


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

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

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

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

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

The Corporate Governance Framework of the Bank comprises the following:

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

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

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

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

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

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



→ Figure -6

**The Board**

**An Effective Board (Principle A.1)**

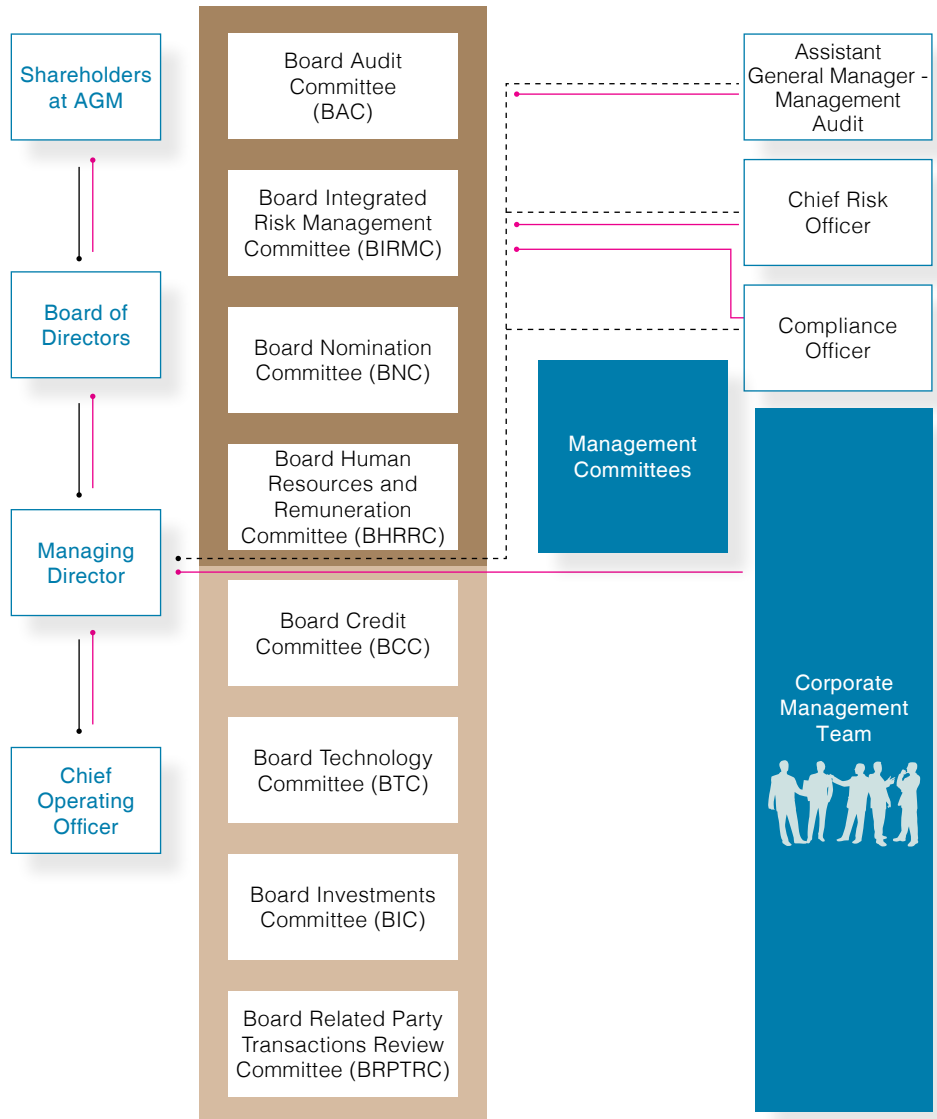


The Board of Commercial Bank comprises of 8 eminent professionals in the fields of Banking & Finance, Accounting, Management, Economics and Engineering, whose profiles are given on pages 28 to 30. Directors are elected by shareholders at the Annual General Meeting with the exception of the Chief Executive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

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

**Organisational Structure**

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



— Appointment flow  
— Responsibility flow

→ Figure - 7

## Board Sub-Committees

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

Board Committee	Areas of Oversight	Composition & Executive Support
<b>Mandatory Committees</b>		
Board Audit Committee (BAC)	<ul style="list-style-type: none"> <li>Financial Reporting</li> <li>Internal Controls</li> <li>Internal Audit</li> <li>External Audit</li> </ul> <p>Refer the Report of the BAC on pages 66 to 68 for more information.</p>	<ul style="list-style-type: none"> <li>Comprises 03 Non-Executive Directors</li> <li>The MD/CEO and the CFO attend the meetings by invitation together with other relevant Key Management Personnel (KMP).</li> <li>The Committee is supported by the Inspection Department and the AGM – Management Audit acts as the Secretary to the Committee.</li> </ul>
Board Integrated Risk Management Committee (BIRMC)	<ul style="list-style-type: none"> <li>Risk appetite</li> <li>Risk governance</li> <li>Risk policy frameworks</li> <li>Risk monitoring and compliance</li> <li>Risk management</li> </ul> <p>Refer the Report of the BIRMC on pages 68 and 69 for more information.</p>	<ul style="list-style-type: none"> <li>Comprises <ul style="list-style-type: none"> <li>03 Independent Non-Executive Directors</li> <li>01 Executive Director</li> <li>CRO</li> </ul> </li> <li>COO, Compliance Officer and CFO attend meetings by invitation.</li> <li>The Committee is supported by the senior staff of the department handling credit, market and operational risks.</li> <li>The CFO serves as the Secretary to the Committee.</li> </ul>
Board Nomination Committee (BNC)	<ul style="list-style-type: none"> <li>Selection and appointment of Directors and KMP</li> <li>Succession planning</li> <li>Evaluating the effectiveness of the Board and its Committees</li> </ul> <p>Refer the Report of the BNC on pages 69 and 70 for more information.</p>	<ul style="list-style-type: none"> <li>Comprises 03 Independent Non-Executive Directors</li> <li>The MD/CEO attends meetings by invitation</li> <li>Executive support is provided by the Human Resources Department whenever required</li> <li>The Company Secretary acts as the Secretary to the Committee</li> </ul>
Board Human Resources and Remuneration Committee (BHRRC)	<ul style="list-style-type: none"> <li>Remuneration of Managing Director and KMP</li> <li>HR Policies including Remuneration Policy</li> <li>Organisational structure</li> <li>HR Systems including Performance Evaluation</li> </ul> <p>Refer the Report of the BHRRC on pages 70 to 72 for more information.</p>	<ul style="list-style-type: none"> <li>Comprises <ul style="list-style-type: none"> <li>03 Independent Non-Executive Directors</li> <li>01 Executive Director</li> </ul> </li> <li>Executive support is provided by the Human Resources Department whenever required</li> <li>The DGM – HRM acts as the Secretary to the Committee</li> <li>The MD/CEO attends meetings by invitation</li> </ul>

Board Committee	Areas of Oversight	Composition & Executive Support
<b>Voluntary Committees</b>		
Board Credit Committee (BCC)	<ul style="list-style-type: none"> <li>• Credit policy and Lending Guidelines</li> <li>• Credit risk control measures including pricing of credit risk</li> <li>• Performance of credit risk indicators</li> </ul> <p>Refer the Report of the BCC on pages 72 and 73 for more information.</p>	<ul style="list-style-type: none"> <li>• Comprises                             <ul style="list-style-type: none"> <li>• 02 Independent Non-Executive Directors</li> <li>• 02 Executive Directors</li> </ul> </li> <li>• 03 meetings scheduled for the year</li> <li>• The Committee is supported by the Credit Risk function of the Risk Management Division</li> <li>• The Assistant Company Secretary of the Bank serves as the Secretary to the Committee</li> </ul>
Board Technology Committee (BTC)	<ul style="list-style-type: none"> <li>• Bank's technology strategy</li> <li>• Significant procurements of technology</li> <li>• Emerging trends and their potential</li> </ul> <p>Refer the Report of the BTC on page 73 for more information.</p>	<ul style="list-style-type: none"> <li>• Comprises                             <ul style="list-style-type: none"> <li>• 01 Independent Non-Executive Director</li> <li>• 02 Executive Directors</li> </ul> </li> <li>• The Committee is supported by the IT Department of the Bank and AGM – IT serves as the Secretary to the Committee</li> </ul>
Board Investment Committee (BIC)	<ul style="list-style-type: none"> <li>• Review of economic climate, capital markets activity and economic and monetary policy direction</li> <li>• Bank's investment policy</li> <li>• Review Bank's investment portfolios and their performance</li> </ul> <p>Refer the Report of the BIC on page 74 for more information.</p>	<ul style="list-style-type: none"> <li>• Comprises                             <ul style="list-style-type: none"> <li>• 03 Independent Non-Executive Directors</li> <li>• 02 Executive Directors</li> </ul> </li> <li>• The Committee is supported by the Head of Global Treasury who serves as the Secretary to the Committee</li> </ul>
Board Related Party Transactions Review Committee (BRPTRC)	<ul style="list-style-type: none"> <li>• Related Party Transactions Policy and processes</li> <li>• Market disclosures on related party transactions</li> <li>• Quarterly and annual disclosures of related party transactions</li> </ul> <p>Refer the Report of the BRPTRC on pages 74 and 75 for more information.</p>	<ul style="list-style-type: none"> <li>• Comprises                             <ul style="list-style-type: none"> <li>• 02 Independent Non-Executive Directors</li> <li>• 02 Executive Directors</li> </ul> </li> <li>• The AGM – Finance functions as the Secretary of the Committee</li> </ul>

→ Table – 2

### Regular Meetings (Principle A 1.1)

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

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

Name of Director	Main Board		Board Audit Committee		Board Integrated Risk Management Committee		Board Nomination Committee		Board Human Resources and Remuneration Committee		Board Credit Committee		Board Technology Committee		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. K.G.D.D. Dheerasinghe	C	20.12.2011	M**	19.02.2015			C	30.12.2011	C	30.12.2011	C	30.12.2011			C	13.03.2013	C	26.12.2014
Mr. M.P. Jayawardena	M	28.12.2011			C	30.12.2011	M	29.08.2014	M	29.08.2014								
Mr. J. Durairatnam	M	28.04.2012	I	28.04.2012	M	28.04.2012	I	29.08.2014	I	29.08.2014	M	29.08.2014	M	18.06.2012	M	13.03.2013	M	26.12.2014
Mr. S. Swarnajothi	M	20.08.2012	C	24.08.2012	M	24.08.2012	M	29.04.2015	M	29.04.2015							M	26.12.2014
Mr. H.J. Wilson	M	03.07.2014													M	29.08.2014		
Mr. S.Renganathan	M	17.07.2014	I	17.07.2014	I	29.08.2014					M	25.11.2014	M	29.08.2014	M	29.08.2014	M	26.12.2014
Prof. A.K.W. Jayawardane	M	21.04.2015	M	21.04.2015							M	29.04.2015	C	21.04.2015				
Mr. K. Dharmasiri	M	21.07.2015	M	21.07.2015	M	21.07.2015									M	28.08.2015		
Prof. U.P. Liyanage	M*	14.12.2010			M*	01.04.2011	M*	25.11.2011	M*	30.12.2011			M*	30.12.2011				
Mr. L. Hulugalle	M*	30.03.2011	M*	27.05.2011	M*	01.04.2011												
Mr. K.M.M. Siriwardana	M***	28.08.2014	I***	28.08.2014							M***	28.08.2014						

→ Table - 3

DOA – Date of Appointment

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

\* Resigned w.e.f. date specified under Item 11.1 of the 'Annual Report of the Board of Directors' on page 81.

\*\* Resigned w.e.f. August 21, 2015

\*\*\* Caused to hold office w.e.f. February 23, 2015

#### Number of Meetings Held and Attendance

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

→ Table - 4

\* Resigned w.e.f. April 28, 2015

\*\* Resigned w.e.f. March 31, 2015

\*\*\* Ceased to hold office w.e.f. February 23, 2015

#### Notes:

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

Mr. S. Prabagar (AGM – Management Audit/Secretary of BAC)

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

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

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

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

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

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

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

→ Table – 5

\* Attended by invitation

\*\* One member attended by invitation

Major Initiatives of Board in 2015

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

## Management Committees

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

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

→ Table – 6

Board Responsibilities (Principle A 1.2.) ✓

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

Role of the Board ▼	Key Board Responsibilities ▼	Powers Reserved for the Board ▼
<ul style="list-style-type: none"> <li>• Represent and serve the interests of the shareholders by overseeing and appraising the Bank's strategies, policies and performance</li> <li>• Optimise performance and build sustainable value for shareholders in accordance with the regulatory framework and internal policies</li> <li>• Establishing an appropriate governance framework encompassing compliance with the Bank's values</li> <li>• Ensure regulators are apprised of the Bank's performance and any major developments</li> </ul>	<ul style="list-style-type: none"> <li>• Selection, appointment and evaluation of the performance of the Chief Executive Officer</li> <li>• Setting strategic direction and monitoring its effective implementation</li> <li>• Establishing systems of risk management, internal control and compliance</li> <li>• Integrity of financial reporting process</li> <li>• Developing a suitable corporate governance framework, policies and framework</li> <li>• Strengthening the safety and soundness of the Bank</li> <li>• Appointment and oversight of External Auditors</li> </ul>	<ul style="list-style-type: none"> <li>• Approving major capital expenditure, acquisitions and divestitures and monitoring capital management</li> <li>• Appointment of Board Secretary in accordance with the provisions of Section 43 of the Banking Act No. 30 of 1988</li> <li>• Power to seek professional advice in appropriate circumstance at the expense of the Bank</li> <li>• Review, amend and approval of governance structures and policies</li> </ul>

→ Figure - 8

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

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

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

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

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

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

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



### Access to advice and services of Company Secretary (Principle A.1.4)



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

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

### Independent judgement (Principle A.1.5)



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

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



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

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

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



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

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



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

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



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

**Financial Acumen  
(Principle A.4)**

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

**Board Balance  
(Principle A.5)**

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

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

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

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

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

**Appointments to the Board and Re-Election  
(Principles A.7)**

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

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

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

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

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

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



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

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

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



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

### Directors' Remuneration

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




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

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



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

### Remuneration and Benefit Policy

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

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

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

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

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

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

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

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

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

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

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

#### Relations with Shareholders

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

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

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

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

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

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

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

## Accountability and Audit

### Financial Reporting (Principles D.1)



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

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

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

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



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

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

### Code of Business Conduct & Ethics and Corporate Governance Report (Principles D.4 & D.5.)



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

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

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

### Shareholders

#### Shareholder Relations (Principles E & F)



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

Sustainability

Sustainability Reporting (Principle G)

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

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

Information required by the Code is located as follows:

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

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

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

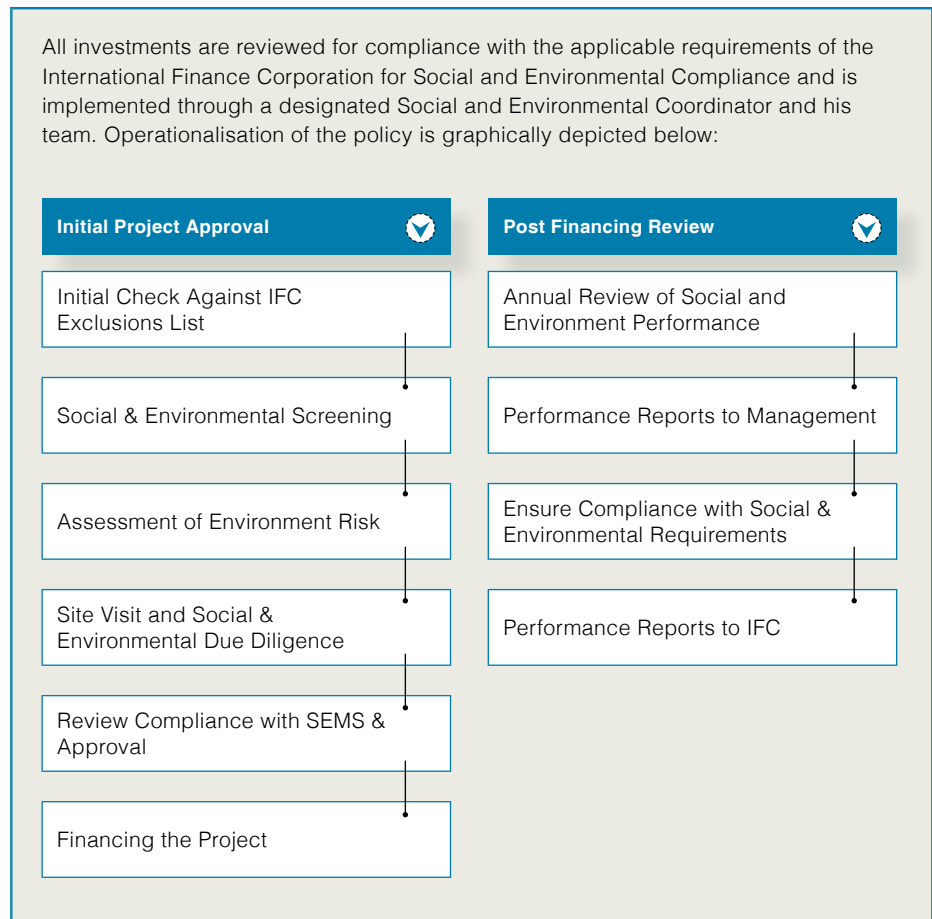
**Principle 4** – Reporting on Society – Social Impact on page 208 to 213.

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

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

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

Bank's Social & Environmental Management System



→ Figure - 9

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

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

Section	Principle	Compliance and Implementation	Complied
d.	Communication with all stakeholders	<p>The Board has approved and implemented the following communication policies:</p> <ul style="list-style-type: none"> <li>• <b>Shareholders</b> – The shareholders receive Interim Financial Statements in a timely manner and a press release is issued providing a review of the Bank’s performance on a quarterly basis. The Annual Report provides a comprehensive and balanced review of the Bank’s performance for the year and is circulated to shareholders 15 working days prior to the AGM. The AGM is the key forum for contact with shareholders and the Bank has a history of well attended AGMs where shareholders take an active role in exercising their rights. Additionally, the Investor Relations page on the Bank’s website contains the Interim Financial Statements and Annual Reports for ease of access to shareholders and analysts. The Bank also provides information to equity analysts to facilitate high quality information in research reports which are made available to investors by the stockbrokers.</li> <li>• <b>Customers</b> – Customers include depositors and borrowers. The Bank’s Customer Complaint Handling Policy has been printed in all three languages and disseminated to all customer contact points of the Bank. This document outlines the complaints handling procedure of the Bank, provides contact numbers of the Bank for this purpose and also of the Financial Ombudsman. There is a 24 hour trilingual customer hotline set up for this purpose and reports are reviewed by the BIRMC.</li> <li>• <b>Staff</b> – Employees and representatives of the employee associations are given unrestricted access to the management to discuss their concerns. The DGM-HRM co-ordinates communication between the Board and the employees.</li> </ul>	✓
e.	Internal Control System and Management Information Systems	<p>The Board is assisted in this regard by the BAC who review the adequacy and the integrity of the Bank’s Internal Control System and Management Information System. The BAC has reviewed reports from the Internal Audit Department and the External Auditors in carrying out this function and reviewed management responses on the same during the year.</p> <p>Internal Audit Department also carries out Information Systems Audits to assess the effectiveness of the Management Information System.</p>	✓
f.	Key Management Personnel (KMP)	<p>KMP are defined in the Sri Lanka Accounting Standards, who significantly influence policy, direct activities and exercise control over business activities, operations and risk management. In addition, the officers with designation identified in the guidelines are included as KMP for Corporate Governance reporting purpose. All appointments of designated KMP are recommended by the BNC and approved by the Board.</p> <p>Further, for Corporate Governance reporting and monitoring purposes, the Bank has included selected members of the Corporate Management in addition to the KMP identified for financial reporting purposes.</p>	✓
g.	Define areas of authority and key responsibilities for Directors and KMP	<p>The Board Charter sets out the matters specifically reserved for Board, defining the areas of authority and key responsibilities of the Board of Directors. Areas of authority and key responsibilities for members of the Corporate Management are stated in the Job Descriptions of each member.</p>	✓



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

Section	Principle	Compliance and Implementation	Complied
3 (1) (iv)	Arrangements for Directors to include proposals in the agenda	Notice of Meeting is circulated one week prior to the meeting and Directors may submit proposals for inclusion in the agenda on discussion with the Chairman on matters relating to the business of the Bank.	✓
3 (1) (v)	Notice of Meetings	Notice of Meetings, agenda and Board Papers for the Board meetings are circulated to the Directors 07 days prior to the meeting giving Directors time to attend and submit any urgent proposals.	✓
3 (1) (vi)	Directors attendance	The Directors are apprised of their attendance in accordance with the Articles of the Company and the Corporate Governance Code. Detail of the Directors attendance is set out on page 33 (Table). No Director has been absent from 3 consecutive meetings and all Directors have attended at least 93% or 13 out of 14 of the meetings.	✓
3 (1) (vii)	Appointment and setting responsibilities of the Company Secretary	An Attorney-at-Law functions as the Secretary of the Board and she has taken steps to duly comply with the requirements under the Banking Act No. 30 of 1988. She has also ensured that proper Board procedures are followed and that applicable rules and regulations are adhered to.	✓
3 (1) (viii)	Directors access to advice and services of Company Secretary	All Board members have full access, to the advice and services of the Company Secretary to ensure that proper Board procedures are followed and all applicable rules and regulations are complied with.	✓
3 (1) (ix)	Maintenance of Board minutes	Company Secretary maintains the minutes of the Board meetings and circulates same to all Board members after review by the CEO and Chairman. The minutes are reviewed and approved at the next Board meeting after incorporating any amendments/inclusions proposed by other Directors. Additionally, the Directors have access to the past Board Papers and minutes through a secure electronic link.	✓
3 (1) (x)	Minutes to be of sufficient detail and serve as a reference for regulators and supervisory authorities	The minutes of the meetings include: <ul style="list-style-type: none"> <li>(a) a summary of data and information used by the Board in its deliberations;</li> <li>(b) the matters considered by the Board;</li> <li>(c) the fact-finding discussions and the issues of contention or dissent</li> <li>(d) the testimonies and confirmations of relevant executives with regard to the Board's strategies and policies and adherence to relevant laws and regulations;</li> <li>(e) matters regarding the risks to which the Bank is exposed to and an overview of the risk management measures including reports of the BIRMC; and</li> <li>(f) the details of decisions and Board resolutions including reports of all Board Sub-Committees.</li> </ul>	✓
3 (1) (xi)	Directors ability to seek independent professional advice	Directors are able to obtain independent professional advice, as and when necessary, in discharging their responsibilities according to a procedure approved by the Board. This function is co-ordinated by the Company Secretary.	✓

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

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

Section	Principle	Compliance and Implementation	Complied
<b>3 (5)</b>	<b>The Chairman and CEO</b>		
3 (5) (i)	Separation of roles	There is a clear separation of duties between the roles of the Chairman and the CEO, thereby preventing unfettered powers for decision-making being vested with one person.	✓
3 (5) (ii)	Non-Executive Chairman and appointment of a Senior Independent Director	The Chairman is an Independent Non-Executive Director.	✓
3 (5) (iii)	Disclosure of identity of Chairman and CEO and any relationships with the Board members	The identity of the Chairman and CEO are disclosed in the Annual Report on page 28.  The Board is aware that there are no relationships whatsoever, including financial, business, family, any other material/relevant relationship between the Chairman and the CEO. Similarly, no relationships prevail among the other members of the Board.	✓
3 (5) (iv)	Chairman to provide leadership to the Board	Board approved List of Functions and Responsibilities of Chairman include, 'Providing Leadership to the Board' as a responsibility of the Chairman. The Board's Annual Assessment Form includes an area to measure the 'Effectiveness of the Chairman in facilitating the effective discharge of Board functions'.  All key and appropriate issues are discussed by the Board on a timely basis.	✓
3 (5) (v)	Responsibility for agenda lies with Chairman but may be delegated to Company Secretary	The Company Secretary draws up the agenda for the meetings in consultation with the Chairman.	✓
3 (5) (vi)	Ensure that Directors are properly briefed and provided adequate information	The Chairman ensures that the Board is sufficiently briefed and informed regarding the matters arising at Board. The following procedures ensure this: <ul style="list-style-type: none"><li>• Circulation of Board papers 7 days prior to meeting</li><li>• Clarification of matters by KMP when required</li></ul>	✓
3 (5) (vii)	Encourage active participation by all Directors and lead when acting in the interests of the Bank	This requirement is addressed in the Chairman's List of Functions and Responsibilities of the Chairman approved by the Board.  Self evaluation is carried out by the Board annually.	✓
3 (5) (viii)	Encourage participation of Non-Executive Directors and relationships between Non-Executive and Executive Directors	Six members of the Board are Non-Executive Directors which creates a conducive environment for active participation by the Non-Executive Directors. Additionally, Non-Executive Directors chair the Sub-Committees of the Board providing further opportunity for active participation.	✓
3 (5) (ix)	Refrain from direct supervision of KMP and executive duties	The Chairman does not get involved in the supervision of KMP or any other executive duties.	✓
3 (5) (x)	Ensure effective communication with shareholders	The Bank historically has active shareholder participation at the AGM. At the AGM the shareholders are given the opportunity to take up matters for which clarification is needed. These matters are adequately clarified by the Chairman and/or CEO and/or any other officer.	✓

Section	Principle	Compliance and Implementation	Complied
3 (5) (xi)	CEO functions as the apex executive in charge of the day to day operations	The day-to-day operations of the Bank has been delegated to the CEO.	✓
<b>3 (6)</b>	<b>Board Appointed Committees</b>		
3 (6) (i)	Establishing Board committees, their functions and reporting	<p>The Board has established 8 committees with written terms of reference for each of which 4 are mandatory with the remainder appointed to meet the business needs of the Bank. Each committee has a Secretary to arrange the meetings and maintain minutes, records, etc., under the supervision of the Chairman of the committee. The Reports of the sub-committees are included under;</p> <ul style="list-style-type: none"> <li>• BAC Report on pages 66 to 68</li> <li>• BIRMC Report on pages 68 and 69</li> <li>• BNC Report on pages 69 and 70</li> <li>• BHRRC Report on pages 70 to 72</li> <li>• BCC Report on pages 72 and 73</li> <li>• BTC Report on page 73</li> <li>• BIC Report on page 74</li> <li>• BRPTRC Report on pages 74 and 75</li> </ul> <p>The Chairpersons of the sub-committees are available at the AGM to clarify any matters that may be referred to them by the Chairman.</p>	✓
<b>3 (6) (ii)</b>	<b>BAC</b>		
a.	Chairman to be an Independent Non-Executive Director with qualifications and experience in accountancy and/or audit	Chairman of the Committee Mr. S. Swarnajothi is an Independent Non-Executive Director. He is a Fellow of CASL and CMA Sri Lanka a member of CMA of Australia. A former Auditor General of Sri Lanka, he has the required skills and experience to function effectively in this capacity.	✓
b.	Committee to comprise solely of Non-Executive Directors	All members of the BAC are Independent Non-Executive Directors.	✓
c.	Audit Committee functions	<p>In accordance with the Terms of Reference, BAC has made the following recommendations:</p> <ul style="list-style-type: none"> <li>(i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;</li> <li>(ii) the implementation of the CBSL guidelines issued to Auditors from time to time;</li> <li>(iii) the application of the relevant accounting standards; and</li> <li>(iv) the service period, audit fee and any resignation or dismissal of the Auditor.</li> </ul> <p>BAC ensures that the service period of the engagement of the external Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.</p>	✓
d.	Review and monitor External Auditor's independence and objectivity and the effectiveness of the audit processes	The Board has adopted a policy of rotation of Auditors, once in every 5 years, in keeping with the principles of Good Corporate Governance.	✓

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

Section	Principle	Compliance and Implementation	Complied
j.	Review of internal audit function	<p>The Annual Audit Plan prepared by the Internal Audit Department is submitted to the BAC for approval. This plan covers the scope and resource requirement relating to the Audit Plan.</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 BAC has been obtained in this regard.</p> <p>The committee reviewed the reports submitted by internal audit and ensures that appropriate action is taken on the recommendations of the Internal Audit Department.</p> <p>The Assistant General Manager – Management Audit who leads the Internal Audit Department, reports directly to the BAC and his performance appraisal is reviewed by the Audit Committee.</p> <p>BAC is kept apprised of terminations/resignations of senior internal audit staff members and recommend their appointment.</p> <p>The above processes ensure that audits are performed with impartiality, proficiency and due professional care.</p>	✓
k.	Internal investigations	Major findings of internal investigations and management's responses thereto are reviewed by the BAC. It has also ensured that the recommendations of such investigations are implemented.	✓
l.	Attendees at Audit Committee meetings	The CEO, CFO, Assistant General Manager – Management Audit and a representative of the External Auditors normally attend meetings. Other Board members may also attend meetings upon the invitation of the committee. The committee met with the External Auditors without the Executive Directors being present on 2 occasions during the year.	✓
m.	Explicit authority, resources and access to information	<p>The Terms of Reference for the BAC includes:</p> <ul style="list-style-type: none"> <li>(i) explicit authority to investigate into any matter within its terms of reference;</li> <li>(ii) the resources which it needs to do so;</li> <li>(iii) full access to information; and</li> <li>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</li> </ul> <p>Refer BAC Report on pages 66 to 68.</p>	✓
n.	Regular meetings	The BAC has scheduled regular quarterly meetings and additional meetings are scheduled when required. Accordingly, the committee met 10 times during the year. Members of the BAC are served with due notice of issues to be discussed and the conclusions in discharging its duties and responsibilities are recorded in the Minutes of the meetings maintained by the Company Secretary.	✓
o.	Disclosure in Annual Report	<p>The Report of the BAC on pages 66 to 68 includes the following:</p> <ul style="list-style-type: none"> <li>(i) details of the activities of the BAC;</li> <li>(ii) the number of BAC meetings held in the year; and</li> <li>(iii) details of attendance of each individual Director at such meetings.</li> </ul>	✓
p.	Maintain minutes of meetings	Assistant General Manager – Management Audit serves as the Secretary of the BAC and maintains minutes of the committee meetings.	✓



Section	Principle	Compliance and Implementation	Complied
q.	Whistle-blowing policy and arrangements available for employees to raise concerns in confidence	<p>The Bank has a Whistle-blowing Policy which has been reviewed and approved by the BAC and the Board of Directors. Board's responsibility towards encouraging communication on any non-compliance and unethical practices were addressed in the Board Charter.</p> <p>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.</p>	✓
<b>3 (6) (iii)</b>	<b>BHRRC</b>		
	Charter of the Committee	<p>The Committee is responsible for:</p> <ul style="list-style-type: none"> <li>determining the remuneration policy relating to Directors, CEO and KMP;</li> <li>setting goals and targets for the Directors, CEO and KMP;</li> <li>evaluating performance of the CEO and KMP against agreed targets and goals and determining the basis for revising remuneration, benefits and other payments of performance-based incentives.</li> </ul> <p>The CEO attends all meetings of the committee, except when matters relating to the CEO are being discussed.</p>	✓
<b>3 (6) (iv)</b>	<b>BNC</b>		
a.	Appointment of Directors, CEO and KMP	<p>The committee has developed and implemented a procedure to appoint new Directors, CEO and KMP.</p> <p>The committee is chaired by the Chairman of the Bank and two other Independent Directors. The CEO may be present at meetings by invitation. Refer the BNC Report on pages 69 and 70.</p>	✓
b.	Re-election of Directors	The committee makes recommendations regarding the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.	✓
c.	Eligibility criteria for appointments to key managerial positions including CEO	The committee sets the eligibility criteria to be considered, including qualifications, experience and key attributes, for appointment or promotion to key managerial positions including the position of the CEO. The committee considers the applicable statutes and guidelines in setting the criteria.	✓
d.	Fit and proper persons	<p>The committee obtains annual declarations from Directors and CEO to ensure that they are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the Statutes.</p> <p>Further, the BHRRC obtains annual declaration from KMP to ensure that they too are fit and proper persons to hold office as specified in the said Direction.</p>	✓
e.	Succession Plan and new expertise	<p>The committee has developed a succession plan for the Directors whilst succession planning for KMP is carried out by the BHRRC. The BNC calls for few suitable CVs, check suitability with independent organisations and recommends to the Board.</p> <p>The need for new expertise may be identified by the Board or its committees and brought to the attention of the BNC who will take appropriate action.</p>	✓

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

Section	Principle	Compliance and Implementation	Complied
h.	Compliance function	A compliance function has been established to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. This function is headed by a dedicated Compliance Officer who reports to the BAC and the BIRMC. The Compliance Officer submits a Positive Assurance Certificate on Compliance with Mandatory Banking and Other Statutory Requirements on quarterly basis to the BAC and the BIRMC.	✓
<b>3 (7)</b>	<b>Related Party Transactions (RPT)</b>		
3 (7) (i)	Avoid conflict of interest	<p>The BRPTRC is tasked with oversight of the processes relating to this subject and their Report is given on pages 74 and 75.</p> <p>All members of the Board are required to make declarations of the positions held with related parties at the time of appointment and annually thereafter. This information is provided to the Finance Division enabling them to capture relevant transactions. In the event of any change (during the year) the Directors are required to make a further declaration to the Company Secretary.</p> <p>Directors refrain from participating at meetings in which lending to related entities are discussed to avoid any kind of influence.</p> <p>Transactions carried out with related parties (RP) as defined by the Sri Lanka Accounting Standard – LKAS 24 on 'Related Party Disclosures' in the normal course of business are disclosed in Note 62 to the Financial Statements on pages 367 to 372.</p> <p>Directors interest in contracts with the Bank which do not fall into the definition of Related Party Transactions (RPT) as per LKAS 24 are reported separately in the Annual Report, outside the Financial Statements on page 92.</p>	✓
3 (7) (ii)	RPT covered by direction	<p>A comprehensive RPT Policy was formulated during the year, which was reviewed and recommended by the BRPTRC and was approved by the Board. This Policy was later circulated among the relevant staff for adherence.</p> <p>The RPT Policy approved by the Board covers the following transactions:</p> <ul style="list-style-type: none"> <li>• The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation.</li> <li>• The creation of any liabilities of the Bank in the form of deposits, borrowings and investments.</li> <li>• The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank.</li> <li>• The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.</li> </ul>	✓

Section	Principle	Compliance and Implementation	Complied
3 (7) (iii)	Prohibited transactions	<p>The Bank's RPT Policy prohibits transactions which would grant RPs more favourable treatment than that accorded to other customers. These include the following:</p> <ul style="list-style-type: none"> <li>• Granting of 'total net accommodation' to related parties, exceeding a prudent percentage of the Bank's regulatory capital.</li> <li>• Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counterparty.</li> <li>• Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties.</li> <li>• Providing services to or receiving services from RP without an evaluation procedure.</li> <li>• Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with RP, except as required for the performance of legitimate duties and functions.</li> </ul>	✓
3 (7) (iv)	Granting accommodation to a Director or a close relation of Director	<p>A procedure is in place for granting accommodation to Directors or to close relations of Directors. Such accommodation requires approval at a meeting of the Board of Directors, by not less than 2/3rds of the number of Directors other than the Director concerned, voting in favour of such accommodation or through circulation of papers which requires approval by all. The terms and conditions of the facility include a proviso that it will be secured by such security as may from time to time be determined by the Monetary Board as well.</p>	✓
3 (7) (v)	Accommodations granted to persons, or concerns of persons, or close relations of persons, who subsequently are appointed as Directors of the Bank	<p>The Company Secretary obtains declarations/affidavits from all Directors prior to their appointment and they are requested to declare any further transactions.</p> <p>Employees of the Bank are aware of the requirement to obtain necessary security as defined by the Monetary Board if the need arises.</p> <p>Processes for compliance with this regulation is also monitored by the Compliance Unit.</p> <p>This situation has not arisen in the Bank to date.</p>	✓
3 (7) (vi)	Favourable treatment or accommodation to the Bank employees or their close relations	<p>No favourable treatment/accommodation is provided to the Bank employees other than only under staff benefit schemes uniformly applicable. Employees of the Bank are informed through operational circulars to refrain from granting favourable treatment to other employees or their close relations or to any concern in which an employee or close relation has a substantial interest.</p>	✓
3 (7) (vii)	Remittance of accommodations subject to Monetary Board approval	<p>No such situation has arisen during the year.</p>	✓

Section	Principle	Compliance and Implementation	Complied
<b>3 (8)</b>	<b>Disclosures</b>		
3 (8) (i)	Publish annual and quarterly Financial Statements	Annual Audited Financial Statements and Interim Financial Statements of the Bank were prepared and published during 2015 in the newspapers (in Sinhala, Tamil and English) in accordance with the formats prescribed by the Supervisory and Regulatory Authorities and applicable accounting standards.	✓
3 (8) (ii)	Disclosures in Annual Report		
a.	A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Disclosures on the compliance with the applicable accounting standards and regulatory requirements in preparation of the Annual Audited Financial Statements have been made in the 'Statement of Directors' Responsibility', 'MD's and CFO's Statement of Responsibility'. Refer page 86 & 87 and 91 respectively.	✓
b.	Report by the Board on the Bank's internal control mechanism	The Annual Report includes the reports where the Board confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements: <ul style="list-style-type: none"> <li>• Directors' Statement on Internal Control on pages 88 and 89.</li> <li>• Statement of Directors' Responsibility on pages 86 and 87.</li> <li>• Annual Report of the Board of Directors on pages 76 to 85.</li> </ul>	
c.	External Auditor's Certification on the effectiveness of the internal control mechanism	The Bank has obtained a certificate on the Effectiveness of Internal Controls over Financial Reporting which is published on page 90.	✓
d.	Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank	<ul style="list-style-type: none"> <li>• Profiles of Directors are given on pages 28 to 30.</li> <li>• Directors' interests in contracts with the Bank on page 92.</li> <li>• Remunerations paid by the Bank are given in Note 20 to the Financial Statements on pages 279 and 280.</li> </ul>	✓

Section	Principle	Compliance and Implementation	Complied																	
e.	Total accommodations granted to each category of RPs and same as a percentage of the Bank's regulatory capital	<p>Total net accommodations granted to each category of RP are given in Note 62 to the Financial Statements on pages 367 to 372 The net accommodations granted to each category of RP as a percentage of the Bank's regulatory capital are given below:</p> <p>Direct and indirect accommodation to RP:</p> <table border="1"> <thead> <tr> <th rowspan="2">Category of RP</th> <th colspan="2">% of the Regulatory Capital</th> </tr> <tr> <th>2015</th> <th>2014</th> </tr> </thead> <tbody> <tr> <td>KMP &amp; CFM*</td> <td>0.02</td> <td>0.02</td> </tr> <tr> <td>KMP &amp; CFM**</td> <td>0.24</td> <td>0.16</td> </tr> <tr> <td>Subsidiaries</td> <td>1.28</td> <td>1.00</td> </tr> <tr> <td>Associates</td> <td>0.00</td> <td>0.00</td> </tr> </tbody> </table> <p><i>* As defined in LKAS 24 on 'Related Party Disclosures' for Financial Reporting</i>  <i>** The Board and selected members of the Corporate Management as required by Section 3 (7) of the Banking Act Direction No.11 of 2007</i></p>	Category of RP	% of the Regulatory Capital		2015	2014	KMP & CFM*	0.02	0.02	KMP & CFM**	0.24	0.16	Subsidiaries	1.28	1.00	Associates	0.00	0.00	✓
Category of RP	% of the Regulatory Capital																			
	2015	2014																		
KMP & CFM*	0.02	0.02																		
KMP & CFM**	0.24	0.16																		
Subsidiaries	1.28	1.00																		
Associates	0.00	0.00																		
f.	Aggregate values of remuneration to, and transactions with KMP	<p>The aggregate values of remuneration paid and transactions with the Bank by KMP as defined by the LKAS 24 on 'Related Party Disclosures' for financial reporting purposes are given in Note 62 to the Financial Statements on pages 367 to 372.</p> <p>Further, in addition to the above, total deposits and repurchase agreements held and total direct and indirect facilities obtained as at December 31, 2015 by the KMP (Board and selected members of Corporate Management) amounted to Rs. 135.3 Mn. and Rs. 183.2 Mn., respectively.</p>	✓																	
g.	External Auditor's certification of compliance	<p>The factual findings report has been issued by the External Auditors on the level of compliance with the requirements of these regulations.</p> <p>The findings presented in their report addressed to the Board did not identify any inconsistencies to those reported above.</p>	✓																	
h.	Report confirming compliance with prudential requirements, regulations, laws and internal controls	<p>The 'Statement of Directors' Responsibility' on pages 86 and 87 clearly sets out details regarding compliance with prudential requirements, regulations, laws and internal controls. There were no instances of non-compliance during the year.</p>	✓																	
i.	Non-compliance Report	<p>There were no supervisory concerns on lapses in the Bank's Risk Management Systems or non-compliance with these directions that have been pointed out by the Director of the Bank Supervision Department of the CBSL and therefore there is no disclosure made in this regard.</p>	✓																	
3 (9)	Transitional and Other General Provisions	<p>The Bank has complied with the transitional provisions.</p>	✓																	