

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

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

#### 1. General

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

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

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

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

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

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

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

Information Required to be Disclosed as per the Companies Act No. 07 of 2007	Reference to the Companies Act	Annual Report page Reference for Compliance
(i) The nature of the business of the Group and the Bank together with any change thereof during the accounting period	Section 168 (1) (a)	Refer Section 1.3 on 'Principal Business Activities, Nature of Operations and Ownership by the Bank in its Subsidiaries and Associates' on page 249.
(ii) Signed Financial Statements of the Group and the Bank for the accounting period completed	Section 168 (1) (b)	The Financial Statements of the Group and the Bank for the year ended December 31, 2015 which were duly certified by the Assistant General Manager – Finance and were approved by three members of the Board and the Company Secretary as appearing on pages 241 to 404 form an integral part of this Report.
(iii) Auditors' Report on the Financial Statements of the Group and the Bank	Section 168 (1) (c)	Refer page 237 for the "Independent Auditors' Report"

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

## 2. Review of Business

### 2.1 Vision, Mission and Corporate Conduct

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

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

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

### 2.2 Review of Operations of the Group and the Bank

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

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

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

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

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

### 2.3 Directors' Responsibility for Financial Reporting

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

## 3. Future Developments

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

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

## 4. Gross Income

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

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

## 5. Results and Appropriations

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

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

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

	2015	2014
	Rs. '000	Rs. '000
Profit for the year after payment of all expenses of management, provision for depreciation, impairment on loans and advances, VAT on Financial Services and contingencies	17,143,609	15,736,215
Less: Provision for taxation	(5,240,386)	(4,556,036)
Net profit after taxation	11,903,223	11,180,179
Balance brought forward from previous year	7,459	5,053
Net Actuarial losses on Defined Benefit Plans	(150,048)	–
Super Gains Tax paid on Profit after tax of 2013	(2,576,355)	–
Profit available for appropriation	9,184,280	11,185,232
<b>Less: Appropriations</b>		
Transfer to the Statutory Reserve Fund	(595,161)	(559,009)
Transfer to the Investment Fund Account	–	(388,446)
Transfer to General Reserve	(2,885,000)	(4,600,000)
<b>Dividends on Ordinary Shares</b>		
1st Interim Dividend paid – Rs. 1.50 per share in cash (Rs. 1.50 in 2014)	(1,315,251)	(1,298,154)
2nd Interim Dividend paid – Rs. 1.00 per share in cash (Paid in February 2015)	–	(865,943)
Proposed Final Dividend – Rs. 3.00 per share in cash (Rs. 2.00 in 2014)	(2,630,600)	(1,733,110)
Rs. 2.00 per share in shares (Rs. 2.00 in 2014)	(1,753,734)	(1,733,110)
<b>Balance carried forward</b>	<b>4,534</b>	<b>7,459</b>

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

## 5.2 Dividends on Ordinary Shares

Details of Information on dividends are given in Note 23 to the Financial Statements on page 284.

The interim dividends of Rs. 1.50 per share was paid out of the profits of the Bank, hence, were subjected to a 10% withholding tax.

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

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

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

### 5.3 Reserves

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

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

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

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

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

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

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

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

### 7. Market Value of Properties

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

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

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

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

### 8. Issue of Shares and Debentures

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

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

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

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

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

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

## 8.3 Stated Capital and Debentures

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

## 9. Share Information

### 9.1 Distribution Schedule of Shareholdings

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

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

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

### 9.3 Substantial Shareholdings

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

## 10. Equitable Treatment to Shareholders

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

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

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

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

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

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

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

### 11.2 Recommendations for Re-election

- (i) In terms of Article 85 of the Articles of Association, 2 Directors are required to retire by rotation at each AGM. Article 86 provides that the Directors to retire by rotation at an AGM shall be those who (being subject to retirement by rotation), have been longest in office, since their last election or appointment.
- (ii) The Board recommended the 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. K.G.D.D. Dheerasinghe  
Mr. S. Swarnajothi
- (b) Directors appointed to fill casual vacancies:  
Prof. A.K.W. Jayawardane  
Mr. K. Dharmasiri
- (iii) Directors who served on the Board for over 9 years:  
(In terms of the Banking Act Direction No. 11 of 2007 (Corporate Governance for Licensed Commercial Banks in Sri Lanka), the total period of service of a Director (other than a Director who holds the position of Chief Executive Officer) shall not exceed 9 years).  
None

### 11.3 Directors' Meetings

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

### 11.4 Board Sub-Committees

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

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

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

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

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

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

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

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

### 12.2 Directors' Interests in Debentures

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

### 13. Employee Share Option Plans and Profit Sharing Plans

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

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

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

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

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

Directors' interests in contracts or proposed contracts with the Bank, both direct and indirect are disclosed on page 92. The Directors have also disclosed transactions if any, that could be classified as Related Party Transactions in terms of the Sri Lanka Accounting Standard – LKAS 24 on 'Related Party

Disclosures'. Please refer Note 62 to the Financial Statements on pages 367 to 372 for those transactions disclosed by the Directors. These interests have been declared quarterly at Directors' meetings.

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

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

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

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

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

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

### 15. Directors' and Officers' Insurance

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

### 16. Environmental Protection

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

### 17. Statutory Payments

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

### 18. Events After the Reporting Period

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

### 19. Going Concern

The Directors have made an assessment of the Bank's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern, such as restrictions or plans to curtail operations.

### 20. Appointment of Auditors and their Remuneration

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

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

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

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

### 21. Lead Auditors' Independence Declaration

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

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

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

### 23. Risk Management and System of Internal Controls

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

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

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

### 24. Corporate Governance

#### Directors' Declarations

The Directors declare that –

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

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

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

## 25. Human Resources

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

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

## 26. Technology

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

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

## 27. Operational Excellence

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

## 28. Outstanding Litigation

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

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

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

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

## 30. Acknowledgement of the Contents of the Report

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

Signed in accordance with a resolution adopted by the Directors.



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



**M.P. Jayawardena**  
*Deputy Chairman*



**J. Durairatnam**  
*Managing Director/CEO*



**S. Swarnajothi**  
*Director*



**S. Renganathan**  
*Director*



**H.J. Wilson**  
*Director*



**Prof. A. K. W. Jayawardane**  
*Director*



**K. Dharmasiri**  
*Director*



**Ms. J.R. Gamage**  
*Company Secretary*

Colombo  
February 24, 2016