

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
	Number of Shares Issued	3,237,566	N/A	1,445,398	N/A
Exercise of options by employees under the Employee Share Option Plans	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



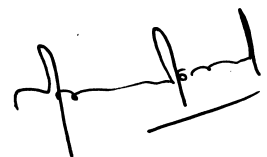
J. Durairatnam
Managing Director/CEO



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