk profile of counterparties 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 ratings 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 receivables to banks and loans and receivables to other customers together with historical default rates and respective gross carrying amounts are given in the table below:

| As at December 31, Bank's Internal Credit Rating | 2014 | | 2013 | |
|---|-------------------------------|-----------------------------------|-------------------------------|-----------------------------------|
| | Historical Default Rates % | Gross Carrying Amount Rs. '000 | Historical Default Rates % | Gross Carrying Amount Rs. '000 |
| Neither Past Due Nor Impaired | | | | |
| Government Guaranteed | – | 82,048,277 | – | 52,055,196 |
| Gold | 15.77 | 2,348,767 | 28.74 | 7,069,762 |
| Investment Grade | | | | |
| Rating - 0 | 0.15 | 49,585,111 | 0.08 | 26,787,105 |
| Rating - 1 | 0.40 | 5,432,532 | 0.70 | 7,201,587 |
| Rating - 2 | 0.39 | 17,259,834 | 0.52 | 14,240,462 |
| Rating - 3 | 0.59 | 50,123,205 | 0.70 | 42,328,959 |
| Rating - 4 | 0.31 | 107,733,631 | 0.31 | 92,175,669 |
| Moderate Risk | | | | |
| Rating - 5 | 0.88 | 154,362,496 | 1.09 | 139,356,308 |
| Rating - 6 | 1.68 | 22,555,485 | 1.79 | 24,778,073 |
| Past Due But Not Impaired | | | | |
| High Risk | | | | |
| Rating - S | 25.27 | 2,593,132 | 26.30 | 1,926,738 |
| Extreme Risk | | | | |
| Rating - 7 | 58.02 | 1,854,792 | 58.47 | 2,171,596 |
| Rating - 8 | 69.04 | 1,774,810 | 74.49 | 1,623,325 |
| Rating - 9 | 100.00 | 9,801,607 | 100.00 | 8,220,804 |
| Impaired | | | | |
| Individually Impaired(*) | – | 6,548,682 | – | 6,803,024 |
| Total | – | 514,022,361 | – | 426,738,608 |

(*) Default rates are not calculated for individually impaired loans and receivables.

65.1.1 (d) Credit Quality by Class of Financial Assets

The tables 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, 2014 | Note | Neither Past Due Nor Individually Impaired | | | Past Due But Not Individually Impaired | Individually Impaired | Total |
|--|------|--|--------------------|--------------------|--|-----------------------|--------------------|
| | | Government Guarantee | Investment Grade | Moderate Risk | | | |
| | | 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 |
| 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 | 82,048,277 | 231,625,228 | 174,801,951 | 6,376,232 | 2,214,099 | 497,065,787 |
| Corporate banking | | 82,048,277 ^(*) | 138,816,911 | 62,137,988 | 453,448 | 759,582 | 284,216,206 |
| Amortised cost | | 82,048,277 | 139,309,401 | 63,295,940 | 868,904 | 2,615,388 | 288,137,910 |
| Less-provision for impairment | | - | 492,490 | 1,157,952 | 415,456 | 1,855,806 | 3,921,704 |
| Personal banking | | - | 92,808,317 | 112,663,963 | 5,922,784 | 1,454,517 | 212,849,581 |
| Amortised cost | | - | 93,173,680 | 113,622,041 | 15,155,436 | 3,933,294 | 225,884,451 |
| Less-provision for impairment | | - | 365,363 | 958,078 | 9,232,652 | 2,478,777 | 13,034,870 |
| 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 |
| Equity Securities - Quoted shares | | - | 185,132 | - | - | - | 185,132 |
| Equity Securities - Unquoted shares | | - | 45,057 | - | - | - | 45,057 |
| Investment in unit trust | | - | 613,441 | - | - | - | 613,441 |
| Total | | 309,265,328 | 268,946,894 | 186,542,290 | 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 as 'Past Due'.

(*) Investment in Sri Lanka Development Bonds and Securities purchased under re-sale agreements included.

Notes to the Financial Statements

| As at December 31, 2013 | | Neither Past Due Nor Individually Impaired | | | Past Due But Not Individually Impaired | Individually Impaired | Total |
|--|------|--|--------------------|--------------------|--|-----------------------|--------------------|
| | Note | Government Guarantee | Investment Grade | Moderate Risk | | | |
| | | Rs. '000 | Rs. '000 | Rs. '000 | | | |
| Cash and cash equivalents | 26 | – | 14,261,549 | – | – | – | 14,261,549 |
| Balances with Central Banks | 27 | 18,431,936 | – | – | – | – | 18,431,936 |
| Placements with banks | 28 | – | 4,131,814 | – | – | – | 4,131,814 |
| Derivative financial instruments | 29 | – | 837,694 | – | – | – | 837,694 |
| Other financial instruments - held-for-trading | 30 | 4,058,644 | 334,407 | 1,986,007 | – | – | 6,379,058 |
| Loans and receivables to banks | 31 | – | 546,270 | – | – | – | 546,270 |
| Loans and receivables to other customers | 32 | 52,055,196 | 188,121,998 | 162,678,291 | 5,497,584 | 2,598,371 | 410,951,440 |
| Corporate banking | | 52,055,196(*) | 119,616,050 | 51,951,240 | 270,864 | 1,014,209 | 224,907,559 |
| Amortised cost | | 52,055,196 | 120,812,047 | 52,332,386 | 828,160 | 3,092,875 | 229,120,664 |
| Less - provision for impairment | | – | 1,195,997 | 381,146 | 557,296 | 2,078,666 | 4,213,105 |
| Personal banking | | – | 68,505,948 | 110,727,051 | 5,226,720 | 1,584,162 | 186,043,881 |
| Amortised cost | | – | 68,991,497 | 111,801,996 | 13,114,301 | 3,710,150 | 197,617,944 |
| Less - provision for impairment | | – | 485,549 | 1,074,945 | 7,887,581 | 2,125,988 | 11,574,063 |
| Financial investments - Available-for-sale | 33 | 123,597,457 | 190,584 | 7,968,484 | – | – | 131,756,525 |
| Government Securities | | 123,597,457 | – | 7,968,484 | – | – | 131,565,941 |
| Quoted shares | | – | 145,492 | – | – | – | 145,492 |
| Unquoted shares | | – | 45,092 | – | – | – | 45,092 |
| Investment in unit trust | | – | – | – | – | – | – |
| Total | | 198,143,233 | 208,424,316 | 172,632,782 | 5,497,584 | 2,598,371 | 587,296,286 |

Definition of 'Past Due' - The Bank considers that any amount uncollected one day or more beyond their contractual due date as 'Past Due'.

(*) Investment made in Sri Lanka Development Bonds and Securities purchased under re-sale agreements included.

65.1.1 (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.

| <i>As at December 31,</i> | Note | 2014 Rs. '000 | 2013 Rs. '000 |
|---|------|------------------|------------------|
| Government Securities | | | |
| Government Securities – Sri Lanka | | | |
| Treasury bills | | 781,287 | 2,946,147 |
| Treasury bonds | | 1,641,985 | 1,112,497 |
| Government Securities – Bangladesh | | | |
| Treasury bills | | 3,442,876 | 1,842,431 |
| Treasury bonds | | 92,756 | 143,576 |
| Total - Government securities | | 5,958,904 | 6,044,651 |
| Equity Shares | | | |
| Rated AAA | | 58,063 | 73,311 |
| Rated AA- to AA+ | | 5,923 | 4,310 |
| Rated A to A+ | | 41,018 | 16,316 |
| Rated BBB+ | | 7,545 | 4,413 |
| Unrated | | 255,183 | 236,057 |
| Total - Equity securities | | 367,732 | 334,407 |
| Total | 30 | 6,326,636 | 6,379,058 |

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 counterparty fails to deliver the counter value.

The table below shows analysis of credit exposures arising from derivative financial assets and liabilities as at December 31, 2014.

| | Total | | Forward | | Derivative Type | | Spot | |
|--|-----------------------------|------------------------|-----------------------------|------------------------|-----------------------------|------------------------|-----------------------------|------------------------|
| | | | | | SWAPS | | | |
| | Notional Amount Rs. '000 | Fair Value Rs. '000 | Notional Amount Rs. '000 | Fair Value Rs. '000 | Notional Amount Rs. '000 | Fair Value Rs. '000 | Notional Amount Rs. '000 | Fair Value Rs. '000 |
| Derivative financial assets (Note 1) | 60,511,385 | 459,510 | 20,358,635 | 233,300 | 37,306,791 | 222,533 | 2,845,959 | 3,677 |
| Derivative financial liabilities (Note 2) | 69,110,246 | (1,193,139) | 8,222,097 | (368,886) | 60,338,932 | (823,596) | 549,217 | (657) |
| Note 1 | | | | | | | | |
| Derivative financial assets by counterparty type | | | | | | | | |
| With Banks | 45,727,744 | 279,671 | 6,328,908 | 54,701 | 37,306,791 | 222,533 | 2,092,045 | 2,437 |
| Other customers | 14,783,641 | 179,839 | 14,029,727 | 178,599 | - | - | 753,914 | 1,240 |
| | 60,511,385 | 459,510 | 20,358,635 | 233,300 | 37,306,791 | 222,533 | 2,845,959 | 3,677 |
| Note 2 | | | | | | | | |
| Derivative financial liabilities by counterparty type | | | | | | | | |
| With Banks | 64,423,203 | (848,596) | 3,747,560 | (24,499) | 60,338,932 | (823,596) | 336,711 | (501) |
| Other customers | 4,687,043 | (344,543) | 4,474,537 | (344,387) | - | - | 212,506 | (156) |
| | 69,110,246 | (1,193,139) | 8,222,097 | (368,886) | 60,338,932 | (823,596) | 549,217 | (657) |

Notes to the Financial Statements

65.1.2 Impaired Loans and Receivables and Investment Debt Securities

The table below sets out a reconciliation of changes in the carrying amount of individually impaired loans and receivables:

| <i>As at December 31,</i> | 2014 Rs. '000 | 2013 Rs. '000 |
|--|------------------|------------------|
| Impaired loans and receivables to other customers as at January 01, | 2,598,374 | 2,569,121 |
| Newly classified as impaired loans and receivables during the year | 628,790 | 1,226,078 |
| Net change in already impaired loans and receivables during the year | (100,073) | (781,949) |
| Net payment, write-off and recoveries and other movement during the year | (912,992) | (414,876) |
| Impaired loans and receivables to customers as at December 31, | 2,214,099 | 2,598,374 |

No impairment provision has been made for investment in debt securities as at December 31, 2014 (2013 - nil).

For methodology of the impairment assessment, refer Note 5.3.10 on impairment of financial assets carried at amortised cost on page 291.

For details of provision for impairment for loans and receivables to banks and loans and receivable to other customers, refer Notes 31 and 32 on page 322.

Set out below is an analysis of the gross and net carrying amounts of individually impaired loans and receivables to customers by risk rates:

| <i>As at December 31,</i> | 2014 | | 2013 | |
|------------------------------|-----------------------------------|------------------|-----------------------------------|------------------|
| | Loans and Receivable to Customers | | Loans and Receivable to Customers | |
| | Gross Rs. '000 | Net Rs. '000 | Gross Rs. '000 | Net Rs. '000 |
| Rating 0-4: Investment Grade | 144,010 | 103,374 | 102,363 | 47,120 |
| Rating 5-6: Moderate Risk | 550,610 | 335,272 | 551,473 | 250,186 |
| Rating S: High Risk | 198,333 | 184,071 | 215,859 | 125,665 |
| Rating 7-9: Extreme Risk | 5,655,729 | 1,591,382 | 5,933,329 | 2,175,403 |
| | 6,548,682 | 2,214,099 | 6,803,024 | 2,598,374 |

65.1.3 Collateral Held

Loan to Value Ratio of Residential Mortgage Lending

The table below stratifies credit exposures from mortgage loans and advances 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 for the computation of Capital Adequacy Ratios. The value of the collateral for residential mortgage loans are based on the forced sale value determined by professional valuers.

| <i>As at December 31,</i> | 2014 | | 2013 | |
|---------------------------|-------------------|-----------------|-------------------|-----------------|
| | Rs. '000 | Composition (%) | Rs. '000 | Composition (%) |
| LTV Ratio | | | | |
| Less than 50% | 4,351,805 | 24.04 | 3,270,031 | 24.72 |
| 51 - 70% | 4,690,017 | 25.90 | 3,622,301 | 27.39 |
| 71 - 90% | 5,244,165 | 28.96 | 3,614,301 | 27.33 |
| 91 - 100% | 821,071 | 4.53 | 722,516 | 5.46 |
| More than 100%* | 3,001,235 | 16.57 | 1,996,500 | 15.10 |
| | 18,108,293 | 100.00 | 13,225,649 | 100.00 |

* 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 claim.

65.1.4 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 economic 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 is given below:

65.1.4 (a) Industry-wise Distribution

| As at December 31, 2014 | Agriculture and Fishing | Manufacturing | Tourism | Transport | Construction | Traders | New Economy | Financial and Business Services | Government | Infrastructure | 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 |
| Derivative 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 |
| Equity securities - Quoted shares | - | 177,415 | 11,856 | - | 20,850 | 33,821 | 19,954 | 51,817 | - | 52,019 | - | - | 367,732 |
| Loans and receivables to banks | - | - | - | - | - | - | - | 551,066 | - | - | - | - | 551,066 |
| Loans and receivables to other customers | 43,581,619 | 53,623,161 | 16,888,688 | 12,940,410 | 40,351,177 | 59,869,481 | 6,209,585 | 35,738,751 | 82,495,573 | 15,590,465 | 39,830,241 | 89,946,636 | 497,065,787 |
| Government securities | - | - | - | - | - | - | - | - | 40,850,011 | - | - | - | 40,850,011 |
| 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 | 41,198,266 | 15,590,465 | 39,593,074 | 89,946,636 | 446,629,722 |
| Investment securities | - | 960,696 | - | - | - | 953,298 | - | 6,987,597 | 447,296 | - | 237,167 | - | 9,586,054 |
| Financial investments - Available-for-sale | - | 11,356 | - | - | - | - | - | 789,467 | 213,380,603 | - | 26,944 | - | 214,208,370 |
| Government securities | - | - | - | - | - | - | - | - | 213,364,740 | - | - | - | 213,364,740 |
| Equity securities - Quoted shares | - | 11,356 | - | - | - | - | - | 173,777 | - | - | - | - | 185,133 |
| Equity securities - Unquoted shares | - | - | - | - | - | - | - | 2,250 | 15,863 | - | 26,944 | - | 45,057 |
| Unit trusts | - | - | - | - | - | - | - | 613,440 | - | - | - | - | 613,440 |
| Total | 43,606,927 | 53,816,329 | 16,900,850 | 12,940,410 | 40,405,011 | 59,903,557 | 6,229,539 | 72,597,700 | 321,468,826 | 15,643,104 | 39,864,008 | 89,968,582 | 773,344,843 |

Notes to the Financial Statements

| As at December 31, 2013 | Agriculture and Fishing | Manufacturing | Tourism | Transport | Construction | Traders | New Economy | Financial and Business Services | Government | Infrastructure | 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 | - | - | - | - | - | - | - | 14,261,549 | - | - | - | - | 14,261,549 |
| Balances with Central Banks | - | - | - | - | - | - | - | - | 18,431,936 | - | - | - | 18,431,936 |
| Placements with banks | - | - | - | - | - | - | - | 4,131,814 | - | - | - | - | 4,131,814 |
| Derivative financial assets | 90,357 | 6,657 | 122 | 17 | - | 3 | - | 699,656 | - | - | 19,259 | 21,623 | 837,694 |
| Other financial instruments – held-for-trading | - | 158,110 | 1,720 | - | 21,685 | 29,082 | 40,599 | 32,738 | 6,044,651 | 28,631 | 21,842 | - | 6,379,058 |
| Government securities | - | - | - | - | - | - | - | - | 6,044,651 | - | - | - | 6,044,651 |
| Equity securities - Quoted shares | - | 158,110 | 1,720 | - | 21,685 | 29,082 | 40,599 | 32,738 | - | 28,631 | 21,842 | - | 334,407 |
| Loans and receivables to banks | | | | | | | | | | | | | |
| Loans and receivables to other customers | 36,503,291 | 48,845,668 | 12,928,639 | 9,895,157 | 33,943,285 | 49,776,845 | 6,101,677 | 18,404,072 | 52,502,492 | 12,625,531 | 29,883,058 | 99,541,725 | 410,951,440 |
| Government securities | - | - | - | - | - | - | - | - | 43,108,697 | - | - | - | 43,108,697 |
| Loans & advances* | 36,503,291 | 47,722,435 | 12,928,639 | 9,895,157 | 33,943,285 | 49,522,937 | 6,101,677 | 16,088,750 | 8,946,499 | 12,625,531 | 29,645,802 | 99,541,725 | 363,465,728 |
| Investment securities | - | 1,123,233 | - | - | - | 253,908 | - | 2,315,322 | 447,296 | - | 237,256 | - | 4,377,015 |
| Financial investments - Available-for-sale | | | | | | | | | | | | | |
| Government securities | - | - | - | - | - | - | - | 147,743 | 131,565,940 | 42,842 | - | - | 131,756,525 |
| Equity securities - Quoted shares | - | - | - | - | - | - | - | 145,493 | - | - | - | - | 145,493 |
| Equity securities - Unquoted shares | - | - | - | - | - | - | - | 2,250 | - | 42,842 | - | - | 45,092 |
| Unit trusts | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total | 36,593,648 | 49,010,435 | 12,930,481 | 9,895,174 | 33,964,970 | 49,805,930 | 6,142,276 | 38,223,842 | 208,545,019 | 12,697,004 | 29,924,159 | 99,563,348 | 587,296,286 |

(*) Industry wise loans and receivables appearing in the Note 32.1 (c) does not agree due to the impairment.

65.1.4 (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 74% (approximately) of total advances portfolio of the Bank as at December 31, 2014. Although, Western Province is vested with highest credit concentration, we believe that a sizeable 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 thus reflecting a fairly diversified geographical concentration on such borrowers.

As at December 31, 2014

| Location | 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 | Securities Purchased Under Resale Agreements (Rev. Repo.) | 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 |
| 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 | 1,988 | – | 5,833,608 |
| 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 | 117,882 | 99,293 | – | 1,432,771 | 651,940 | 3,303,445 | 238,764 | 9,637 | – | 9,328,749 |
| 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 | 46,910,668 | 37,926,034 | 13,894,422 | 2,404,228 | 1,007,100 | 4,873,068 | 19,440,762 | 14,375,984 | 128,245,662 | 18,126,426 | 3,595,743 | 41,198,266 | 331,998,363 |
| 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 | 67,500,658 | 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 | 41,198,266 | 446,629,722 |

As at December 31, 2013

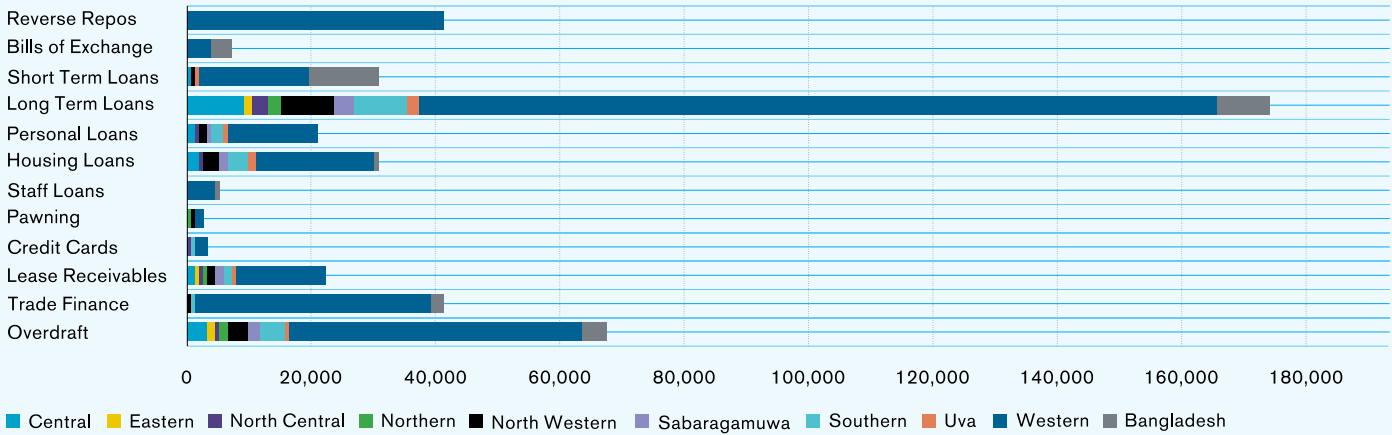
| Location | Loans and receivables by product | | | | | | | | | | | | |
|-------------------|----------------------------------|---------------|-------------------|-------------|-----------|-------------|---------------|----------------|-----------------|------------------|-------------------|---|-------------|
| | Overdraft | Trade Finance | Lease Receivables | Credit card | Pawning | Staff Loans | Housing Loans | Personal Loans | Long Term Loans | Short Term Loans | Bills of Exchange | Securities Purchased Under Resale Agreements (Rev. Repo.) | 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 |
| Sri Lanka | | | | | | | | | | | | | |
| Central | 2,610,622 | 80,531 | 1,412,923 | 240,321 | 430,567 | – | 1,562,966 | 984,494 | 6,521,992 | 625,131 | 33,958 | – | 14,503,505 |
| Eastern | 733,465 | – | 358,591 | 54,712 | 362,417 | – | 215,886 | 436,866 | 1,281,357 | 103,432 | – | – | 3,546,726 |
| North Central | 659,699 | 220,115 | 900,708 | 63,468 | 61,178 | – | 340,048 | 382,997 | 1,907,628 | 585,721 | 16,601 | – | 5,138,163 |
| Northern | 1,793,373 | 18,701 | 648,594 | 63,460 | 1,766,574 | – | 489,533 | 425,873 | 2,382,651 | 35,437 | 1,465 | – | 7,625,661 |
| North Western | 3,160,834 | 139,391 | 1,929,409 | 195,960 | 644,118 | – | 1,987,342 | 823,209 | 6,891,028 | 562,428 | 6,268 | – | 16,339,987 |
| Sabaragamuwa | 1,921,976 | 100,115 | 860,982 | 111,821 | 278,100 | – | 1,276,231 | 505,806 | 2,315,080 | 223,776 | 7,100 | – | 7,600,987 |
| Southern | 3,491,892 | 529,769 | 1,431,837 | 213,904 | 398,049 | – | 3,061,521 | 1,428,483 | 6,182,105 | 140,064 | 18,338 | – | 16,895,962 |
| Uva | 675,125 | 29,499 | 525,312 | 62,030 | 159,051 | – | 790,164 | 301,657 | 1,547,085 | 86,900 | – | – | 4,176,823 |
| Western | 49,969,917 | 40,679,508 | 12,670,399 | 2,280,609 | 2,669,409 | 3,715,533 | 17,073,061 | 9,988,578 | 94,060,736 | 14,977,600 | 2,649,081 | 8,946,499 | 259,680,930 |
| Bangladesh | 4,755,943 | 5,190,750 | 211,118 | 42,998 | – | 161,221 | 96,264 | 277,571 | 5,193,375 | 9,813,447 | 2,214,297 | – | 27,956,984 |
| Total | 69,772,846 | 46,988,379 | 20,949,873 | 3,329,283 | 6,769,463 | 3,876,754 | 26,893,016 | 15,555,534 | 128,283,037 | 27,153,936 | 4,947,108 | 8,946,499 | 363,465,728 |

Please refer the Note No. 32.1(a) for the Gross carrying amount of the Loans and Advances, Government securities and investments coming under loans and receivables not considered in the above distribution.

Notes to the Financial Statements

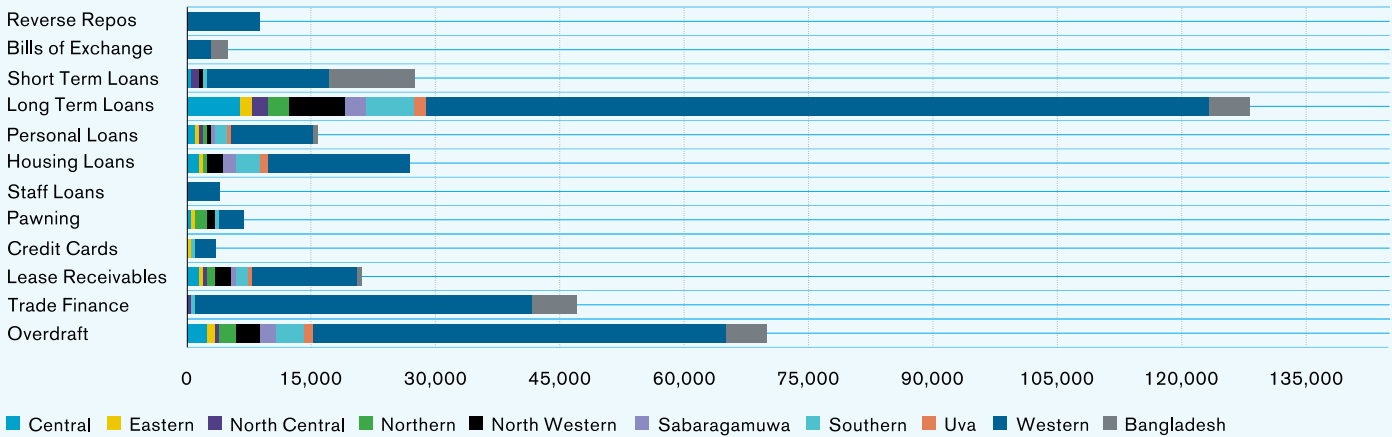
Geographical Distribution of Loans and Receivables as at December 31, 2014

(Rs. Mn)



Geographical Distribution of Loans and Receivables as at December 31, 2013

(Rs. Mn)



65.1.5 Exposures to Unrated Countries

This note summarises the Bank's on-balance sheet and off-balance sheet exposure to unrated countries.

| <i>As at December 31,</i> | 2014 Rs. '000 | 2013 Rs. '000 |
|--|------------------|------------------|
| On-Balance Sheet Exposures | | |
| Loans and receivables to customers | | |
| Net carrying value | 6,025,118 | 5,421,133 |
| Gross carrying value | 7,124,420 | 6,481,463 |
| Less - Provision for impairment | 1,099,302 | 1,060,330 |
| Fair value net of provision for impairment(*) | 6,025,118 | 5,421,133 |
| Fair value before impairment | 7,124,420 | 6,481,463 |
| Less - Provision for impairment | 1,099,302 | 1,060,330 |
| Off-Balance Sheet Exposures | | |
| Loan commitments and financial guarantees | 360,557 | 211,063 |
| Financial guarantees | 135,082 | 105,215 |
| Loan commitments | 225,475 | 105,848 |
| Total On-Balance sheet and off-balance sheet exposure | 6,385,675 | 5,632,196 |

(*) There is no difference between the net carrying amount and the fair value, as all facilities have been granted under floating interest rates.

65.2 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 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.

Asset 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.

65.2.1 Exposure to Liquidity Risk

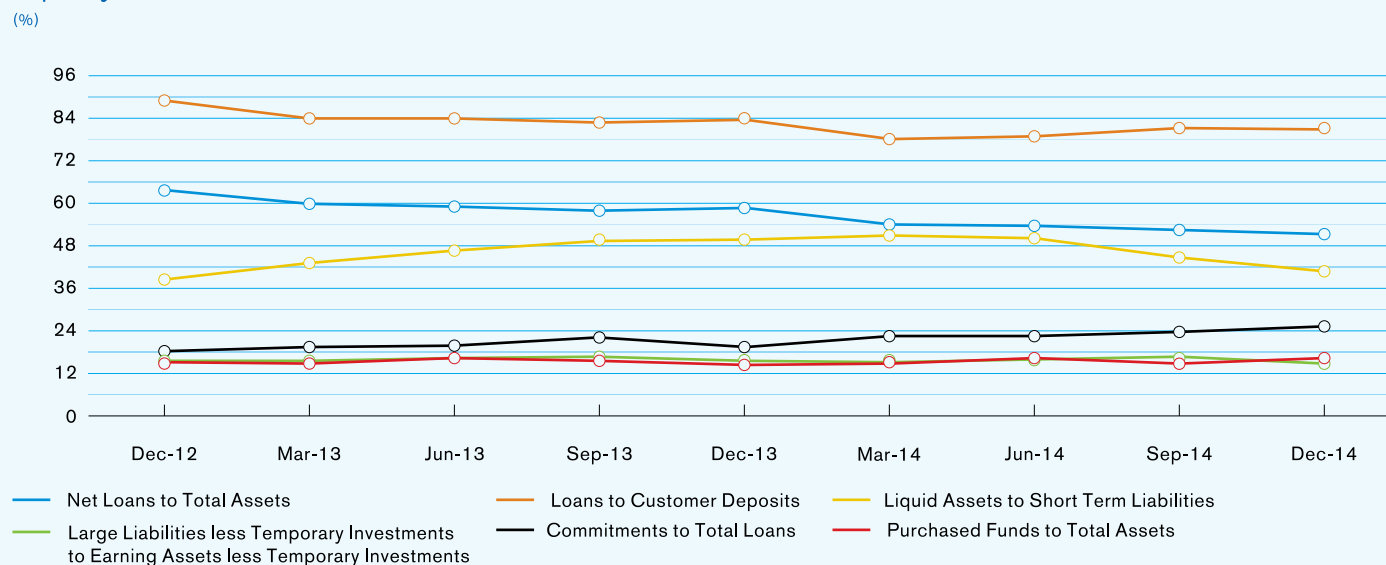
The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to total liabilities excluding shareholders' funds. For this purpose, 'liquid assets' include cash and cash equivalents, placements with banks and government securities (net). Details of the reported ratio of liquid 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 | |
|--------------------------------------|--------------|--------------|--------------|--------------|
| | 2014 % | 2013 % | 2014 % | 2013 % |
| As at December 31, | 33.15 | 33.66 | 31.43 | 29.38 |
| Average for the period | 35.26 | 31.67 | 32.13 | 31.42 |
| Maximum for the period | 37.10 | 34.34 | 38.54 | 36.69 |
| Minimum for the period | 33.15 | 26.63 | 27.35 | 29.36 |
| Statutory minimum requirement | 20.00 | 20.00 | 20.00 | 20.00 |

Notes to the Financial Statements

The graph below depicts the trends in quarterly regulatory liquidity ratios of the Bank during the period from December 2012 to December 2014:

Liquidity Ratios



The ratio between net loans to total On-Balance Sheet assets has gradually reduced during the period 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 borrowings and institutional deposits) to total assets and large liabilities less temporary investments to earning assets less temporary investments have been well below 20%. The ratio of commitments to total loans has remained low. The ratio of liquid assets to short term liabilities has remained above 40%. All above ratios indicate strong liquidity position maintained by the Bank.

Liquidity Risk

62.2.2 Maturity Analysis of Financial Assets and Financial Liabilities

65.2.2 (a) Remaining Contractual Period to Maturity - Bank

(i) Remaining contractual period to maturity as at the date of Statement of Financial Position of the assets employed by the Bank is detailed below:

| As at December 31, | Up to 3 Months Rs. '000 | 3 to 12 Months Rs. '000 | 1 to 3 Years Rs. '000 | 3 to 5 Years Rs. '000 | More than 5 Years Rs. '000 | Total as at 31.12.2014 Rs. '000 | Total as at 31.12.2013 Rs. '000 |
|---|----------------------------|----------------------------|--------------------------|--------------------------|-------------------------------|------------------------------------|------------------------------------|
| Interest earning assets: | | | | | | | |
| Financial Assets | | | | | | | |
| Cash and cash equivalents | 3,596,658 | - | - | - | - | 3,596,658 | 135,148 |
| Balances with Central Banks | 142,927 | 24,569 | - | - | - | 167,496 | 807 |
| Placements with banks | 13,450,661 | 1,057,200 | - | - | - | 14,507,861 | 4,131,814 |
| Derivative financial assets | - | - | - | - | - | - | - |
| Other financial instruments held-for-trading | 5,958,902 | - | - | - | - | 5,958,902 | 6,044,652 |
| Loans and receivables to banks | - | - | - | - | - | - | - |
| Loans and receivables to other customers | 206,309,889 | 91,849,961 | 114,254,729 | 57,920,186 | 26,731,022 | 497,065,787 | 410,951,440 |
| Financial investments - Available-for-sale | 14,825,840 | 43,143,743 | 30,542,371 | 72,261,471 | 52,591,316 | 213,364,741 | 131,707,597 |
| Financial investments - Held-to-maturity | - | - | - | - | - | - | - |
| Total interest earning assets as at 31.12.2014 | 244,284,877 | 136,075,473 | 144,797,100 | 130,181,657 | 79,322,338 | 734,661,445 | |
| Total interest earning assets as at 31.12.2013 | 222,773,731 | 128,191,095 | 124,442,293 | 53,925,344 | 23,638,995 | | 552,971,458 |

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| As at December 31, | Up to 3 Months Rs. '000 | 3 to 12 Months Rs. '000 | 1 to 3 Years Rs. '000 | 3 to 5 Years Rs. '000 | More than 5 Years Rs. '000 | Total as at 31.12.2014 Rs. '000 | Total as at 31.12.2013 Rs. '000 |
|---|-------------------------------|-------------------------------|-----------------------------|-----------------------------|----------------------------------|---------------------------------------|---------------------------------------|
| Non-Interest earning assets: | | | | | | | |
| Financial Assets | | | | | | | |
| Cash and cash equivalents | 16,995,209 | – | – | – | – | 16,995,209 | 14,126,401 |
| Balances with Central Banks | 13,455,116 | 4,963,785 | 428,783 | 276,983 | 341,583 | 19,466,250 | 18,431,129 |
| Placements with banks | – | – | – | – | – | – | – |
| Derivative financial assets | 193,541 | 265,472 | 497 | – | – | 459,510 | 837,694 |
| Other financial instruments - held-for-trading | 367,734 | – | – | – | – | 367,734 | 334,406 |
| Loans and receivables to banks | – | – | 551,066 | – | – | 551,066 | 546,270 |
| Loans and receivables to other customers | – | – | – | – | – | – | – |
| Financial investments – Available-for-sale | 613,440 | – | – | 15,864 | 214,325 | 843,629 | 48,928 |
| Financial investments – Held-to-maturity | – | – | – | – | – | – | – |
| Non-Financial Assets | | | | | | | |
| Investments in subsidiaries | – | – | – | – | 1,211,000 | 1,211,000 | 288,946 |
| Investments in associates | – | – | – | – | 44,331 | 44,331 | 44,331 |
| Property, plant & equipment | – | – | – | – | 9,953,091 | 9,953,091 | 8,387,344 |
| Intangible assets | – | – | – | – | 439,128 | 439,128 | 467,593 |
| Leasehold property | – | – | – | – | 75,420 | 75,420 | 76,362 |
| Other assets | 6,559,320 | 199,018 | 479,974 | 985,799 | 2,317,706 | 10,541,817 | 9,426,730 |
| 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 non-interest earning assets as at 31.12.2013 | 32,736,975 | 5,886,851 | 1,337,899 | 730,707 | 12,323,702 | | 53,016,134 |
| 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 | |
| Total assets - as at 31.12.2013 | 255,510,706 | 134,077,946 | 125,780,192 | 54,656,051 | 35,962,697 | | 605,987,592 |
| Percentage - as at 31.12.2014(*) | 35.51 | 17.79 | 18.38 | 16.52 | 11.80 | 100.00 | |
| Percentage - as at 31.12.2013(*) | 42.16 | 22.13 | 20.76 | 9.02 | 5.93 | | 100.00 |

(*) 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 Rs. '000 | 3 to 12 Months Rs. '000 | 1 to 3 Years Rs. '000 | 3 to 5 Years Rs. '000 | More than 5 Years Rs. '000 | Total as at 31.12.2014 Rs. '000 | Total as at 31.12.2013 Rs. '000 |
|--|-------------------------------|-------------------------------|-----------------------------|-----------------------------|----------------------------------|---------------------------------------|---------------------------------------|
| Interest-bearing liabilities: | | | | | | | |
| Financial Liabilities | | | | | | | |
| Due to banks | 2,476,105 | 4,625,250 | – | – | – | 7,101,355 | 12,195,006 |
| Derivative financial liabilities | – | – | – | – | – | – | – |
| Other financial liabilities held-for-trading | – | – | – | – | – | – | – |
| Due to other customers/ Deposits from customers | 322,166,430 | 134,429,404 | 12,675,981 | 6,566,010 | 8,602,013 | 484,439,838 | 415,381,976 |
| Other borrowings | 84,342,793 | 41,530,330 | 6,907,267 | 2,244,110 | 1,176,582 | 136,201,082 | 54,173,175 |
| Subordinated liabilities | 132,370 | 128,721 | 972,660 | – | 9,811,024 | 11,044,775 | 10,944,412 |
| 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 | |
| Total interest-bearing liabilities as at 31.12.2013 | 305,094,129 | 141,567,740 | 14,342,812 | 11,467,136 | 20,222,752 | | 492,694,569 |

Notes to the Financial Statements

| <i>As at December 31,</i> | Up to 3 Months Rs. '000 | 3 to 12 Months Rs. '000 | 1 to 3 Years Rs. '000 | 3 to 5 Years Rs. '000 | More than 5 Years Rs. '000 | Total as at 31.12.2014 Rs. '000 | Total as at 31.12.2013 Rs. '000 |
|--|-------------------------------|-------------------------------|-----------------------------|-----------------------------|----------------------------------|---------------------------------------|---------------------------------------|
| Non-interest bearing liabilities: | | | | | | | |
| Financial Liabilities | | | | | | | |
| Due to banks | 18,159,621 | - | - | - | - | 18,159,621 | 1,999,213 |
| Derivative financial liabilities | 733,669 | 459,470 | - | - | - | 1,193,139 | 1,411,916 |
| Other financial liabilities held-for-trading | | | | | | - | - |
| Due to other customers/ Deposits from customers | 44,921,646 | - | - | - | - | 44,921,646 | 35,770,947 |
| Other borrowings | - | - | - | - | - | - | - |
| Non-Financial Liabilities | | | | | | | |
| Current tax liabilities | 1,042,393 | 955,597 | - | - | - | 1,997,990 | 1,758,574 |
| Deferred tax liabilities | 241,710 | 229,566 | 674,822 | 954,790 | 472,872 | 2,573,760 | 1,563,070 |
| Other provisions | 1,874 | - | - | - | - | 1,874 | 2,409 |
| Other liabilities | 9,168,804 | 4,388,225 | 2,380,676 | 558,205 | 947,621 | 17,443,531 | 9,827,209 |
| Due to subsidiaries | 19,289 | - | - | - | - | 19,289 | 15,686 |
| Equity | | | | | | | |
| Stated capital | - | - | - | - | 21,457,501 | 21,457,501 | 19,586,813 |
| Statutory reserves | - | - | - | - | 4,327,103 | 4,327,103 | 4,034,614 |
| Retained earnings | - | - | - | - | 4,258,287 | 4,258,287 | 4,233,364 |
| Other reserves | - | - | - | - | 40,468,839 | 40,468,839 | 33,089,208 |
| 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 non-interest bearing liabilities as at 31.12.2013 | 46,795,753 | 2,180,945 | 1,638,059 | 735,003 | 61,943,263 | | 113,293,023 |
| 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 | |
| Total liabilities and equity - as at 31.12.2013 | 351,889,882 | 143,748,685 | 15,980,871 | 12,202,139 | 82,166,015 | | 605,987,592 |
| Percentage - as at 31.12.2014(*) | 60.76 | 23.47 | 2.97 | 1.30 | 11.50 | 100.00 | |
| Percentage - as at 31.12.2013(*) | 58.07 | 23.72 | 2.64 | 2.01 | 13.56 | | 100.00 |

(*) Total percentage of each maturity bucket out of total liabilities and shareholders' funds employed by the Bank.

65.2.2 (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.

| <i>As at December 31,</i> | 2014 Rs. '000 | 2013 Rs. '000 |
|--|--------------------|--------------------|
| Financial Assets | | |
| Non-Derivative Financial Assets | | |
| Balances with Central Banks | 1,047,349 | 944,248 |
| Loans and receivables to banks | 551,066 | 546,270 |
| Loans and receivables to other customers | 198,905,938 | 179,220,367 |
| Financial investments – Available-for-sale | 155,625,347 | 22,835,193 |
| | 356,129,700 | 203,546,078 |
| Financial Liabilities | | |
| Non-Derivative Financial Liabilities | | |
| Due to other customers/deposits from customers | 27,844,004 | 22,188,799 |
| Other borrowings | 10,327,959 | 13,146,467 |
| Subordinated liabilities | 10,783,684 | 10,797,660 |
| | 48,955,647 | 46,132,926 |

65.2.3 Liquidity Reserves

The table below sets out the components of the Bank's liquidity reserves:

| <i>As at December 31,</i> | 2014 | | 2013 | |
|---|-----------------------------|------------------------|-----------------------------|------------------------|
| | Carrying Amount Rs. '000 | Fair Value Rs. '000 | Carrying Amount Rs. '000 | Fair Value Rs. '000 |
| Balances with Central Banks | 19,633,746 | 19,633,746 | 18,431,936 | 18,431,936 |
| Cash and balances with other banks | 6,943,357 | 6,943,357 | 2,753,483 | 2,753,483 |
| Other cash and cash equivalents | 13,648,510 | 13,648,510 | 11,508,066 | 11,508,066 |
| Unencumbered debt securities issued by sovereigns | 119,194,940 | 116,655,967 | 91,166,713 | 91,902,859 |
| Total liquidity reserves | 159,420,553 | 156,881,580 | 123,860,198 | 124,596,344 |

65.2.4 Financial Assets Available to Support Future Funding

The table below sets out the availability of the Bank's financial assets to support future funding:

| <i>December 31, 2014</i> | Note | Encumbered | | Unencumbered | | Total Rs. '000 |
|--|------|--------------------------------------|--------------------|--|-------------------|--------------------|
| | | Pledged as Collateral Rs. '000 | Other* Rs. '000 | Available as Collateral Rs. '000 | Other 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 |
| 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 | | | 497,065,787 | | 497,065,787 |
| Financial investments – Available-for-sale | 33 | 124,564,499 | | 89,643,871 | | 214,208,370 |
| Total financial assets | | 124,564,499 | 551,066 | 648,229,278 | – | 773,344,843 |

Notes to the Financial Statements

| December 31, 2013 | | | | | | |
|--|------|--------------------------------------|--------------------|--|-------------------|--------------------|
| | Note | Encumbered | | Unencumbered | | Total Rs. '000 |
| | | Pledged as Collateral Rs. '000 | Other* Rs. '000 | Available as Collateral Rs. '000 | Other Rs. '000 | |
| Cash and cash equivalents | 26 | | | 14,261,549 | | 14,261,549 |
| Balances with Central Banks | 27 | | | 18,431,936 | | 18,431,936 |
| Placements with banks | 28 | | | 4,131,814 | | 4,131,814 |
| Derivative financial assets | 29 | | | 837,694 | | 837,694 |
| Other financial instruments – Held-for-trading | 30 | | | 6,379,058 | | 6,379,058 |
| Loans and receivables to banks | 31 | | 546,270 | – | | 546,270 |
| Loans and receivables to other customers | 32 | | | 410,951,440 | | 410,951,440 |
| Financial investments – Available-for-sale | 33 | 39,230,639 | – | 92,525,886 | | 131,756,525 |
| Total financial assets | | 39,230,639 | 546,270 | 547,519,377 | – | 587,296,286 |

*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.

65.3 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.

65.3.1 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, 2014 | | | | |
|--|------|-----------------------------|--------------------------------|---------------------------------------|
| | Note | Carrying Amount Rs. '000 | Market Risk Measurement | |
| | | | Trading Portfolios Rs. '000 | Non-Trading Portfolios Rs. '000 |
| Assets Subject to Market Risk | | | | |
| 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 |
| 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 | 497,065,787 | – | 497,065,787 |
| Financial investments – Available-for-sale | 33 | 214,208,370 | – | 214,208,370 |
| | | 773,344,843 | 6,786,146 | 766,558,697 |
| Liabilities Subject to Market Risk | | | | |
| Due to banks | 40 | 25,260,976 | – | 25,260,976 |
| Derivative financial liabilities | 41 | 1,193,139 | 1,193,139 | – |
| Due to other customers/deposits from customers | 42 | 529,361,484 | – | 529,361,484 |
| Other borrowings | 43 | 136,201,082 | – | 136,201,082 |
| Subordinated liabilities | 49 | 11,044,775 | – | 11,044,775 |
| | | 703,061,456 | 1,193,139 | 701,868,317 |

| As at December 31, 2013 | Note | Carrying Amount Rs. '000 | Market Risk Measurement | |
|--|------|-----------------------------|-------------------------|------------------------|
| | | | Trading Portfolios | Non-Trading Portfolios |
| | | | Rs. '000 | Rs. '000 |
| Assets Subject to Market Risk | | | | |
| Cash and cash equivalents | 26 | 14,261,549 | – | 14,261,549 |
| Balances with Central Banks | 27 | 18,431,936 | – | 18,431,936 |
| Placements with banks | 28 | 4,131,814 | – | 4,131,814 |
| Derivative financial assets | 29 | 837,694 | 837,694 | – |
| Other financial instruments – Held-for-trading | 30 | 6,379,058 | 6,379,058 | – |
| Loans and receivables to banks | 31 | 546,270 | – | 546,270 |
| Loans and receivables to other customers | 32 | 410,951,440 | – | 410,951,440 |
| Financial investments – Available-for-sale | 33 | 131,756,525 | – | 131,756,525 |
| | | 587,296,286 | 7,216,752 | 580,079,534 |
| Liabilities Subject to Market Risk | | | | |
| Due to banks | 40 | 14,194,219 | – | 14,194,219 |
| Derivative financial liabilities | 41 | 1,411,916 | 1,411,916 | – |
| Due to other customers/deposits from customers | 42 | 451,152,923 | – | 451,152,923 |
| Other borrowings | 43 | 54,173,175 | – | 54,173,175 |
| Subordinated liabilities | 49 | 10,944,412 | – | 10,944,412 |
| | | 531,876,645 | 1,411,916 | 530,464,729 |

6.5.3.2 Exposure to Interest Rate Risk – Sensitivity Analysis

6.5.3.2 (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.

Notes to the Financial Statements

Interest rate gap position of the non-trading portfolio of the Bank is given below:

| <i>As at December 31, 2014</i> | Up to 3 Months Rs. '000 | 3 to 12 Months Rs. '000 | 1 to 3 Years Rs. '000 | 3 to 5 Years Rs. '000 | More than 5 Years Rs. '000 | Non- Sensitive Rs. '000 | Total as at 31.12.2014 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 |
| Derivative financial assets | – | – | – | – | – | – | – |
| Other financial instruments – Held-for-trading | – | – | – | – | – | – | – |
| Loans and receivables to banks | – | – | – | – | – | 551,066 | 551,066 |
| Loans and receivables to other customers | 338,846,156 | 78,654,516 | 34,632,986 | 22,508,164 | 16,191,616 | 6,232,349 | 497,065,787 |
| 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 |
| 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 | – | – | – | – | – | – | – |
| Due to other customers/deposits from customers | 141,378,207 | 134,432,410 | 12,187,265 | 5,977,239 | 190,344,790 | 45,041,573 | 529,361,484 |
| Other borrowings | 87,602,035 | 38,888,780 | 2,501,314 | 6,922,301 | 286,652 | – | 136,201,082 |
| Subordinated liabilities | 9,943,394 | 129,121 | 972,260 | – | – | – | 11,044,775 |
| Total Financial Liabilities | 249,224,185 | 186,757,964 | 15,660,839 | 12,899,540 | 190,631,442 | 46,694,347 | 701,868,317 |
| Interest rate sensitivity gap | 118,773,248 | (63,878,561) | 49,586,466 | 81,947,895 | (121,729,481) | (9,187) | 64,690,380 |
| <i>As at December 31, 2013</i> | Up to 3 Months Rs. '000 | 3 to 12 Months Rs. '000 | 1 to 3 Years Rs. '000 | 3 to 5 Years Rs. '000 | More than 5 Years Rs. '000 | Non- Sensitive Rs. '000 | Total as at 31.12.2013 Rs. '000 |
| Financial Assets | | | | | | | |
| Cash and cash equivalents | 135,147 | – | – | – | – | 14,126,402 | 14,261,549 |
| Balances with Central Banks | 734 | 73 | – | – | – | 18,431,129 | 18,431,936 |
| Placements with banks | 3,949,732 | 182,082 | – | – | – | – | 4,131,814 |
| Derivative financial assets | – | – | – | – | – | – | – |
| Other financial instruments – Held-for-trading | – | – | – | – | – | – | – |
| Loans and receivables to banks | – | – | – | – | – | 546,270 | 546,270 |
| Loans and receivables to other customers | 245,423,941 | 60,983,468 | 64,040,963 | 20,048,456 | 14,079,189 | 6,375,423 | 410,951,440 |
| Financial investments – Available-for-sale | 31,316,061 | 70,805,565 | 10,296,794 | 14,158,302 | 4,989,220 | 190,583 | 131,756,525 |
| Total Financial Assets | 280,825,615 | 131,971,188 | 74,337,757 | 34,206,758 | 19,068,409 | 39,669,807 | 580,079,534 |
| Financial Liabilities | | | | | | | |
| Due to banks | 10,283,009 | 2,623,285 | – | – | – | 1,287,925 | 14,194,219 |
| Derivative financial liabilities | – | – | – | – | – | – | – |
| Due to other customers/deposits from customers | 132,786,909 | 124,310,803 | 7,784,257 | 5,880,920 | 144,523,072 | 35,866,962 | 451,152,923 |
| Other borrowings | 37,998,991 | 14,220,119 | 1,425,974 | 228,470 | 299,621 | – | 54,173,175 |
| Subordinated liabilities | 9,844,950 | 127,202 | 972,260 | – | – | – | 10,944,412 |
| Total Financial Liabilities | 190,913,859 | 141,281,409 | 10,182,491 | 6,109,390 | 144,822,693 | 37,154,887 | 530,464,729 |
| Interest rate sensitivity gap | 89,911,756 | (9,310,221) | 64,155,266 | 28,097,368 | (125,754,284) | 2,514,920 | 49,614,805 |

65.3.2 (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.

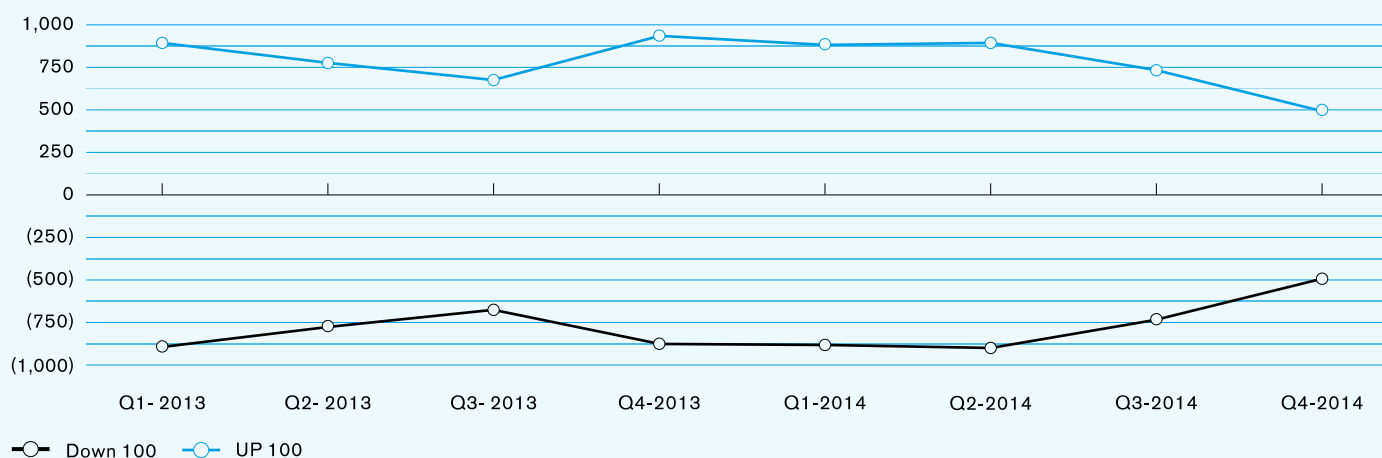
The following table demonstrates the sensitivity of the Bank's Income Statement as at Reporting date to a reasonable possible change in interest rates, with all other variables held constant.

| Net Interest Income (NII) | 2014 | | 2013 | |
|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 100 bp Parallel Increase | 100 bp Parallel Decrease | 100 bp Parallel Increase | 100 bp Parallel Decrease |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| As at December 31, | 494,488 | (495,461) | 936,178 | (875,597) |
| Average for the period | 751,326 | (753,968) | 821,239 | (805,472) |
| Maximum for the period | 893,537 | (901,327) | 936,178 | (894,456) |
| Minimum for the period | 494,488 | (495,461) | 677,595 | (676,712) |

The Graph below depicts the impact on the Net Interest Income (NII) - Rate shock of 100 bp (on Rupee denominated) and 10 bp (on FCY denominated) Assets and Liabilities (Sri Lankan Operations):

Impact on the Net Interest Income

(Rs. '000)



The impact of changes in interest rates on NII is measured using a static Balance Sheet which is subjected to 1% and 0.1% shocks on LKR and foreign currency asset and liability portfolios, respectively. Thereafter, the potential impact on the Bank's profitability due to changes in LKR and foreign currency interest rates is evaluated to ensure that the variations are prudently managed within the internal tolerance limits. Above graph depicts the sensitivity of NII to rate shocks during the years 2013 and 2014. Right throughout 2014, 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.

Notes to the Financial Statements

65.3.3 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, 2014 and 2013 and the exposure as a percentage of the total capital funds:

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 Currency | Overall Exposure in LKR |
|--|--------|-------------|----------|---------|-------------|---------|--------------------|--|---|-------------------------|
| | Assets | Liabilities | Net | Assets | Liabilities | Net | | | | |
| 1 | 2 | 3 | 4=2-3 | 5 | 6 | 7=5-6 | 8 | 9 | 10 | 11 |
| | '000 | '000 | '000 | '000 | '000 | '000 | '000 | '000 | '000 | '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) | (4,570) |
| Euro | 1,260 | 74 | 1,186 | 144 | 1,317 | (1,173) | 16 | - | 29 | (6,974) |
| Japanese Yen | 3,781 | 45,351 | (41,570) | 47,803 | 12,580 | 35,223 | 52 | - | (6,294) | - |
| 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 USD | 614 | 216 | 398 | 75 | 460 | (385) | 147 | - | 161 | 2,123 |
| Total exposure | | | | | | | USD (5,041) | | USD (938) | (123,234) |
| Total capital funds as per the latest Audited Financial Statements (capital base of the Bank as at December 31, 2014) | | | | | | | | | | 72,177,447 |
| Total exposure as a percentage of total capital funds as per the latest Audited Financial Statements | | | | | | | | | | (0.17%) |

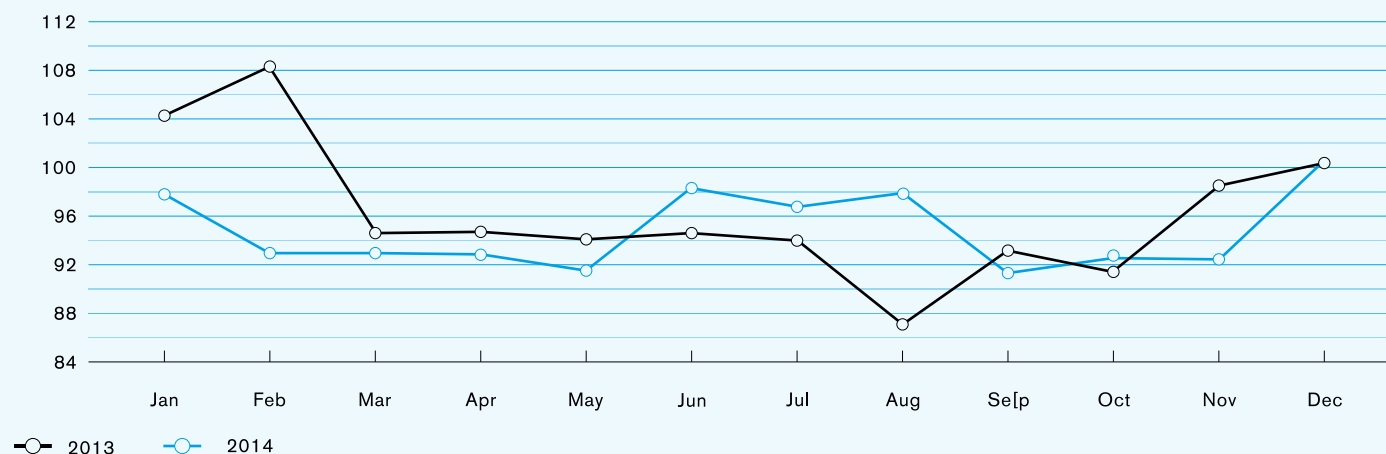
Foreign Exchange Position as at December 31, 2013

| Currency | Spot | | | Forward | | | Net Open Position | Net Position in Other Exchange Contracts | Overall Exposure in Respective Foreign Currency | Overall Exposure in LKR |
|--|--------|-------------|-------|---------|-------------|---------|-------------------|--|---|-------------------------|
| | Assets | Liabilities | Net | Assets | Liabilities | Net | | | | |
| 1 | 2 | 3 | 4=2-3 | 5 | 6 | 7=5-6 | 8 | 9 | 10 | 11 |
| | '000 | '000 | '000 | '000 | '000 | '000 | '000 | '000 | '000 | '000 |
| United States Dollar | 10,423 | 6,807 | 3,616 | 3,595 | 4,403 | (808) | 1,474 | - | 4,282 | 561,004 |
| Great Britain Pound | 812 | 54 | 758 | 100 | 906 | (806) | (34) | - | (82) | (17,707) |
| Euro | 920 | 186 | 734 | 100 | 832 | (732) | (4) | - | (1) | (238) |
| Japanese Yen | 13,172 | 12,356 | 816 | 10,537 | 16,922 | (6,385) | (155) | - | (5,724) | (7,149) |
| Indian Rupee | - | - | - | - | - | - | - | - | - | - |
| Australian Dollars | 640 | 177 | 463 | - | 475 | (475) | (38) | - | (50) | (5,900) |
| Canadian Dollars | 27 | 25 | 2 | - | - | - | - | - | 2 | 247 |
| Other currencies in USD | 273 | - | 273 | 36 | 295 | (259) | 125 | - | 138 | 18,131 |
| Total exposure | | | | | | | USD 1,502 | | USD 4,186 | 548,388 |
| Total capital funds as per the latest Audited Financial Statements (capital base of the Bank as at December 31, 2013) | | | | | | | | | | 65,579,876 |
| Total exposure as a percentage of total capital funds as per the latest Audited Financial Statements | | | | | | | | | | 0.84% |

The Bank regularly conducts sensitivity analysis on Net Open Position (NOP) due to possible movements in the USD/LKR exchange rate to assess the exposure to Foreign Exchange Risk. An appropriate shock based on historical USD/LKR exchange rate is applied on the NOP which is measured against the Board approved thresholds.

Sensitivity of FX Position - Impact of 1% Change in Exchange Rate (Sri Lankan Operation)

+/- (Rs. Mn.)



65.3.4 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 result due to exposure to 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.

| Stress Level | 2014 | | | 2013 | | |
|---|---------------------------|---------------------------|------------------------------|---------------------------|---------------------------|------------------------------|
| | Held-for-Trading | Available-for-Sale | Total | Held-for-Trading | Available-for-Sale | Total |
| | Impact on P&L Rs. '000 | Impact on OCI Rs. '000 | Impact on Equity Rs. '000 | Impact on P&L Rs. '000 | Impact on OCI Rs. '000 | Impact on Equity Rs. '000 |
| Shock of 10% on equity price (upward) | 36,773 | 18,513 | 55,286 | 33,441 | 14,549 | 47,990 |
| Shock of 10% on equity price (downward) | (36,773) | (18,513) | (55,286) | (33,441) | (14,549) | (47,990) |

65.4 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 for 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 238 of the section on 'Managing Risk at Commercial Bank'

Notes to the Financial Statements

65.5 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.

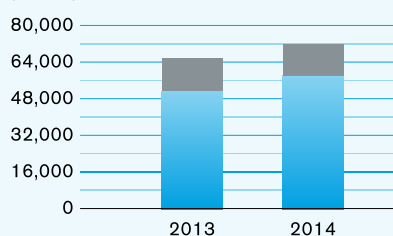
65.5.1 Regulatory Capital

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.

| <i>As at December 31,</i> | 2014 Rs. '000 | 2013 Rs. '000 |
|---|-------------------|-------------------|
| Tier I: Core Capital | | |
| Paid-up ordinary shares/Common stock/Assigned capital | 21,457,501 | 19,586,813 |
| Statutory reserve fund | 4,327,103 | 3,768,094 |
| Published Retained Profits/(Accumulated Losses) | 1,568,605 | 1,516,092 |
| General and other reserves | 32,010,399 | 27,079,104 |
| Minority interests (consistent with the above capital constituents) | - | - |
| Less: Deductions/Adjustments | | |
| Goodwill | - | - |
| Other intangible assets | 439,129 | 467,594 |
| Advances granted to employees of the Bank for the purchase of shares of the Bank (ESOP) | 786 | 1,122 |
| 50% of Investments in unconsolidated banking and financial subsidiary companies | 458,023 | - |
| 50% Investments in the capital of other banks and financial institutions | 402 | 402 |
| Total Eligible Core Capital (Tier I Capital) | 58,465,269 | 51,480,986 |
| Tier II: Supplementary Capital | | |
| Revaluation reserves (as approved by Central Bank of Sri Lanka) | 2,034,231 | 2,034,231 |
| General provisions | 1,836,058 | 1,656,465 |
| Approved subordinated term debt | 10,300,314 | 10,408,596 |
| Less: Deductions/Adjustments | | |
| 50% of investments in unconsolidated banking and financial subsidiary companies | 458,023 | - |
| 50% investments in the capital of other banks and financial institutions | 402 | 402 |
| Total eligible supplementary capital (Tier II Capital) | 13,712,178 | 14,098,890 |
| Total capital base | 72,177,447 | 65,579,876 |

Total Capital Base

(Rs. Mn.)



10.00% ↑
Growth

2014: Rs. 72,177 Mn.

2013: Rs. 65,580 Mn.

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 which reflects stability.

The higher level of capital maintained by the Bank has facilitated unhindered 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 expansion of the Bank.

65.5.2 Capital Allocation

Management uses regulatory capital ratios to monitor its capital base. The allocation of capital between specific operations and activities is, 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 purposes.

66. Events After The Reporting Period

No circumstances have arisen since the Reporting date which would require adjustments or disclosure in the Financial Statements other than those disclosed below.

66.1 'Super Gains Tax' on profit

The Government of Sri Lanka, in its Interim Budget for 2015 presented to the Parliament on January 29, 2015, intimated that companies or individuals who have recorded a profit in excess of Rs. 2,000 Mn during the year of assessment 2013/14 would be liable to a one-off Super Gains Tax of 25%. The law enacting this proposal is currently being drafted and the basis of computing the liability is yet to be certified by the relevant authorities. In the absence of a measurement criteria for the computation of the Super Gains Tax which is not enacted or substantially enacted at the time of issue of these Financial Statements, the Bank is not in a position to estimate the potential impact of the said one-off tax on the Financial Statements for the year ended December 31, 2014 and therefore no provision has been made on account of the said tax in these Financial Statements.

The Bank will account for and meet the above tax liability as required by law once the required legislation is introduced and administered with the measurement criteria.

66.2 Interim Dividend - 2014

The Bank declared and paid a second interim dividend of Rs. 1.00 per share on February 05, 2015 to both the voting and non-voting ordinary shareholders of the Bank.

66.3 Final Dividend - 2014

The Board of Directors of the Bank has recommended the payment of a final dividend of Rs. 4.00 per share which consist of a cash dividend of Rs. 2.00 per share and the balance entitlement of Rs. 2.00 per share that will be satisfied in the form of issue and allotment of new shares for both the voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2014.

This dividend is yet to be approved at the Annual General Meeting to be held on March 31, 2015. 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, 2014. 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 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 23, 2015 has been audited by KPMG.

66.4 New Employee Share Option Plan

The Board of Directors of the Bank at its meeting held on February 23, 2015 approved a proposal to introduce an ESOP for the benefit of all Executive Officers in Grade 1A and above by creating up to 2% of the ordinary voting shares at the rates specified in the proposed ESOP in 2016, 2017, 2018, upon the Bank achieving specified performance targets set for the years 2015, 2016 and 2017 respectively in the proposed ESOP. An Extraordinary General Meeting (EGM) is to be held on March 31, 2015, soon after the conclusion of the 46th Annual General Meeting of the Bank to seek approval of the shareholders for the proposed ESOP.

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Shareholders) –
Annual General
Meeting

Enclosed

Form of
Proxy (Voting
Shareholders) –
Extraordinary
General Meeting

Enclosed

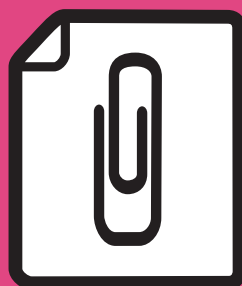
Form of Proxy
(Non-Voting
Shareholders) –
Extraordinary
General Meeting

Enclosed

Stakeholder
Feedback Form

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Corporate
Information



Supplementary Information

Group Structure

| | Commercial Development Co. PLC | ONEzero Co. Ltd. | Commex Sri Lanka S.R.L - Italy | Indra Finance Ltd.* | Equity Investments Lanka Ltd. | Commercial Insurance Brokers (Pvt) Ltd. |
|-------------------------------|---|---|---|-----------------------------------|--|--|
| Company Profile | | | | | | |
| Relationship to the Bank | Subsidiary | Subsidiary | Subsidiary | Subsidiary | Associate | Associate |
| Incorporated in | 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 | 94.55% | 100% | 100% | 100% | 22.92% | 18.91% |
| 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. | 'Commercial House', No. 21, Sir Razik Fareed Mawatha, Colombo 01. | Via Venti Settembre, 98/ G, Rome, Italy | No. 187, Katugastota Road, Kandy | 108 A, 1st Floor, 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

| | | | | | | |
|------------------------|-----------------------|--|----------------------------------|-----------------------|-------------------------------------|------------------------|
| Chairman | B.R.L. Fernando | Prof. U.P. Liyanage | K.G.D.D. Dheerasinghe | K.G.D.D. Dheerasinghe | M.J.C. Amarasuriya | M.P. Jayawardena |
| Managing Director/ CEO | J. Durairatnam | K.S.A. Gamage (Resigned on 19.01.2015) | M.E.P. Perera | A.J.D. Samarasinghe | H.A. Pieris | R.A.M. Seneviratne |
| Director | A.L. Gooneratne | K.D.N. Buddhipala | S.M.R.J. Rodrigo | Ms. J.K. Kuruppu | Deshamanya S E Captain | D.M.D.K. Thilakarathne |
| Director | A.T.P. Edirisinghe | A.R.M. Muttiah | Prof. Francesco Bellini | S.R. Pushpakumara | J.D. Peiris | P.D.J. Fernando |
| Director | L.D.A. Jayasinghe | M.E.P. Perera | | A.N. Sooriarachchi | J.B. Adu Baker | U.I.S. Tillakawardana |
| Director | U.I.S. Tillakawardana | | | Y.S.H.R.S. Silva | W.I. Arambage | S.P.S. Ranatunga |
| Director | | | | S.G. Rajakaruna | L.A. Rajapakse (Alternate Director) | |
| 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

| | 2014 Rs. Mn. | 2013 Rs. Mn. | 2014 Rs. Mn. | 2013 Rs. Mn. | 2014 Rs. Mn. | 2013 Rs. Mn. | 2014 Rs. Mn. | 2013 Rs. Mn. | 2014 Rs. Mn. | 2013 Rs. Mn. | 2014 Rs. Mn. | 2013 Rs. Mn. |
|----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Total assets | 1,873.596 | 1,606.863 | 91.303 | 79.634 | 29.700 | 33.497 | 1,983.895 | - N/A - | 323.297 | 272.417 | 242.509 | 256.878 |
| Total liabilities | 344.512 | 304.697 | 31.389 | 24.915 | 65.537 | 64.980 | 1,441.207 | - N/A - | 7.730 | 8.000 | 62.253 | 78.687 |
| Net assets | 1,529.084 | 1,302.166 | 59.914 | 54.719 | (35.837) | (31.483) | 542.688 | - N/A - | 315.567 | 264.417 | 180.256 | 178.191 |
| Total revenue | 275.997 | 266.024 | 128.107 | 99.943 | 6.559 | 3.637 | 139.835 | - N/A - | 39.701 | 26.652 | 189.420 | 188.635 |
| Profit before tax | 341.904 | 201.157 | 42.060 | 23.597 | (42.990) | (25.462) | 39.667 | - N/A - | 20.042 | 8.193 | 15.362 | 27.639 |
| Profit after tax | 275.434 | 151.401 | 30.286 | 17.032 | (42.990) | (25.462) | 26.684 | - N/A - | 22.288 | 7.976 | 7.693 | 17.792 |
| Dividend (per share) (Rs.) | 4.00 | 4.00 | 50.00 | 50.00 | - | - | - | - | - | - | 7.50 | 6.00 |

* Acquired on September 01, 2014.

| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|--|-----------------|-------------|-------------------|-------------|-------------------|-------------------|-------------------|--------------|--------------|--------------|
| 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+ (sri) |
| • Ratings by Lanka Ratings Agency Ltd. (Formerly known as RAM Ratings (Lanka) Ltd.) Long term financial institution ratings | AAA | AA+ | AA+ | AA+ | | | | | | |
| • Ratings by Lanka Ratings Agency Ltd. (Formerly known as RAM Ratings (Lanka) Ltd.) Short term financial institution ratings | P1 | P1 | P1 | P1 | | | | | | |
| • Sri Lankan Bank amongst the Top 1000 Banks of the world - The Banker, UK | 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 | Winner |
| • Awards by 'The Banker' Magazine (UK) Bank of The Year in Sri Lanka | Winner | | | | | | Winner | Winner | | Winner |
| • Award for Excellence by Euro Money Magazine (UK) Best Bank in Sri Lanka (1st Bank in Sri Lanka to win this award) | | | Winner | Winner | | | | Winner | | |
| • Award for Excellence by Trade Finance Magazine (UK) Best Local Trade Bank | | Winner | Winner | Winner | | Winner | | | | |
| • Awards for Corporate Social Responsibility | | | | | | | | | | |
| • by the Japan Sri Lanka Technical and Cultural Association JASTECA CSR - initiatives - in | | | | | | | | | | |
| - Education | Winner | | | | | | | | | |
| - Healthcare | 1st R-up | | | | | | | | | |
| • Award for CSR Trust by the prestigious Asia Responsible Entrepreneurship (AREA) in the sphere of 'Social Empowerment' | Winner | | | | | | | | | |
| • Asia's Best CSR Practices Awards at Singapore for | | | | | | | | | | |
| - Support and improvement in quality Education | Winner | | | | | | | | | |
| - Concern for Health | Entrant | | | | | | | | | |
| • Best Corporate Citizen Sustainability Awards by Ceylon Chamber of Commerce | 1st R-up | | | | | | | | | |
| • Ranked the Third Most Valuable Brand in Sri Lanka in the rankings compiled by Brand Finance Lanka and published in the LMD Brands Annual for the year 2014 | Entrant | | | | | | | | | |
| • The Strongest Bank in Sri Lanka by the Asian Banker, a leading provider of strategic intelligence on the financial service industry | Winner | | | | | | | | | |
| Overall | | Winner | Joint 2nd R-up | Winner | Joint 1st R-up | | Joint Winner | 1st R-up | Winner | Winner |
| Banking Sector | 1st R-up | Winner | Winner | Winner | 1st R-up | Joint 1st R-up | Winner | Winner | Winner | Winner |
| Corporate Governance Disclosure | Joint Winner | 1st R-up | 1st R-up | 1st R-up | 2nd R-up | Joint 1st R-up | | | | Winner |
| Corporate Social Responsibility | | | | | 2nd R-up | | | | | |
| Management Commentary | 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) | | | | | | | | | | |
| Overall | | | | | | | Joint Winner | 1st R-up | 2nd R-up | Winner |
| Financial/Banking Sector | Winner | | | 1st R-up | Joint 2nd R-up | Joint 1st R-up | Winner | Winner | Winner | Winner |
| Corporate Governance Disclosure | 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 | AA+ | AA+ | AA+ | AA | AA | AA |
| • The Industry - Business Awards by The Industry Magazine Best Foreign Bank | | | Winner | Winner | | | | Winner | | |
| • 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 | | |
| • Banker's Forum CSR Awards by Banker's Forum | | | | | | | Winner | | | |

Income Statement (US \$)

| For the year ended December 31, | GROUP | | | BANK | | |
|--|----------------|------------|---------|----------------|------------|---------|
| | 2014 | 2013 | Change | 2014 | 2013 | Change |
| | US \$ '000 | US \$ '000 | % | US \$ '000 | US \$ '000 | % |
| Gross income | 564,039 | 562,630 | 0.25 | 563,313 | 562,872 | 0.08 |
| Interest income | 468,656 | 479,039 | (2.17) | 467,893 | 479,112 | (2.34) |
| Less: Interest expenses | 261,922 | 281,337 | (6.90) | 261,901 | 281,517 | (6.97) |
| Net interest income | 206,734 | 197,702 | 4.57 | 205,992 | 197,595 | 4.25 |
| Fees and commission income | 42,480 | 37,253 | 14.03 | 42,321 | 37,225 | 13.69 |
| Less: Fees and commission expenses | 5,784 | 4,788 | 20.80 | 5,763 | 4,788 | 20.36 |
| Net fees and commission income | 36,696 | 32,465 | 13.03 | 36,558 | 32,437 | 12.70 |
| Net gains/(losses) from trading | (2,312) | (12,412) | (81.37) | (2,312) | (12,412) | (81.37) |
| Net gains/(losses) from financial instruments designated at fair value through profit or loss | - | - | - | - | - | - |
| Net gains/(losses) from financial investments | 17,197 | 10,302 | 66.93 | 17,197 | 10,302 | 66.93 |
| Other income (net) | 38,019 | 48,448 | (21.53) | 38,214 | 48,645 | (21.44) |
| Total operating income | 296,334 | 276,505 | 7.17 | 295,649 | 276,567 | 6.90 |
| Impairment charges for loans and other losses | 37,066 | 39,519 | (6.21) | 37,221 | 39,725 | (6.30) |
| Net operating income | 259,268 | 236,986 | 9.40 | 258,428 | 236,842 | 9.11 |
| Less: Expenses | | | | | | |
| Personnel expenses | 67,774 | 62,758 | 7.99 | 67,371 | 62,490 | 7.81 |
| Depreciation and amortisation | 9,550 | 6,629 | 44.06 | 9,085 | 7,147 | 27.12 |
| Other operating expenses | 41,633 | 40,465 | 2.89 | 42,547 | 41,407 | 2.75 |
| Operating profit before Value Added Tax (VAT) and Nation Building Tax (NBT) | 140,311 | 127,134 | 10.36 | 139,425 | 125,798 | 10.83 |
| Less: Value Added Tax (VAT) on financial services and Nation Building Tax (NBT) | 20,345 | 15,030 | 35.36 | 20,348 | 15,030 | 35.38 |
| Operating profit after Value Added Tax (VAT) and Nation Building Tax (NBT) | 119,966 | 112,104 | 7.01 | 119,077 | 110,768 | 7.50 |
| Share of profits of associates, net of tax | 50 | 40 | 25.00 | - | - | - |
| Profit before tax | 120,016 | 112,144 | 7.02 | 119,077 | 110,768 | 7.50 |
| Less: Income tax expense | 34,939 | 31,431 | 11.16 | 34,476 | 31,031 | 11.10 |
| Profit for the year | 85,077 | 80,713 | 5.41 | 84,601 | 79,737 | 6.10 |
| Profit Attributable to: | | | | | | |
| Equity holders of the Bank | 85,047 | 80,636 | 5.47 | 84,601 | 79,737 | 6.10 |
| Non-controlling interest | 30 | 77 | (61.04) | - | - | - |
| Profit for the year | 85,077 | 80,713 | 5.41 | 84,601 | 79,737 | 6.10 |
| Basic earnings per ordinary share (US \$) | 0.10 | 0.09 | 11.11 | 0.10 | 0.09 | 11.11 |
| Diluted earnings per ordinary share (US \$) | 0.10 | 0.09 | 11.11 | 0.10 | 0.09 | 11.11 |

US \$ Accounts

The Income Statement and the Statement of Financial Position given on pages 410 and 411 are solely for the convenience of shareholders, investors, bankers and other users of Financial Statements and do not form part of the Financial Statements.

Statement of Financial Position (US \$)

| As at December 31, | GROUP | | | BANK | | |
|--|------------------|------------------|--------------|------------------|------------------|--------------|
| | 2014 | 2013 | Change | 2014 | 2013 | Change |
| | US \$ '000 | US \$ '000 | % | US \$ '000 | US \$ '000 | % |
| Assets | | | | | | |
| Cash and cash equivalents | 156,048 | 108,882 | 43.32 | 155,822 | 108,867 | 43.13 |
| Balances with Central Banks | 148,572 | 140,702 | 5.59 | 148,572 | 140,702 | 5.59 |
| Placements with banks | 109,783 | 31,541 | 248.06 | 109,783 | 31,541 | 248.06 |
| Derivative financial assets | 3,477 | 6,395 | (45.63) | 3,477 | 6,395 | (45.63) |
| Other financial instruments - Held-for-trading | 47,875 | 48,695 | (1.68) | 47,875 | 48,695 | (1.68) |
| Loans and receivables to banks | 4,170 | 4,170 | - | 4,170 | 4,170 | - |
| Loans and receivables to other customers | 3,769,697 | 3,136,916 | 20.17 | 3,761,376 | 3,137,034 | 19.90 |
| Financial investments - Available-for-sale | 1,621,075 | 1,005,775 | 61.18 | 1,620,949 | 1,005,775 | 61.16 |
| Investments in subsidiaries | - | - | - | 9,164 | 2,206 | 315.41 |
| Investments in associates | 804 | 719 | 11.82 | 335 | 338 | (0.89) |
| Property, plant & equipment | 84,259 | 70,040 | 20.30 | 75,317 | 64,026 | 17.64 |
| Intangible assets | 6,479 | 3,647 | 77.65 | 3,323 | 3,569 | (6.89) |
| Leasehold property | 824 | 842 | (2.14) | 571 | 583 | (2.06) |
| Other assets | 79,912 | 71,939 | 11.08 | 79,770 | 71,956 | 10.86 |
| Total assets | 6,032,975 | 4,630,263 | 30.29 | 6,020,504 | 4,625,859 | 30.15 |
| Liabilities | | | | | | |
| Due to Banks | 194,242 | 108,353 | 79.27 | 191,154 | 108,353 | 76.42 |
| Derivative financial liabilities | 9,029 | 10,778 | (16.23) | 9,029 | 10,778 | (16.23) |
| Other financial liabilities - Held-for-trading | - | - | - | - | - | - |
| Due to other customers/Deposits from customers | 4,005,044 | 3,443,503 | 16.31 | 4,005,762 | 3,443,915 | 16.31 |
| Other borrowings | 1,029,343 | 412,195 | 149.72 | 1,030,655 | 413,536 | 149.23 |
| Current tax liabilities | 15,417 | 13,594 | 13.41 | 15,119 | 13,424 | 12.63 |
| Deferred tax liabilities | 21,765 | 13,461 | 61.69 | 19,476 | 11,932 | 63.22 |
| Other provisions | 14 | 18 | (22.22) | 14 | 18 | (22.22) |
| Other liabilities | 133,709 | 75,464 | 77.18 | 131,998 | 75,017 | 75.96 |
| Due to subsidiaries | - | - | - | 146 | 120 | 21.67 |
| Subordinated liabilities | 85,226 | 83,545 | 2.01 | 83,578 | 83,545 | 0.04 |
| Total liabilities | 5,493,789 | 4,160,911 | 32.03 | 5,486,931 | 4,160,638 | 31.88 |
| Equity | | | | | | |
| Stated capital | 162,372 | 149,518 | 8.60 | 162,372 | 149,518 | 8.60 |
| Statutory reserves | 32,744 | 30,799 | 6.32 | 32,744 | 30,799 | 6.32 |
| Retained earnings | 33,435 | 33,280 | 0.47 | 32,223 | 32,316 | (0.29) |
| Other reserves | 310,275 | 255,458 | 21.46 | 306,234 | 252,588 | 21.24 |
| Total equity attributable to equity holders of the Bank | 538,826 | 469,055 | 77.65 | 533,573 | 465,221 | 14.69 |
| Non-controlling interest | 360 | 296 | 21.62 | - | - | - |
| Total equity | 539,186 | 469,351 | 14.88 | 533,573 | 465,221 | 14.69 |
| Total liabilities and equity | 6,032,975 | 4,630,263 | 30.29 | 6,020,504 | 4,625,859 | 30.15 |
| Contingent liabilities and commitments | 2,667,071 | 2,255,358 | 18.25 | 2,667,071 | 2,255,358 | 18.25 |
| Net assets value per ordinary share (US \$) | 0.62 | 0.55 | 12.73 | 0.62 | 0.55 | 12.73 |

Exchange Rate of 1 US \$ was Rs. 132.15 as at December 31, 2014 (Rs. 131.00 as at December 31, 2013).

Decade at a Glance

Bank

| <i>Year ended December 31, Rs. Mn.</i> | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---------|----------|----------|----------|----------|----------|
| Operating Results | | | | | | |
| Income | 16,100 | 24,470 | 35,223 | 44,115 | 43,741 | 41,522 |
| Interest income | 13,034 | 19,532 | 30,503 | 37,188 | 35,925 | 34,740 |
| Interest expenses | (7,226) | (11,955) | (18,951) | (24,336) | (23,515) | (18,328) |
| Foreign exchange profit | 587 | 1,439 | 1,545 | 2,633 | 2,962 | 1,741 |
| Commission and other income | 2,479 | 3,499 | 3,175 | 4,294 | 4,854 | 5,041 |
| Operating expenses and provisions | (5,232) | (8,301) | (9,567) | (12,259) | (13,035) | (13,876) |
| Profit before income tax | 3,642 | 4,214 | 6,705 | 7,520 | 7,191 | 9,318 |
| Income tax on profit | (1,278) | (2,201) | (2,601) | (3,252) | (2,887) | (3,794) |
| Net profit for the year | 2,364 | 2,013 | 4,104 | 4,268 | 4,304 | 5,524 |
| As at December 31, | | | | | | |
| Assets | | | | | | |
| Cash and short-term funds | 18,663 | 13,739 | 16,208 | 24,115 | 24,057 | 10,557 |
| Balances with Central Banks | 9,045 | 12,574 | 11,576 | 10,322 | 11,795 | 12,189 |
| Government Treasury Bills, Bonds and Other Securities | 21,218 | 32,065 | 49,863 | 51,633 | 96,671 | 114,541 |
| Commercial paper | 408 | 423 | - | - | - | - |
| Securities purchased under resale agreements | 808 | 4,593 | 3,804 | 3,400 | 5,203 | 68 |
| Dealing securities | 182 | 145 | 207 | 58 | 81 | 283 |
| Investments Held-for-sale | - | 218 | 205 | - | - | - |
| Investments Held-to-maturity | 3,091 | 1,394 | 1,756 | 1,197 | 1,025 | 2,366 |
| Bills of exchange | 2,790 | 3,204 | 3,195 | 3,059 | 2,847 | 5,291 |
| Lease receivable | 7,088 | 9,482 | 10,945 | 9,484 | 7,794 | 11,019 |
| Loans and advances | 108,884 | 137,846 | 160,184 | 167,858 | 161,329 | 200,729 |
| | 172,177 | 215,683 | 257,943 | 271,126 | 310,802 | 357,043 |
| Investments in subsidiary companies | 434 | 434 | 434 | 434 | 279 | 354 |
| Investments in associate companies | 107 | 44 | 44 | 44 | 44 | 44 |
| Property, plant & equipment and intangible assets | 3,182 | 3,477 | 3,768 | 4,098 | 4,382 | 6,428 |
| Other assets | 4,177 | 4,336 | 5,751 | 5,512 | 6,808 | 6,191 |
| Total assets | 180,077 | 223,974 | 267,940 | 281,214 | 322,315 | 370,060 |
| Liabilities | | | | | | |
| Deposits from customers | 127,601 | 157,496 | 183,110 | 199,881 | 234,745 | 259,779 |
| Dividends payable | 230 | 113 | 113 | - | - | - |
| Borrowings | 13,387 | 18,944 | 18,752 | 13,620 | 11,639 | 14,371 |
| Securities sold under repurchase agreements | 11,389 | 14,330 | 23,342 | 25,075 | 29,905 | 45,774 |
| Other liabilities | 6,331 | 9,122 | 10,308 | 10,646 | 12,888 | 12,259 |
| Tax payable | 818 | 1,446 | 1,698 | 1,665 | 1,203 | 2,448 |
| Debentures | 4,553 | 6,680 | 6,680 | 4,436 | 3,436 | 2,127 |
| | 164,309 | 208,131 | 244,003 | 255,323 | 293,816 | 336,758 |

Bank

| <i>Year ended December 31, Rs. Mn.</i> | 2011 | 2012 | 2013 | 2014 | CAGR % |
|--|----------|----------|----------|----------|-----------|
| Operating Results | | | | | |
| Income | 45,860 | 63,395 | 73,736 | 74,442 | 17.52 |
| Interest income | 38,356 | 52,685 | 62,764 | 61,832 | |
| Interest expenses | (19,650) | (29,830) | (36,879) | (34,610) | |
| Foreign exchange profit | 2,322 | 4,687 | 1,996 | 1,481 | |
| Commission and other income | 5,182 | 6,023 | 8,976 | 11,129 | |
| Operating expenses and provisions | (15,313) | (19,270) | (22,347) | (24,095) | |
| Profit before income tax | 10,897 | 14,295 | 14,510 | 15,737 | 13.03 |
| Income tax on profit | (3,014) | (4,197) | (4,065) | (4,556) | |
| Net profit for the year | 7,883 | 10,098 | 10,445 | 11,181 | 12.36 |
| Assets | | | | | |
| Cash and cash equivalents | 12,911 | 19,733 | 14,262 | 20,592 | |
| Balances with Central Banks | 17,343 | 18,168 | 18,432 | 19,634 | |
| Placements with banks | 11,674 | 16,163 | 4,132 | 14,508 | |
| Derivative financial assets | 40 | 1,351 | 838 | 460 | |
| Other financial assets - Held-for-trading | 6,418 | 6,041 | 6,379 | 6,327 | |
| Loans and receivables to banks | 580 | 629 | 546 | 551 | |
| Loans and receivables to other customers | 314,486 | 372,915 | 410,951 | 497,066 | 13.25 |
| Financial investments - Available-for-sale | 61,415 | 57,963 | 131,757 | 214,208 | |
| Financial investments - Held-to-maturity | - | - | - | - | |
| | 424,867 | 492,963 | 587,297 | 773,346 | |
| Investments in subsidiaries | 315 | 303 | 289 | 1,211 | |
| Investments in associates | 44 | 44 | 44 | 44 | |
| Property, plant & equipment | 7,907 | 8,221 | 8,387 | 9,953 | |
| Intangible assets | 467 | 497 | 468 | 439 | |
| Leasehold property | 78 | 77 | 76 | 75 | |
| Deferred tax assets | 360 | 449 | - | - | |
| Other assets | 7,291 | 9,189 | 9,426 | 10,542 | |
| Total assets | 441,329 | 511,743 | 605,987 | 795,610 | 21.71 |
| Liabilities | | | | | |
| Due to Banks | 11,574 | 4,894 | 14,194 | 25,261 | |
| Derivative financial liabilities | 435 | 84 | 1,412 | 1,193 | |
| Other financial liabilities Held-for-trading | - | - | - | - | |
| Due to other customers/Deposits from customers | 323,755 | 390,612 | 451,153 | 529,361 | 17.81 |
| Other borrowings | 49,603 | 47,583 | 54,173 | 136,201 | |
| Current tax liabilities | 1,305 | 2,802 | 1,759 | 1,998 | |
| Deferred tax liabilities | 1,594 | 1,698 | 1,563 | 2,574 | |
| Other provisions | 1 | 2 | 2 | 2 | |
| Other liabilities | 8,162 | 10,363 | 9,827 | 17,444 | |
| Due to subsidiaries | 30 | 22 | 16 | 19 | |
| Subordinated liabilities | 1,106 | 1,106 | 10,944 | 11,045 | |
| Total liabilities | 397,565 | 459,166 | 545,043 | 725,098 | |

CAGR - Compounded Annual Growth Rate

Decade at a Glance

Bank

| <i>Year ended December 31, Rs. Mn.</i> | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---------|---------|----------|----------|----------|----------|
| Shareholders' Funds | | | | | | |
| Share capital | 3,327 | 2,428 | 10,515 | 10,548 | 10,608 | 10,811 |
| Statutory Reserve Fund | 1,421 | 1,429 | 1,634 | 1,896 | 2,164 | 2,472 |
| Reserves | 11,020 | 11,986 | 11,788 | 13,447 | 15,727 | 20,019 |
| Total Liabilities and Shareholders' Funds | 180,077 | 223,974 | 267,940 | 281,214 | 322,315 | 370,060 |
| Commitments and contingencies | 47,154 | 56,418 | 116,212 | 115,809 | 146,072 | 196,617 |
| Ratios | | | | | | |
| Return on average shareholders' funds (%) | 15.93 | 12.73 | 20.63 | 17.13 | 15.83 | 17.87 |
| Income growth (%) | 31.00 | 51.99 | 43.95 | 25.25 | (0.85) | (5.07) |
| Return on average assets (%) | 1.48 | 1.00 | 1.67 | 1.55 | 1.43 | 1.60 |
| Rate of dividend (%) | 45.00 | 50.00 | – | – | – | – |
| Dividend per share (Rs.) | – | – | 7.00 | 7.00 | 7.00 | 7.00 |
| Ordinary share dividend cover (times) | 3.34 | 2.54 | 2.29 | 2.42 | 2.46 | 2.09 |
| Gross dividends to ordinary shareholders (Rs. Mn.) | 639.36 | 714.00 | 1,743.13 | 1,745.81 | 1,751.47 | 2,642.25 |
| Advances to deposits and refinance (%) | 90.64 | 92.49 | 91.75 | 87.12 | 70.88 | 80.97 |
| Property, Plant & Equipment to shareholders' funds (%) | 20.75 | 21.33 | 15.74 | 15.83 | 15.38 | 19.30 |
| Total assets to shareholders' funds (times) | 11.42 | 14.14 | 11.19 | 10.86 | 11.31 | 11.11 |
| Capital funds to liabilities including contingent liabilities (%) | 7.46 | 6.05 | 7.87 | 6.98 | 6.48 | 6.26 |
| Cost/Income Ratio (%) | 54.28 | 61.10 | 47.87 | 50.46 | 56.86 | 54.69 |
| Liquid assets to liabilities (%) | 24.51 | 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 | 9.68 | 7.62 | 10.60 | 10.55 | 11.92 | 10.86 |
| Tier I & II | 12.08 | 11.58 | 13.71 | 13.13 | 13.93 | 12.26 |
| Share Information | | | | | | |
| Market value of a share (Rs.) | 135.50 | 190.00 | 147.00 | 67.00 | 189.50 | 259.90 |
| Earnings per share (Rs.) | 3 | 3 | 5 | 6 | 6 | 7 |
| Price earnings ratio (times) | 9 | 15 | 9 | 4 | 11 | 18 |
| Net assets value per share (Rs.) | 22 | 24 | 30 | 34 | 38 | 44 |
| Earnings yield (%) | 11 | 5 | 11 | 25 | 9 | 6 |
| Dividend payout ratio (%) - Cash | 30 | 39 | 44 | 41 | 41 | 34 |
| Total dividend payout ratio (%) | – | – | – | – | – | 48 |
| Other Information | | | | | | |
| Number of employees | 3,168 | 3,415 | 3,745 | 4,041 | 4,071 | 4,321 |
| Number of delivery points - Sri Lanka | 134 | 150 | 163 | 170 | 172 | 187 |
| Number of delivery points - Bangladesh | 5 | 7 | 9 | 11 | 15 | 17 |
| Number of automated teller machines | 223 | 278 | 301 | 346 | 368 | 414 |

Bank

| <i>Year ended December 31, Rs. Mn.</i> | 2011 | 2012 | 2013 | 2014 | CAGR % |
|---|----------------|----------------|----------------|-----------------|-----------|
| Equity | | | | | |
| Stated capital | 16,474 | 18,009 | 19,587 | 21,458 | |
| Statutory reserves | 2,890 | 3,433 | 4,035 | 4,327 | |
| Retained earnings | 2,547 | 4,178 | 4,233 | 4,258 | |
| Other reserves | 21,853 | 26,957 | 33,089 | 40,469 | |
| Total Liabilities and Equity | 441,329 | 511,743 | 605,987 | 795,610 | 21.71 |
| Commitments and contingencies | 234,551 | 279,593 | 295,452 | 352,453 | |
| Ratios | | | | | |
| Return on average shareholders' funds (%) | 20.28 | 20.96 | 18.40 | 17.01 | |
| Income growth (%) | 10.45 | 38.24 | 16.31 | 0.96 | |
| Return on average assets (%) | 1.94 | 2.12 | 1.87 | 1.60 | |
| Dividend per share (Rs.) | 6.00 | 6.50 | 6.50 | 6.50 | |
| Ordinary share dividend cover (times) | 1.61 | 1.86 | 1.89 | 1.99 | |
| Gross dividends to ordinary shareholders (Rs. Mn.) | 4,904.70 | 5,421.42 | 5,522.47 | 5,627.87 | |
| Advances to deposits and refinance (%) | 83.30 | 82.01 | 77.48 | 75.89 | |
| Property, plant & equipment to equity (%) | 19.31 | 16.73 | 14.65 | 14.85 | |
| Total assets to equity (times) | 9.92 | 9.73 | 9.94 | 11.28 | |
| Capital funds to liabilities including contingent liabilities (%) | 6.92 | 7.12 | 7.25 | 6.54 | |
| Cost/income ratio (%) | 50.70 | 47.02 | 45.59 | 47.13 | |
| Liquid assets to liabilities (%) | 26.35 | 25.79 | 34.05 | 33.11 | |
| <i>(As specified in the Banking Act No. 30 of 1988)</i> | | | | | |
| Group Capital Adequacy (%) Tier I | 12.11 | 12.63 | 13.30 | 13.07 | |
| Tier I & II | 13.01 | 13.84 | 16.93 | 16.22 | |
| Share Information | | | | | |
| Market value of a share (Rs.) | 100.00 | 103.00 | 120.40 | 171.00 | |
| Earnings per share (Rs.) | 9 | 12 | 12 | 13 | |
| Price earnings ratio (times) | 11 | 9 | 10 | 13 | |
| Net assets value per share (Rs.) | 54 | 63 | 72 | 81 | |
| Earnings yield (%) | 9 | 12 | 10 | 8 | |
| Dividend payout ratio (%) - Cash | 42 | 37 | 37 | 35 | |
| Total dividend payout ratio (%) | 62 | 54 | 53 | 50 | |
| Other Information | | | | | |
| Number of employees | 4,524 | 4,602 | 4,730 | 4,852 | |
| Number of delivery points - Sri Lanka | 213 | 227 | 235 | 239 | } 10.62 |
| Number of delivery points - Bangladesh | 17 | 17 | 18 | 18 | |
| Number of automated teller machines | 514 | 572 | 604 | 625 | 6.73 |

CAGR - Compounded Annual Growth Rate

Events - 2014

January →

Commercial Bank's First 'Forex ATM' installed at Crescat Boulevard



Commercial Bank Bags Overall Gold at JASTECA CSR Awards

Commercial Bank took the Gold and Silver for its Corporate Social Responsibility initiatives in Education and Healthcare respectively at the JASTECA CSR Awards presented by the Japan Sri Lanka Technical and Cultural Association.

February →

Commercial Bank Broadens its Offering in Investment Banking



Commercial Bank signalled its intentions to sharpen its focus on the sphere of investment banking, with the re-launch and renaming of its Corporate Finance Unit as 'Commercial Bank Investment Banking' to reflect the broader dimensions of the unit

March →

Commercial Bank Wins International Award for Social Empowerment



Commercial Bank CSR Trust won the prestigious Asia Responsible Entrepreneurship Award (AREA) in the sphere of 'Social Empowerment' at the 2014 awards ceremony held in New Delhi.

The award presented to Commercial Bank is in recognition of the Bank's contributions to the education sector in Sri Lanka with three nationally-scaled programmes - the donation of IT laboratories to schools, the annual presentation of scholarships and laptops to undergraduates and a programme to promote English literacy among rural children.

Commercial Bank wins the 'Best Bank in Sri Lanka' Award for the 16th Consecutive Year from 'Global Finance', one of the World's Most Respected Financial Publications



April →

Commercial Bank Ranked the Third Most Valuable Private Sector Brand in Sri Lanka



Commercial Bank was ranked the third most valuable brand in Sri Lanka in the 2014 rankings compiled by Brand Finance Lanka and published in the LMD Brands Annual for the year.

Commercial Bank Celebrated 10 Years of Remittance Operations in Kuwait



Commercial Bank hosted its business partners at a gala event in Kuwait to celebrate completing 10 years of remittance operations in Kuwait.

June →

Commercial Bank Commissions Drive through ATM at Ja-Ela



Commercial Bank commissioned a drive-through ATM at the 'K Zone' shopping complex in Ja Ela. This is the Bank's second drive-through ATM.

Commercial Bank Joins LankaPay

Sri Lanka's largest common ATM network 'LankaPay' strengthened its presence island wide with the advent of Commercial Bank of Ceylon which owns the largest single Bank owned ATM network, on to its platform.

Commercial Bank Funded Eco Friendly Boat Launched



The dream of a Sri Lankan inventor was brought to fruition with the assistance of the Commercial Bank of Ceylon when the Ray Award winner Indresri Karunatilaka launched his eco friendly boat on the waters of the Beira Lake.

Commercial Bank Begins Renovation of Sri Pada Steps



Commercial Bank began work on renovating two sections of the steps to the summit of Sri Pada for the benefit of thousands of pilgrims who make the trek up Sri Lanka's holy mountain.

July →

CBC's 236th & 237th Service Points were Opened at Arpico Supercentre, Nawinna and Hulftsdorp, the Hub of the Country's Legal Fraternity



Commercial Bank was Ranked Among the Top 1000 Banks of the World for a Fourth Successive Year in 2014



Commercial Bank Donates 140th IT Lab to Mahamithawa Junior School, Nikaweratiya



The new IT Lab was formally declared open by Commercial Bank's former Managing Director and CEO Mr Ravi Dias at the Mahamithawa Junior School, Nikaweratiya, a mixed school with 200 students.

Commercial Bank Enhances Support to Education with Novel Online Project



More than 50,000 children from 50 schools have been provided the opportunity to access carefully selected mathematics and science lessons via a specially created web platform, to supplement their regular lessons in these subjects.

Commercial Bank Announced the Appointment Mr. Jegan Durairatnam as the Bank's Managing Director/Chief Executive Officer and Mr. S. Renganathan as the Bank's Chief Operating Officer/ Executive Director Effective from 17th July 2014.



Commercial Bank Announced the Appointment of Mr. Dharma Dheerasinghe and Mr. Preethi Jayawardena as Chairman and Deputy Chairman of the Bank, with effect from July 29, 2014.



August →

Double Honours for Commercial Bank at Asia's Best CSR Practices Awards



Commercial Bank received the award for 'Support and Improvement in quality of Education' and a Merit Certificate for 'Concern for Health' at the 4th Asia's Best CSR Practices Awards at Singapore.

Commercial Bank Rated Most Respected Bank in Sri Lanka for 10th Consecutive Year

Commercial Bank was rated as the most respected bank in Sri Lanka for the 10th consecutive year and the second 'Most Respected' corporate entity in the country for the fourth consecutive year in the annual LMD rankings.

Additionally, the Bank was ranked No. 1 in Sri Lanka for 'Honesty' for the second successive year, topping the category that is most important to businesses in the financial services sector.

September →

Commercial Bank Commissioned Milestone 600th ATM at the New Colombo Gold Centre



Commercial Bank Launches 'Future Pensions Plan'



Commercial Bank launched a pensions plan in an effort to empower the future aspirations of the youth as well as help imminent retirees fulfill their expectations.

Commercial Bank Acquires Indra Finance Limited



In one of the first transactions under the Financial Sector Consolidation Road Map mandated by the Central Bank of Sri Lanka, Commercial Bank acquired a 100% stake of Indra Finance Limited, with the Share Sale and Purchase Agreement signed on 1st September 2014 at the Commercial Bank Head Office in Colombo.

October →

Commercial Bank ranked 'The Strongest Bank in Sri Lanka'



Commercial Bank was adjudged 'The Strongest Bank in Sri Lanka in 2014' by The Asian Banker, a leading provider of strategic intelligence on the financial services industry.

Commercial Bank Sweeps the Board at Brand Excellence 2014



Commercial Bank won the coveted 'Service Brand of the Year' and three other accolades at the 2014 SLIM Brand Excellence Awards to become the bank that won the most awards at this prestigious event conducted by the Sri Lanka Institute of Marketing.

Commercial Bank Launches 'PAYCOM' Sri Lanka's First Multilingual Mobile POS Application



Commercial Bank and Paycorp International (PYCI), a leading provider of enterprise payment processing solutions to banks, corporates and industry specific vertical markets, have formed a strategic alliance to launch 'PAYCOM,' Sri Lanka's first Multilingual Mobile POS solution.

November →

Commercial Bank Commissions Drive-through ATM at Gampaha



The Commercial Bank of Ceylon commissioned its third drive-through Automated Teller Machine (ATM) at the Bank's Gampaha branch.

Commercial Bank's CSR Trust Donated Milestone 150th IT Lab



The CSR Trust of Commercial Bank achieved a significant milestone under its nationally-scaled IT education programme, when it donated its 150th fully-equipped IT laboratory to Beligamuwa Kanishta Vidyalaya in Galwela in the Matala district.

December →

Commercial Bank Receives License from Central Bank of Myanmar



Commercial Bank became the first Sri Lankan bank to be granted a license by the Central Bank of Myanmar to operate a Representative Office in the South East Asian republic of more than 50 million people.

Commercial Bank, Adjudged Number 2 Corporate at Best Corporate Citizen Awards



Commercial Bank's status as one of Sri Lanka's leading corporate citizens was emphatically reaffirmed when the Ceylon Chamber of Commerce presented the country's largest private bank with the Runner-Up award at the 2014 Best Corporate Citizen Sustainability Awards, along with seven more accolades.

Commercial Bank Adjudged Sri Lanka's 'Bank of the Year' in 2014



Commercial Bank was bestowed with the Sri Lanka's 'Bank of the Year' award by the world famous UK-based 'The Banker' Magazine.

Commercial Bank's Annual Report Best Among Private Banks in South Asia



The 2013 Annual Report of Commercial Bank won two key awards at the Best Presented Annual Report Awards presented by the South Asian Federation of Accountants (SAFA), reaffirming the high quality of the Bank's financial reporting standards.

The bank was adjudged the winner in the 'Private Sector Banks' category and was the first runner-up for the SAARC Anniversary Award for Corporate Governance Disclosures.

Correspondent Banks

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,
No. M5X 1A1, Canada
BIC: BOFMCAM2
A/C: 3144-1044-203

United Kingdom

HSBC Bank PLC
8, Canada Square,
London.
BIC: MIDLGB22
A/C: 58335536* (GBP),
59398188* (GBP) &
59448448* (EUR)

Standard Chartered Bank (GBP)
City Office, Branch No. 37, Grace
Church Street,
London, EC3V 0BX.
BIC: SCBLGB2L
A/C: 1804813401

Norway

Den Norske Bank (NOK)
Stranden 21, 0021,
Oslo.
BIC: DNBANOKK
A/C: 7002.02.04808

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*

HSBC Bank USA (US\$)
500, Stanton Christiana Road,
New York, Delaware 19713.
BIC: MRMDUS33
A/C: 45829 & 147605*

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: PNBPU33NYYC
A/C: 2000191002407 &
2000193003365*

Netherlands

Ing Bank NV (EUR)
P.O. Box 1800 1000 BV,
Amsterdam.
BIC: INGBNL2A
A/C: 50908928

France

Credit Agricole SA (EUR)
75710 Paris Cedex 15, CCP,
Paris 702 U 020.
BIC: AGRIFRPP
A/C: 20533624000*

Switzerland

UBS AG (CHF)
P.O. Box CH-8098,
Zurich.
BIC: UBSWCHZH
A/C: 02300000085408050000W &
02300000036535050000N*

Germany

Commerz Bank AG (EUR)
ZTB BC Mitte 6.4, Mainzer Landstrass
277-293, 60261,
Frankfurt AM Main.
BIC: COBADEFF
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*

Unicredito Bank AG (EUR)
D - 86311 Maenenchen.
BIC: HYVEDEMM
A/C: 69101429

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
Cooperation (EUR)**
Piazza Nogara 2, 37121 Verona, Vr.
BIC: BAPPIT22
A/C: 400000082

Unicredito Italiano SPA (EUR)
Viale, Mberto, Tupini, 180, 1-00144
Rome.
BIC: UNCRITMM
A/C: 0995 4268

Denmark

Nordea Bank Denmark A/S (DKK)
P.O. Box 850, DK-0900, Copenhagen.
BIC: NDEADKKK
A/C: 5000408909 & 5000017703*

Saudi Arabia

**The National Commercial Bank
(US\$)**
International Banking Division,
Banking Relations, 20th Floor,
P.O. Box 3555,
Jeddah 21481.
BIC: NCBKSAJE
A/C: 55535150090301

Correspondent Banks

Sweden

Skandinaviska Enskilda Banken (SEK)

Utlandsreskontran Stockholm S
106 40.
BIC: ESSESESS
A/C: 52018529803

Svenska Handelsbanken Stockholm (SEK)

BIC: HANSESSA
A/C: 40324079*

United Arab Emirates

Blom Bank France (AED)

P.O. Box 4370, Al Maktoum Street,
Deira. Dubai.
BIC: BLOMAEAD
A/C: 510035395784101000

Mashreq Bank (AED)

P.O. Box 1250,
Dubai.
BIC: BOMLAEAD
A/C: AE270330000010195511268

Pakistan

Standard Chartered Bank (AC\$)

1.1, Chundrigar Road, Karachi 75600.
BIC: SCBLPKK
A/C: 15000297601USD &
15000288701USD*

Sri Lanka

Commercial Bank of Ceylon PLC (AC\$)

Commercial House, 21,
Sir Razik Fareed Mawatha,
P.O. Box 856,
Colombo 1.
BIC: CCEYLK LX
A/C: 1420825031*

India

Axis Bank Limited (AC\$)

4th Floor, Axis House, Bombay
Dyeing Mills Compound,
Pandurang Budhkar Marg.
Mumbai - 400 025
BIC: AXISINBB
A/C: 910020049396568*

Bank of Ceylon, Chennai (ACE)

1090, Poonamallee High Road,
Chennai 600 084.
BIC: BCEYIN5M
A/C: 1-119

ICICI Bank Ltd. (AC\$)

ICICI Bank Towers, Bandra-Kurla
Complex, Bandra (East),
Mumbai 400 051.
BIC: ICICINBB
A/C: 406000181 & 000406000220*

Standard Chartered Bank

23-25, Mahatma Gandhi Road,
P.O. Box 558,
Mumbai 400 001.
BIC: SCBLINBB
A/C: 22205031885 (AC\$) &
22205394120 (ACE)

Singapore

Citibank NA (US\$)

3, Temasek Avenue,
14-00, Sennal 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*

Korea

Hana Bank (US\$)

No 101-1, 1KA, EULJIRO,
Chung-ku, Seoul 100-191.
BIC: HNBKRSSE
A/C: 06091000119831

Kookmin Bank (US\$)

9-1, 2GA, Namdaemun -
RO, Jung - GU,
Seoul 100-703.
BIC: CZNBKRSE
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: HVBKRSSE
A/C: W1027001US

China

Standard Chartered Bank (CNY)

22nd Floor, Standard Chartered
Tower,
201, Century Avenue,
Pudong, Shanghai.
BIC: SCBLCNSX
A/C: 501510533540

Japan

Bank of Tokyo Mitsubishi Ltd. (JPY)

P.O. Box 9997, 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: SCBLJPJT
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

Bangladesh

Commercial Bank of Ceylon PLC (AC\$)

Corporate Branch and Head Office
Hadi Mansion, 2 Dilkusha C/A
Dhaka 1000.
BIC: CCEYBDDH
A/C: 2802000017

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)

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

New Zealand

Bank of New Zealand (NZD)

P.O. Box 2392, 1, Willis Street,
Wellington.
BIC: BKNZNZ22985
A/C: 2659680000 & 2690700000*

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 Foreign Currency Banking Unit (FCBU) was formed. | | |
| 1980 | Commercial Development Company Ltd. 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, Bristol Street (now known as Sir Razik Fareed Mawatha), Colombo 01. | | |
| 1987 | EBL changed its name to Standard Chartered (UK) Holdings Ltd. | | |
| 1988 | An associate company, Commercial Leasing Company Ltd. was formed. | | |
| 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 Commercial Development Company Ltd. increased to 94.55% through a share swap. | | |
| 1997 | Standard Chartered Bank sold its 40% stake in the Bank. | | |
| 1998 | 365-day branch at Colombo 07 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. | | |
| 2001 | 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. | | |
| 2004 | Commercial Bank Social Responsibility Trust was set up. | | |
| | | 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 | Sold of its 30% stake in the equity of Commercial Leasing Company PLC. 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. Became the only Sri Lankan bank to be ranked among the 'Top 1000 Banks in the World' for the 2nd time. |
| | | 2011 | Opened the 200th delivery point at Kataragama and installed the 500th ATM. Set up Islamic Banking Unit and 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 2nd consecutive year. Raised as US \$ 65 Mn., from the International Financial Corporation (IFC). 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. |
| | | 2013 | 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 million from the IFC as a ten year Subordinated Term Debt that qualifies for Tier II Capital. 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)'. |
| | | 2014 | 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 2013 Annual Report of the Commercial Bank of Ceylon PLC won two key awards at the Best Presented Annual Report Awards presented by the South Asian Federation of Accountants (SAFA) including the Gold award for the Winner in the Private Sector category. Bank acquired the ownership of Indra Finance Ltd. Bank installed its 600th ATM at the Gold Centre branch. |

A**Acceptances**

Promise to pay created when the drawee of a time draft stamps or writes the word 'accepted' above his signature and a designated payment date.

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Associate

An entity in which the investor has significant influence and which is neither a subsidiary nor an interest in a joint venture.

Available-for-Sale

All assets not in any of the three categories, namely, held-to-maturity, fair value through profit or loss and loans and receivables.

B**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%); 100 basis points is 1 percentage point. Used in quoting movements in interest rates or yields on securities.

C**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 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.

Cost/Income Ratio

Represents the proportion of total operating expenses to total operating income.

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.

Credit Risk

Risk of financial loss if a customer or counterparty fails to meet an obligation under a contract.

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.

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.

D**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. an 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.

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

Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

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 of the investor includes the investor's share of the profit or loss of the investee.

F**Fair Value**

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair Value Through Profit or Loss

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 leased.

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.

G**Group**

A group is 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.

H**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

Debt assets acquired by the entity with positive intention to be held-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.

I**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.

Glossary of Financial and Banking Terms

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 non-monetary asset without physical substance.

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.

K**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.

L**Liquid Assets**

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, Bills of Exchange and Treasury Bills and Bonds.

Loans and Receivables

Conventional loan assets that are unquoted (originated or acquired).

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.

M**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.

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.

N**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

Equity in a Subsidiary not attributable, directly or indirectly, to a Parent.

O**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.

P**Parent**

A Parent is an entity that has one or more Subsidiaries.

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.

R**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.

Return on Average Assets (ROA)

Profit after tax expressed as a percentage of the average assets.

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.

Repurchase Agreement

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

Return on Average Equity (ROE)

Net profit attributable to owners expressed as a percentage of average ordinary shareholders' equity.

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.

S**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, including an unincorporated entity such as a partnership, which is controlled by another entity (known as the Parent).

T**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.

Y**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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Notice of Meeting - Annual General Meeting

Notice is hereby given that the Forty-Sixth (46th) 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 Tuesday, March 31, 2015 at 2.00 p.m. for the following purposes:

1. 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, 2014 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. 4/- per issued and fully-paid ordinary (voting) and (non-voting) share constituting a total sum of Rs. 3,464,347,048/- based on the issued ordinary (voting) and (non-voting) shares as at February 20, 2015 [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, 2014 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 item 2 (ii) and 2 (iii) below, the declared final dividend of Rs. 4/- 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 20, 2015 in the manner following:

- The payment in cash of Rs. 2/- per issued and fully-paid ordinary (voting) and (non-voting) 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:

(i) By way of a cash distribution:

A cash distribution of a sum of Rs. 1,621,013,632/-, (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. 111,159,892/- shall be made to the entitled Shareholders of the ordinary (non-voting) shares, on the basis as aforesaid of Rs. 2/- per ordinary (voting) and (non-voting) share respectively (less any Withholding Tax);

And

(ii) By way of the allotment and issue of new shares:

The balance sum of:

- Rs. 1,621,013,632/-, (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. 111,159,892/-, 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:

- (a) 01 new fully-paid ordinary (voting) share for every 99.888889 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 20, 2015; and
- (b) 01 new fully-paid ordinary (non-voting) share for every 77.222222 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 20, 2015.

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 8,114,083 new ordinary (voting) shares, based on the issued and fully-paid ordinary (voting) shares as at February 20, 2015, (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 719,740 new ordinary (non-voting) shares based on the issued and fully-paid ordinary (non-voting) shares as at February 20, 2015 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 810,506,816 existing issued and fully-paid ordinary (voting) shares as at February 20, 2015 and 55,579,946 existing issued and fully-paid ordinary (non-voting) shares as at February 20, 2015 (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, 2014:

"The allotment and issue of 8,114,083 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 719,740 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 (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".

(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 (non-voting) Shareholders respectively]:

THAT the proposed allotment and issue of 8,114,083 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 719,740 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, as given below:

- (a) Prof. Uditha Pilane Liyanage
- (b) Mr. Lakshman Hulugalle
- (c) Mr. Hakan John Wilson
- (d) Mr. Sivakrishnarajah Renganathan

4. (a) To re-appoint Messrs KPMG, Chartered Accountants, as recommended by the Board of Directors as the Company's Auditors for the financial year ending December 31, 2015; and

(b) To authorise the Board of Directors to determine the remuneration of the Auditors for the financial year ending December 31, 2015.

5. To authorise the Board of Directors to determine donations for the year 2015.

By Order of the Board of Commercial Bank of Ceylon PLC,



Ms. Ranjani Gamage
Company Secretary

March 09, 2015
Colombo

Notes

- i. 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. 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 item 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 item 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 (formerly known as Bristol Street), Colombo 01, not less than 48 hours before the time appointed for the holding of the AGM.

Circular to the Shareholders on the Final Dividend for 2014



Dear Shareholder/s,

Final Dividend for the year ended December 31, 2014 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, 2014 a final dividend distribution of Rs. 4/- per each existing issued and fully-paid ordinary (voting) and (non-voting) share is recommended for the financial year ended December 31, 2014 for due declaration by the Shareholders at the Annual General Meeting ('AGM') to be held on March 31, 2015. 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. 1,732,173,524/- based on the issued and fully paid ordinary (voting) and (non-voting) shares of the Company as at February 20, 2015 [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. 1,732,173,524/- based on the issued and fully paid ordinary (voting) and (non-voting) shares of the Company as at February 20, 2015 [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) 8,114,083 number of new ordinary (voting) shares, calculated based on the issued and fully paid ordinary (voting) shares as at February 20, 2015 [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 20, 2015; and
- b) 719,740 number of new ordinary (non-voting) shares calculated based on the issued and fully paid ordinary (non-voting) shares as at February 20, 2015 and on the basis of their market value (closing price) as at the end of trading on February 20, 2015.

The said shares shall be issued in the following ratios to the entitled Shareholders:

- a) One new fully-paid ordinary (voting) share for every 99.888889 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 20, 2015; and
- b) One new fully-paid ordinary (non-voting) share for every 77.222222 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 20, 2015.

The above share ratio is based on a value of Rs. 179.80 per ordinary (voting) share and Rs. 139.00 per ordinary (non-voting) share [subject to ten percent (10%) Withholding Tax, as may be applicable] as at the end of trading on February 20, 2015. 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 stock brokers, the shares held with multiple stock brokers 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 therefor, 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 therefrom shall, subject to receiving the approval of the Shareholders therefor, 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 authorization 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.

- 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 authorized 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, 2014 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, 2015 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 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 09, 2015

Notice of Meeting - Extraordinary General Meeting

Employee Share Option Plan – 2015

Notice is hereby given that an Extraordinary General Meeting of Commercial Bank of Ceylon PLC will be held immediately after the conclusion of the Annual General Meeting which has been convened for Tuesday, March 31, 2015 at 2.00 p.m. at the Grand Ballroom of the Galadari Hotel, No. 64, Lotus Road, Colombo 01 for the following purposes:

1. Establishment of the Employee Share Option Plan – 2015 - Resolution No. 1

To consider and if thought fit to pass the following resolution by way of a Special Resolution:

“THAT the Employee Share Option Plan - 2015 as detailed out in the ‘Circular to the Shareholders - Employee Share Option Plan (ESOP) – 2015’ dated March 9, 2015 be established by Commercial Bank of Ceylon PLC subject to and based on the terms and conditions stated therein.

2. Waiver of Pre-Emption Rights to new shares to be issued under the Employee Share Option Plan – 2015 to parties, other than Existing Shareholders - Resolution No. 2

To consider and if thought fit to pass the following resolution by way of an Ordinary Resolution:

“THAT the Board of Directors of Commercial Bank of Ceylon PLC [the “Company”] be and is hereby empowered and authorized to allot and issue from time to time new ordinary voting shares under and in pursuance of the Employee Share Option Plan (ESOP) – 2015, established in terms of the ‘Circular to Shareholders – Employee Share Option Plan (ESOP) – 2015’ dated March 9, 2015 subject to and based on the terms and conditions stated therein, and accordingly the pre-emptive rights of the Shareholders in relation to new share issues and the consequent necessity to offer such new shares first to the Company’s Shareholders pro-rata to their existing shareholding and in a manner which would, if accepted, maintain the relative voting and distribution rights of such Shareholders, be and is hereby waived in pursuance of Article 9 A of the Company’s Articles of Association”.

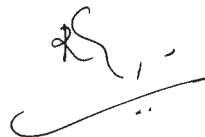
3. Approval under Section 99 of the Companies Act No. 7 of 2007 & Article 10 of the Articles of Association of the issue of new shares under the Employee Share Option Plan – 2015 - Resolution No. 3

To consider and if thought fit to pass the following resolution by way of a Special Resolution:

“THAT the allotment and issue as may occur from time to time of new ordinary voting shares by the Board of Directors of Commercial Bank of Ceylon PLC [the “Company”] under and in pursuance of the Employee Share Option Plan (ESOP) – 2015, established in terms of the ‘Circular to Shareholders – Employee Share Option Plan (ESOP) – 2015’ dated March 9, 2015 subject to and based on the terms and conditions stated therein, be and is hereby approved for purposes of Section 99 of the Companies Act No. 7 of 2007 and Article 10 of the Articles of Association of the Company; and

THAT accordingly the Company’s management be and is hereby authorized to take all necessary steps to give effect to the above”.

By Order of the Board of Commercial Bank of Ceylon PLC



Ms. Ranjani Gamage
Company Secretary

March 9, 2015

Notes

- (i) A Shareholder entitled to attend, speak and vote at the meeting is entitled to appoint a Proxyholder to attend, speak and vote in his/her stead and a Shareholder who is entitled only to attend and speak at the meeting is entitled to appoint a Proxyholder to attend and speak on his/her behalf. A Proxyholder need not be a Shareholder of the Company.
- (ii) A form of Proxy is sent along with this Notice. 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 48 hours before the time appointed for the holding of the Meeting.



Dear Shareholder/s,

1. Business Case

(a) Background and Proposal

Commercial Bank of Ceylon PLC (the 'Company') has, with the approval of the Shareholders successfully implemented the two Employee Share Option Plans ('ESOPs') which were introduced during the years 2002 ['ESOP-2002'] and 2008 ['ESOP-2008'], respectively. The said ESOPs, which had also received the approval of regulatory bodies were operated in accordance with the Guidelines set out by the Securities and Exchange Commission of Sri Lanka (the 'SEC') and the Colombo Stock Exchange (the 'CSE') and were successfully concluded in 2006 and 2012 respectively.

Given the success of the above two ESOP schemes, which have been of mutual benefit to both employees and Shareholders of the Company, and, in keeping in line with modern international practices, the Company's Board of Directors propose to introduce an ESOP for the year 2015 ['ESOP-2015'], subject to regulatory and Shareholder approval being obtained therefor. It is to be noted that in comparison to the previous ESOP schemes, the eligible employee coverage has been improved significantly, in this scheme.

Furthermore, ESOP-2015 has been structured with the professional assistance of NDB Investment Bank ['NDBIB'] and also Messrs KPMG, Chartered Accountants, who have provided advice regarding the tax and accounting implications pertaining to the scheme. The terms and conditions governing the ESOP-2015 are, as set out herein, subject however to the provisions of applicable Statutes, the Listing Rules of the CSE and other applicable rules and regulations of regulatory bodies and provided that any matter not expressly dealt with herein or which lacks clarity will, for purposes of administrative efficacy and clarity of this scheme, be determined at the discretion of the Company's Board of Directors [subject to such Board being constituted for this purpose only of the Non-Executive Directors] within the framework of the Report provided by NDB Investment Bank to establish ESOP-2015.

ESOP-2015 will come into effect from April 01, 2016 [subject to all necessary approvals being obtained therefor] and will lapse on September 30, 2018.

(b) Global Trends

ESOPs are increasingly used in the corporate world as an effective tool to align employee interests with Shareholder expectations by enabling employees to take part in the share ownership of the Company.

(c) Benefits to Shareholders and to the Company

As you are aware your Company has been performing remarkably well in the recent past. These recent successes of the Company are largely due to the efforts and contributions made by the staff, in particular the Executive Officers in Grade 1A and above, whose efforts have been highly appreciated by the Shareholders at general meetings of the Company.

The ESOP-2015 is proposed by the Board of Directors in aiming at further motivating the staff, so that they would continue to maintain the growth momentum of the Company and push the Company into new heights in the future with consequential direct and indirect benefits to Shareholders. The Board of Directors are confident that the staff motivation generated through the proposed ESOP-2015 will contribute substantially towards the success of your Company in outperforming the local market, in terms of business growth, profitability and market capitalisation of its shares.

2. Quantum of Share Options to be Issued

Under the proposed ESOP-2015, the Company will allocate up to a maximum of 2% of the total issued and fully-paid ordinary [voting] shares of the Company amounting to 16,210,714 (subject to exercise of existing ESOPs). This equity allocation would be issued to employees in the form of share options in a maximum of three (03) annual tranches spread over a period of three (03) years, commencing from 2015 and after 3 years the ESOP-2015 would lapse.

The first two tranches would amount to a maximum of 0.5% each, whilst the third tranche would amount to a maximum of 1%, of the ordinary [voting] shares in issue as at the grant date [i.e. the date on which the share options are offered/granted to the employee]. The Company's Board of Directors will, however, have the discretion to decide on the exact size of an annual tranche up to the said limits to be granted in a financial year, depending on the extent of achievement of the qualifying criteria by the Company in the previous year, as detailed in Section 3 below (subject however to the 2nd paragraph of section 4 below). If the quantum of share options offered in a given year is less than the abovementioned maximum amounts of 0.5% or 1%, the remainder which has not been offered in a given year will remain unissued.

In the event of subsequent Bonus Issues [Capitalisation of Reserves], Stock Dividends, Rights Issues and/or Sub-division/Consolidation of Shares by the Company which occur during the vesting period and the exercise period [in the case of unexercised options], the number and the exercise price of the share options to be offered under the affected tranches will be adjusted as per the applicable rules of the ESOP-2015, which have been drafted in accordance with the accepted market practices.

3. Qualifying Criteria that the Company should satisfy to proceed with ESOP-2015

(a) Profitability

- (i) The Bank should achieve the annual budgeted profit after tax for the respective financial year commencing from 2015 for eligible employees to be entitled for share options.
- (ii) The Company's percentage growth of Profit After Tax (PAT) in a financial year should exceed the average of percentage growth of PAT disclosed by the competitor banks in their Annual Reports during the same period. However, PAT of the Company and competitor banks will be adjusted on account of the foreign currency transaction gains/losses, if any, arising from their overseas banking operations, and which are currently recognised in the Statement of Changes in Equity, as per the Accounting Standards.

Circular to Shareholders on Proposed Employee Share Option Plan – 2015 (ESOP-2015)

These competitor banks for 2015 will be Hatton National Bank PLC, Sampath Bank PLC, NDB Bank PLC, Seylan Bank PLC and The Hongkong and Shanghai Banking Corporation Ltd - Sri Lanka Branch. The Board of Directors has the authority to amend the list of comparator banks, depending on the market conditions and other relevant issues.

(b) Return on Equity (ROE)

There are two sub-criteria to be fulfilled in this connection-

- (i) The Company's ROE for a financial year measured as per the following formula should exceed the required ROE of the Company, to be decided by the Board of Directors of the Company.

$$\text{ROE} = \frac{\text{Profit After Tax}}{\text{Average of quarterly book value of Equity (Shareholders' funds)}} \times 100$$

Required ROE = Simple average of the weekly published weighted average rates of interest (after tax) on one (1) year Treasury bills during the applicable financial year (risk free rate) + an equity risk premium to be determined by the Board of Directors between 5% - 7% which will be communicated to the eligible staff annually in advance.

- (ii) ROE of the Company, measured as per the formula in 3(b)(i) above for a financial year should exceed the average (pooled) ROE of comparator Banks during the same period, to be calculated using the same formula referred to in 3(b)(i) above.

(c) Compliance

The Company should fulfill all the following compliance requirements:

- i. To obtain an unqualified audit opinion from the external Auditors;
- ii. To fulfill the Regulatory requirements on Capital Adequacy, Liquid Assets and Statutory Reserve Requirements of the Central Bank of Sri Lanka (the 'CBSL'), without any material breach;
- iii. To classify the Non Performing Loans properly;
- iv. To make provisions on Non performing Loans accurately;
- v. To adhere to the rules of the CSE and the Securities and Exchange Commission of Sri Lanka; and
- vi. To adhere to the applicable provisions of the Mandatory Corporate Governance Code of the CBSL.

Fulfillment of the above compliance criteria should be established from the disclosures made in the Directors' and Auditors' Reports contained in the Company's Annual Report.

4. How to be Eligible for ESOP-2015

From 2015 onwards the Company will be required to fulfill any two of the four criteria referred to in 3(a), 3(b)(i) and 3(b)(ii) above in the financial year applicable, in addition to the compulsory fulfillments of the criterion on Compliance, referred to in 3(c) above.

An employee of the Company shall not be entitled to acquire through ESOPs more than one percentum (01%) of the total number of shares issued by the Company at any given time.

Hence, share options under the annual tranches up to a maximum of three (03) will be granted during the period from 2016 to 2018. Any share options not allocated during this period, due to the Company not achieving the above qualifying criteria will be cancelled.

5. Share Option Grant Dates

Share options under the 1st tranche of the ESOP-2015, shall, in respect of the year 2015, be offered on April 01, 2016. Thereafter, options under the remaining tranches will be offered on April 01 each year until the conclusion of the maximum of three (3) tranches of the ESOP-2015, the last being on April 01, 2018.

6. Share Option Allocations to Individual Employees – Eligibility Criteria

For an employee to be eligible for share options under a particular tranche of the ESOP- 2015, he/she:

- (i) should be an Executive Officer in Grade 1A or above working in Sri Lanka operations and includes Executive Directors of the Company and having a performance grading of 'Very Good' or above in the annual performance assessment system of the Company for the applicable year.

7. Vesting Period

Once the share options are granted for 2015, 2016 and 2017 the eligible employee should remain in the employment from April 01 to September 30, 2016, 2017 and 2018 respectively for them to be able to exercise each option of ESOP-2015. Hence, every tranche will have the following vesting schedule:

| Tranche | % of Voting Shares Issued (maximum) | Period of Performance Evaluation | Option Grant Date (Assumed) | Date of Vesting | Exercise Period |
|---------|-------------------------------------|----------------------------------|-----------------------------|-----------------|-------------------------|
| 1 | 0.5 | FY 2015 | 01.04.2016 | 30.09.2016 | 1.10.2016 to 30.09.2019 |
| 2 | 0.5 | FY 2016 | 01.04.2017 | 30.09.2017 | 1.10.2017 to 30.09.2020 |
| 3 | 1.0 | FY 2017 | 01.04.2018 | 30.09.2018 | 1.10.2018 to 30.09.2021 |

7.1. Early Vesting

In the event of retirement or death of an eligible employee, there will be an immediate vesting of all the options granted to the respective eligible employee.

8. Exercise Period

This is the period which follows the vesting period, during which an eligible employee could exercise the share options to purchase the ordinary [voting] shares of the Company at the pre-determined exercise price, as detailed in Section 9 below.

The exercise period applicable after each of the vesting periods referred to in Section 7 above would be 3 years. Accordingly, the exercise period schedule of the ESOP-2015 would be as follows, assuming that options under each of the annual tranches will be issued upto the full 0.5% in the first two years and the full 1% in the third year, these being the consecutive years 2016, 2017 and 2018.

Circular to Shareholders on Proposed Employee Share Option Plan – 2015 (ESOP-2015)

| Tranche | % of Voting Shares Issued (maximum) | Period of Performance Evaluation | Option Grant Date (Assumed) | Date of Vesting | Exercise Period |
|---------|-------------------------------------|----------------------------------|-----------------------------|-----------------|-------------------------|
| 1 | 0.5 | FY 2015 | 01.04.2016 | 30.09.2016 | 1.10.2016 to 30.09.2019 |
| 2 | 0.5 | FY 2016 | 01.04.2017 | 30.09.2017 | 1.10.2017 to 30.09.2020 |
| 3 | 1.0 | FY 2017 | 01.04.2018 | 30.09.2018 | 1.10.2018 to 30.09.2021 |

Any options not exercised during the applicable period will be cancelled, subject to the vesting arrangements applicable for eligible employees on retirement and/or death [such vesting arrangements and applicable Exercise Periods shall be determined at the discretion of the Company's Board of Directors (subject to such Board being constituted for this purpose only of the Non-Executive Directors)]. However, in the event of resignation of an employee prior to vesting (as detailed in Section 7 above), any options offered to him, but not vested will be cancelled, allowing him to exercise only the vested but unexercised options, if any. On the other hand, in the event of dismissal or serious disciplinary action being taken against a particular employee, all vested but unexercised options, if any, as at the date of dismissal/date on which disciplinary action is taken [including where the employee voluntary resigns due to such factors] would be cancelled.

9. Share Option Exercise Price

All share options will be offered at a predetermined price. However, in order to ensure that the Company would receive a fair value, the share options will be priced at a volume-weighted average market price of the Company's ordinary (voting) shares, during the period of thirty (30) market days, immediately prior to each option grant date.

However, in the event of a Bonus Issues [Capitalisation of Reserves], Stock Dividends, Rights Issues and/or Sub-division/Consolidation of shares by the Company during the applicable vesting periods of the ESOP-2015, the share option exercise price of the affected tranches will be adjusted as per the applicable rules of the ESOP-2015 which have been drafted in accordance with the accepted market practices.

10. Financial Support to Purchase Shares Under the ESOP-2015

Neither the Company nor its subsidiaries will provide any direct or indirect financial support to the Company's employees to purchase shares under the proposed ESOP-2015.

The employees holding shares issued under any previous ESOPs which were funded by the Company or any of its subsidiaries and an employee share trust, shall not participate in voting at the Extraordinary General Meeting to be held on March 31, 2015.

11. Accounting and Financial Reporting Implications to the Company Under the ESOP-2015

The Company is mindful of the "Sri Lanka Accounting Standard-SLFRS 2 Share-based Payments" which sets out the financial reporting implications to an entity when it undertakes a share-based

payment transaction. In particular, it requires an entity to reflect in its profit and loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees. This has been modelled after IFRS 2 - Share Based Payments.

At the grant date of the options, the Company is required to recognise the value of the share options granted to employees through the ESOP-2015. The value of the share options should be calculated using an option valuation model. SLFRS 2 recommends using either Black-Scholes-Merton Model or Binomial Option Valuation Models for this purpose. NDBIB has estimated the value of the options using the Binomial Model of option valuation.

The value of the options should be amortised over the vesting period. Assuming that the impact to the Statement of Comprehensive Income for the first year as per Auditor's estimates is Rs. 278.7 Mn., which could however be amortised over the vesting period of 3 years. Furthermore there will be no outgoing from the Company in this connection, as the accounting entries to be passed for this purpose will be a debit to the Income Statement, whilst credit is placed in the equity account of the Company.

12. Tax Implications

The profit and loss impact mentioned above in each financial year will not be treated as tax deductible expenses for the Corporate Tax purposes and Financial VAT purposes since the expenses mentioned above will not be made in the form of cash/monetary means in the hands of employees. However, for PAYE tax purposes such expenses will be treated as employment benefits at the point of option exercise by the employees, hence, will warrant tax deduction according to each employee's effective tax rate.

13. Appointment of Managers to the ESOP - 2015

The Company will arrange to appoint independent Managers with no conflict of interests, to manage and monitor the proposed ESOP-2015.

14. Consideration for the Issue of Shares

As required by Section 52 of the Companies Act No. 07 of 2007, the Board has resolved that in its opinion that the consideration, for which the Company's ordinary [voting] shares are proposed to be issued, is fair and reasonable to the Company and to all existing Shareholders.

Such consideration will be equivalent to the volume weighted average market price of the Company's ordinary [voting] shares, during the period of thirty (30) market days, immediately prior to each option grant date.

15. Approvals

(i) Listing Rules of the CSE

The Board of Directors of your Company, having considered the above implications and overall benefits to the Company and its staff arising from the proposed ESOP-2015, are pleased to recommend ESOP-2015, which has been approved by them, to the Shareholders for their formal approval.

Circular to Shareholders on Proposed
Employee Share Option Plan – 2015 (ESOP-2015)

As per Listing Rule 5.6 of the Listing Rules of the CSE, the prior approval of the Shareholders, by way of a special resolution at a general meeting must be obtained for the purpose of creating or establishing a scheme such as ESOP-2015. Accordingly, an Extraordinary General Meeting has been convened for March 31, 2015 for this purpose and the proposed resolutions to be passed thereat is set out in the attached Notice of Meeting, for the consideration and due adoption by the Company's Shareholders thereat.

Subject to the above, your Directors have obtained 'in principle' approval of the CSE, for the listing of the ordinary [voting] shares to be allotted and issued under the ESOP-2015.

(ii) Requirements under the Companies Act No. 07 of 2007 and the Articles of Association of the Company

In terms of Article 9 A of the Company's Articles of Association, the Company's Shareholders have a pre-emptive right to new issues of shares, unless otherwise resolved to by way of an ordinary resolution. Since new ordinary [voting] shares will be issued under ESOP-2015, the requisite resolution to be passed by Shareholders waiving their pre-emptive rights thereto is set out in the attached Notice of Meeting, for due consideration and adoption by the holders of the Company's ordinary (voting) shares.

Approval is also sought of the holders of the Company's ordinary [voting] shares by way of a special resolution, in relation to the allotment and issue of new ordinary [voting] shares under the ESOP-2015, in pursuance of Section 99 of the Companies Act No. 07 of 2007 and Article 10 of the Company's Articles of Association. The requisite resolution to be passed in this regard is set out in the attached Notice of Meeting, for due consideration and adoption by the holders of the Company's ordinary (voting) shares.

By Order of the Board of Commercial Bank of Ceylon PLC

(Sgd.)

Ms. Ranjani Gamage
Company Secretary

March 09, 2015

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 (formerly known as Bristol Street), Colombo 01, not less than 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 or 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.

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 (formerly known as Bristol Street), Colombo 01, not less than 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 or 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.

Form of Proxy (Voting Shareholders)
Extraordinary General Meeting

I/We
of being a
Shareholder/s of Commercial Bank of Ceylon PLC hereby appoint (NIC No.)
of whom failing:

- | | |
|---|--------------|
| Mr. Kankanam Gamage Don Dharmasena Dheerasinghe | whom failing |
| Mr. Mahinda Preethiraj Jayawardena | whom failing |
| Mr. Jegatheesan Durairatnam | whom failing |
| Prof. Uditha Pilane Liyanage | whom failing |
| Mr. Lakshman Hulugalle | whom failing |
| Mr. Sembakuttige Swarnajothi | whom failing |
| Mr. Hakan John Wilson | whom failing |
| Mr. Sivakrishnarajah Renganathan | |

as my/our Proxyholder to represent me/us and to speak on my/our behalf and to vote on a show of hands or on a poll on my/our behalf as indicated below at the Extraordinary General Meeting ["EGM"] of Commercial Bank of Ceylon PLC to be held on Tuesday, March 31, 2015 immediately after the conclusion of the Annual General Meeting convened for 2.00 p.m. on that day, and at any adjournment thereof and at every poll which may be taken in consequence thereof and which EGM has been convened for the purpose of considering and if thought fit, passing the following resolutions: (Please indicate your preference with an 'X' in the relevant box):

- | | For | Against |
|--|--------------------------|--------------------------|
| <p>1. Special Resolution - to establish the Employee Share Option Plan – 2015: "THAT the Employee Share Option Plan – 2015 as detailed out in the 'Circular to the Shareholders – Employee Share Option Plan (ESOP) – 2015' dated March 9, 2015 be established by Commercial Bank of Ceylon PLC subject to and based on the terms and conditions stated therein".</p> | <input type="checkbox"/> | <input type="checkbox"/> |
| <p>2. Ordinary Resolution - Waiver of pre-emption rights to new shares to be issued under the Employee Share Option Plan – 2015 to parties, other than existing Shareholders: "THAT the Board of Directors of Commercial Bank of Ceylon PLC [the "Company"] be and is hereby empowered and authorised to allot and issue from time to time new ordinary voting shares under and in pursuance of the Employee Share Option Plan (ESOP) – 2015 established in terms of the 'Circular to Shareholders – Employee Share Option Plan (ESOP) – 2015' dated March 9, 2015 subject to and based on the terms and conditions stated therein, and accordingly the pre-emptive rights of the Shareholders in relation to new share issues and the consequent necessity to offer such new shares first to the Company's existing Shareholders pro-rata to their existing shareholding and in a manner which would, if accepted, maintain the relative voting and distribution rights of such Shareholders, be and is hereby waived in pursuance of Article 9 A of the Company's Articles of Association".</p> | <input type="checkbox"/> | <input type="checkbox"/> |
| <p>3 Special Resolution - approval under Section 99 of the Companies Act No. 7 of 2007 & Article 10 of the Articles of Association "THAT the allotment and issue as may occur from time to time of new ordinary voting shares by the Board of Directors of Commercial Bank of Ceylon PLC [the "Company"] under and in pursuance of the Employee Share Option Plan (ESOP) – 2015, established in terms of the 'Circular to Shareholders – Employee Share Option Plan (ESOP) – 2015' dated March 9, 2015 subject to and based on the terms and conditions stated therein, be and is hereby approved for purposes 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 above".</p> | <input type="checkbox"/> | <input type="checkbox"/> |

Signed on this day ofTwo Thousand and Fifteen.

| | | |
|-----------------------|---------------------------------------|---|
| Folio 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 may be 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) Extraordinary 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 (formerly known as Bristol Street), Colombo 01, not less than 48 hours before the time appointed for the holding of the Meeting.
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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 or 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

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Form of Proxy (Non-Voting Shareholders)
Extraordinary General Meeting

I/We
of being a Shareholder/s of
Commercial Bank of Ceylon PLC hereby appoint (NIC No.)
of whom failing:

- | | |
|---|--------------|
| Mr. Kankanam Gamage Don Dharmasena Dheerasinghe | whom failing |
| Mr. Mahinda Preethiraj Jayawardena | whom failing |
| Mr. Jegatheesan Durairatnam | whom failing |
| Prof. Uditha Pilane Liyanage | whom failing |
| Mr. Lakshman Hulugalle | whom failing |
| Mr. Sembakuttige Swarnajothi | whom failing |
| Mr. Hakan John Wilson | whom failing |
| Mr. Sivakrishnarajah Renganathan | |

as my/our Proxyholder to represent me/us and to speak on my/our behalf at the Extraordinary General Meeting of Commercial Bank of Ceylon PLC which is scheduled to be held on Tuesday, March 31, 2015 immediately after the conclusion of the Annual General Meeting convened for 2.00 p.m. on that day, and at any adjournment thereof.

Signed on this day of Two Thousand and Fifteen.

| | | |
|-----------------------|---------------------------------------|---|
| Folio 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) Shareholders of non-voting shares are entitled only to attend and speak at the 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 may be provided for in its constitutional documents, if any, or 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)
Extraordinary 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) The full name and address of the Proxyholder and of the Shareholder appointing the Proxyholder should be entered legibly in the Form of Proxy.
- (c) The completed Form of Proxy should be deposited at the Registered Office of the Company, 'Commercial House', No. 21, Sir Razik Fareed Mawatha (formerly known as Bristol Street), Colombo 01, not less than 48 hours before the time appointed for the holding of the Meeting.

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.

Dear Reader,

We welcome your valuable ideas/comments on our Annual Report.

To request information or submit a comment/query to the Company, 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.

Name :

Permanent Mailing Address :

Contact Number/s :

- Tel :

- Fax :

- E-Mail :

Name of Company (If Applicable) :

Designation (If Applicable) :

Company Address (If Applicable) :

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Queries/Comments

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Please tick (x) the appropriate box

Would you like to receive soft copies of the Commercial Bank's Interim Financial Reports via e-mail?

| Yes | No |
|--------------------------|--------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> | <input type="checkbox"/> |

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: CCEYLKX
SWIFT Code -
Bangladesh: CCEYBDDH
E-mail: email@combank.net
Web: <http://www.combank.net>,
www.combank.lk

Head Office

'Commercial House',
No. 21, Sir Razik Fareed Mawatha,
P.O. Box 856,
Colombo 01, Sri Lanka.

Information Centre

Telephone: 2353333, 7353333

Tax Payer Identification Number (TIN)

124006007

Credit Ratings

Sri Lanka Operation

- AA(Ika) was re-affirmed by Fitch Ratings Lanka Ltd. in 2014
- Rating upgraded to AAA by Lanka Rating Agency Ltd. (Formerly known as RAM Ratings Lanka Ltd.) in 2014

Bangladesh Operation

- AAA was re-affirmed by Credit Rating Information Services Ltd. in 2014

Compliance Officer

Mr. S.M. Richard Rodrigo

Lawyers

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 Board Sub-Committees

Board of Directors

Mr. K.G.D.D. Dheerasinghe -
Chairman
Mr. M.P. Jayawardena -
Deputy Chairman
Mr. J. Durairatnam - *Managing Director/CEO*
Prof. U.P. Liyanage
Mr. L. Hulugalle
Mr. S. Swarnajothi
Mr. H.J. Wilson
Mr. S. Renganathan
Mr. K. M.M. Siriwardana (*Ceased to hold office w.e.f. February 23, 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
Prof. U.P. Liyanage
Mr. J. Durairatnam (*By Invitation*)

Board Integrated Risk Management Committee

Mr. M.P. Jayawardena - *Chairman*
Prof. U.P. Liyanage
Mr. L. Hulugalle
Mr. S. Swarnajothi
Mr. K.M.M. Siriwardana
Mr. J. Durairatnam
Mr. S.K.K. Hettihamu -
Chief Manager (Risk)

Board Nomination Committee

Mr. K.G.D.D. Dheerasinghe -
Chairman
Mr. M.P. Jayawardena
Prof. U.P. Liyanage
Mr. J. Durairatnam (*By Invitation*)

Board Audit Committee

Mr. S. Swarnajothi - *Chairman*
Mr. L. Hulugalle
Mr. K.M.M. Siriwardana
Mr. J. Durairatnam (*By Invitation*)
Mr. S. Renganathan (*By Invitation*)

Board Credit Committee

Mr. K.G.D.D. Dheerasinghe -
Chairman
Mr. J. Durairatnam
Mr. S. Renganathan

Board Technology Committee

Prof. U.P. Liyanage - *Chairman*
Mr. J. Durairatnam
Mr. S. Renganathan

Board Investment Committee

Mr. K.G.D.D. Dheerasinghe -
Chairman
Mr. H.J. Wilson
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.
Indra Finance Ltd.
Commex Sri Lanka S.R.L.

Associate Companies

Equity Investments Lanka Ltd.
Commercial Insurance Brokers
(Pvt) Ltd.



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For any clarifications on this Report please write to:

The Chief Financial Officer
Commercial Bank of Ceylon PLC,
'Commercial House',
No. 21, Sir Razik Fareed Mawatha,
P.O. 856, Colombo 01, Sri Lanka.
Telephone: 2486550
E-mail: email@combank.net

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



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