






ANNEX 1: GOVERNANCE

ANNEX 1.1: COMPLIANCE WITH BANKING ACT DIRECTION

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 Central Bank of Sri Lanka

| Section | Principle, Compliance and Implementation | Complied |
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| 3 (1) | Responsibilities of the Board | |
| | The Board has strengthened the safety and the soundness of the Bank in the following manner: | |
| a. | Setting Strategic Objectives and Corporate Values The Bank's strategic objectives and corporate values are determined by the Board as set out on page 29. These are communicated to all levels of staff through structured meetings and reinforced monthly at team meetings which review performance vis a vis strategic goals. The corporate values are included in the Code of Conduct and Business Ethics which is communicated to all employees in hard copy, via the intranet, through orientation programmes and reinforced at meetings. |  |
| b. | Approving Overall Business Strategy Including Risk Policy and Management The Board provides direction and guidance for preparation of the 5 year Corporate Strategic Plan from 2016-2020 which was approved by the Board after discussing related issues in detail with the Corporate Management. It is aligned to the overall Risk Strategy of the Bank through involvement of the Independent Risk Management Committee. 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 are embedded into the Bank-wide Risk Management Policy Framework and included in the strategic goals. The Bank's Strategic Plan for 2017-2021 has been approved on December 19, 2016 by the Board. |  |
| c. | Risk Management The BIRMC is tasked with approving the Bank's Risk Policy, defining the risk appetite, identifying principal risks, setting governance structures and implementing systems to measure, monitor and manage the principal risks. Managing Risk: An Overview on pages 172 to 175 and the Report of the BIRMC on page 143 provide further insights on Risk Management policies and processes of the Bank. |  |
| d. | Communication with all Stakeholders The Board has approved and implemented the following communication policies: <ul style="list-style-type: none"> • Shareholders – The Shareholder Communication Policy of the Bank explicitly provides for effective and timely communication to shareholders of material matters and performance. Shareholders receive quarterly Financial Statements within six weeks for the first three quarters and within eight weeks from the last quarter and a quarterly press release is issued providing a review of the Bank's performance on a quarterly basis. Performance of the Bank is set out in the Annual Report of the Bank which 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 together with key disclosures on risk management. 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. • Customers – Customers include depositors and borrowers. The Bank's Customer Complaint Handling Policy has been printed in all three languages and disseminated to all customer contact points of the Bank. This document outlines the complaints handling policy 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. • Staff – Employees and representatives of the trade unions are given unrestricted access to the management to discuss their concerns. The Deputy General Manager – Human Resource Management co-ordinates communication between the Board and the employees. |  |
| e. | Internal Control System and Management Information Systems The Board is assisted in this regard by the BAC who reviews 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 also reviewed management responses on same during the year. |  |







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| f. | <p>Key Management Personnel (KMPs)</p> <p>KMPs are defined in the Sri Lanka Accounting Standards, who significantly influence policy, direct activities and exercise control over business activities, operations and risk management. All appointments of designated KMPs 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 KMPs identified for financial reporting purposes.</p> | ☑ |
| g. | <p>Define Areas of Authority and Key Responsibilities for Directors and KMPs</p> <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> | ☑ |
| h. | <p>Oversight of Affairs of the Bank by KMPs</p> <p>The Board reviews the performance of the Bank vis a vis the strategic plan and receives reports from its Subcommittees on financial reporting, internal control, risk management, changes in KMPs and other relevant matters delegated to them. Additionally, KMPs 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.</p> | ☑ |
| i. | <p>Assess Effectiveness of Own Governance Practices</p> <p>Completed Board Evaluation Forms were received from all Board members for 2016 and the responses were discussed at a BNC meeting and at a subsequent Board meeting. Matters of concern noted are followed up and improved upon during the year to continuously improve the governance practices of the Bank.</p> | ☑ |
| j. | <p>Succession Plan for KMPs</p> <p>There is a formal succession plan in place with named successors for KMPs together with development plans to ensure their readiness. The succession plan for the CEO and KMPs was reviewed by the BNC and approved by the Board during 2016.</p> | ☑ |
| k. | <p>Regular Meetings with KMPs</p> <p>Progress towards corporate objectives is a regular agenda item for the Board and KMPs are regularly involved in the Board level discussions on the same. Additionally, they make presentations on key agenda items or are called in for discussions at the meetings of the Board and its Subcommittees on policy and other matters relating to their areas on a regular basis.</p> | ☑ |
| l. | <p>Regulatory Environment and Maintaining an Effective Relationship with Regulator</p> <p>Directors are briefed about regulatory developments at Board meetings by the KMPs to facilitate effective discharge of their responsibilities. Members of the 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 Central Bank of Sri Lanka as well.</p> | ☑ |
| m. | <p>Hiring External Auditors</p> <p>The Board has adopted a Policy of Rotation of Auditors, once in every five years, in keeping with the principles of Good Corporate Governance. At the end of the five-year period, quotations are called from suitable Audit Firms, prior to the recommendation of new Auditors as per the Rotation Policy. In addition to this, External Auditors submit a statement annually confirming their independence as required by Section 163 (3) of the Companies Act No. 07 of 2007 in connection with external audit.</p> | ☑ |
| 3 (1) (ii) | <p>Appointment of Chairman and CEO and Defining and Approving their Functions and Responsibilities</p> <p>Positions of the Chairman and the Managing Director (MD)/Chief Executive Officer (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 the Section 3 (5) of this Direction as given on page 358.</p> | ☑ |
| 3 (1) (iii) | <p>Regular Board Meetings</p> <p>Board meetings are held on the last Friday of each month on a regular basis 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 127 together with the number of meetings of the Board and its Subcommittees. We have minimised obtaining approval via Circular Resolutions and it is done only on an exceptional basis and such resolutions are ratified by the Board at the next meeting.</p> | ☑ |

| Section | Principle, Compliance and Implementation | Complied |
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| 3 (1) (iv) | <p>Arrangements for Directors to Include Proposals in the Agenda</p> <p>Notice of Meeting is circulated two weeks 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.</p> | ✔ |
| 3 (1) (v) | <p>Notice of Meetings</p> <p>Notice of meetings, together with the Agenda and Board papers for the Board meetings are circulated to the Directors seven days prior to the meeting giving Directors time to attend and submit any urgent proposals.</p> | ✔ |
| 3 (1) (vi) | <p>Directors' Attendance</p> <p>The Directors are apprised of their attendance in accordance with the Articles of the Company and the Corporate Governance Code. Details of the Directors' attendance are set out on page 127. No Director has been absent from three consecutive meetings.</p> | ✔ |
| 3 (1) (vii) | <p>Appointment and Setting Responsibilities of the Company Secretary</p> <p>The Board appoints and sets responsibilities of the Company Secretary in accordance with the Companies Act, Banking Act Directions and the Articles of the Company under advisement of the BNC.</p> | ✔ |
| 3 (1) (viii) | <p>Directors' Access to Advice and Services of Company Secretary</p> <p>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.</p> | ✔ |
| 3 (1) (ix) | <p>Maintenance of Board Minutes</p> <p>Company Secretary maintains the minutes of the Board meetings and circulates same to all Board members after review by the CEO and the 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.</p> | ✔ |
| 3 (1) (x) | <p>Minutes to be of Sufficient Detail and Serve as a Reference for Regulators and Supervisory Authorities</p> <p>The Minutes of the meetings include:</p> <ul style="list-style-type: none"> (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact-finding discussions and the issues of contention or dissent; (d) the testimonies and confirmations of relevant executives with regard to the Board's strategies and policies and adherence to relevant laws and regulations; (e) matters regarding the risks to which the Bank is exposed and an overview of the risk management measures including reports of the BIRMC; and (f) the decisions and Board resolutions including reports of all Board Subcommittees. | ✔ |
| 3 (1) (xi) | <p>Directors' Ability to Seek Independent Professional Advice</p> <p>Directors can obtain independent professional advice, as and when necessary, in discharging their responsibilities according to a procedure approved by the Board. This function is coordinated by the Company Secretary.</p> | ✔ |
| 3 (1) (xii) | <p>Dealing with Conflicts of Interest</p> <p>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 11 to 13 and in Note 64 to the Financial Statements on page 313.</p> | ✔ |
| 3 (1) (xiii) | <p>Formal Schedule of Matters Reserved for Board Decision</p> <p>The Board has put in place systems and controls to facilitate the effective discharge of Board functions.</p> <p>Pre-set Agenda of meetings ensures the direction and control of the Bank are firmly under Board's control and authority in line with regulatory codes, guidelines and international best practice.</p> | ✔ |









| Section | Principle, Compliance and Implementation | Complied |
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| 3 (1) (xiv) | <p>Inform Central Bank if there are Solvency Issues</p> <p>The Bank is solvent and no situation arisen where its solvency has been in doubt. A Board approved procedure is in place to inform the Director of Bank 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.</p> | ✔ |
| 3 (1) (xv) | <p>Capital Adequacy</p> <p>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.</p> | ✔ |
| 3 (1) (xvi) | <p>Publish Corporate Governance Report in Annual Report</p> <p>This Report forms part of the Corporate Governance Report of the Bank which is set out from page 123 to 175 and pages 354 to 371.</p> | ✔ |
| 3 (1) (xvii) | <p>Self-Assessment of Directors</p> <p>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.</p> | ✔ |
| 3 (2) | Board Composition | |
| 3 (2) (i) | <p>Number of Directors</p> <p>As per CBSL Governance Direction, the number of Directors should not be less than seven and not more than thirteen. The Bank's Board comprised 10 Directors as at December 31, 2016.</p> | ✔ |
| 3 (2) (ii) | <p>Period of Service of a Director</p> <p>The period of service of a Director is limited to nine years excluding the Executive Directors as per the Corporate Governance Code for Licensed Commercial Banks. Details of their tenures of service are given on pages 11 to 13.</p> | ✔ |
| 3 (2) (iii) | <p>Board Balance</p> <p>There are two Executive Directors and eight NEDs which is compliant with the requirement to limit the number of Executive Directors to 1/3 of the total.</p> | ✔ |
| 3 (2) (iv) | <p>Independent NEDs</p> <p>The Board has seven independent Directors which is well above the regulatory requirement to satisfy the criteria for determining independence.</p> | ✔ |
| 3 (2) (v) | <p>Alternate Independent Directors</p> <p>There are no alternate Directors.</p> | ✔ |
| 3 (2) (vi) | <p>Criteria for Non-Executive Directors</p> <p>NEDs are persons with proven track records and necessary skills and experience to bring independent judgement to bear on, issues of strategy, performance and resources and appointed by the Board.</p> <p>Directors nominate names of eminent professionals or academics from various disciplines to the BNC who peruses the profiles and recommend suitable candidates to the Board.</p> | ✔ |
| 3 (2) (vii) | <p>More than Half the Quorum to Comprise Non-Executive Directors</p> <p>This requirement is strictly observed and it is noteworthy that the majority of the Board are NEDs.</p> | ✔ |
| 3 (2) (viii) | <p>Identify Independent Non-Executive Directors in communications and Disclose Categories of Directors in Annual Report</p> <p>The independent NEDs 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 & Non-Executive Directors and Independent and Non-Independent are given on page 127.</p> | ✔ |










| Section | Principle, Compliance and Implementation | Complied |
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| 3 (2) (ix) | <p>Formal and Transparent Procedure for Appointments to the Board</p> <p>The Board has established a 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.</p> | ✓ |
| 3 (2) (x) | <p>Re-election of Directors filling Casual Vacancies</p> <p>All Directors appointed to the Board are subject to re-election by shareholders at the first AGM after their appointment.</p> | ✓ |
| 3 (2) (xi) | <p>Communication of Reasons for Removal or Resignation of Director</p> <p>Resignations of Directors and the reasons are promptly informed to the regulatory authorities and shareholders as per CSE's Continuing Listing Requirements together with a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.</p> | ✓ |
| 3 (2) (xii) | <p>Prohibition of Directors or Employees of a Bank Becoming a Director of Another Bank</p> <p>The Board and the BNC take in to account this requirement in their deliberations when considering appointments of Directors. None of the Directors are Directors or employees of any other bank.</p> | ✓ |
| 3 (3) | Criteria to Assess Fitness and Propriety of Directors | |
| 3 (3) (i) | <p>Age of Director should not exceed 70</p> <p>There are no Directors who are over 70 years of age.</p> | ✓ |
| 3 (3) (ii) | <p>Directors Should not be Directors of more than 20 Companies and not more than 10 Companies Classified as Specified Business Entities</p> <p>No Director holds directorships of more than 20 companies/entities/institutions inclusive of Subsidiaries or Associates of the Bank.</p> | ✓ |
| 3 (4) | Management Functions Delegated by the Board | |
| 3 (4) (i) | Understand and study delegation arrangements | ✓ |
| 3 (4) (ii) | Extent of delegation should not hinder the Board's ability to discharge its functions | ✓ |
| 3 (4) (iii) | <p>Review delegation arrangements periodically to ensure relevance to operations of the Bank</p> <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 as referred to in the Sections 3 (4) (i), (ii) and (iii) above.</p> | ✓ |
| 3 (5) | The Chairman and Chief Executive Officer | |
| 3 (5) (i) | <p>Separation of Roles</p> <p>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.</p> | ✓ |
| 3 (5) (ii) | <p>Non-Executive Chairman and Appointment of a Senior Independent Directors</p> <p>The Chairman is an Independent Non-Executive Director.</p> | ✓ |
| 3 (5) (iii) | <p>Disclosure of identity of Chairman and CEO and any Relationships with the Board Members</p> <p>The identity of the Chairman and the CEO are disclosed in the Annual Report on page 11.</p> <p>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.</p> | ✓ |






| Section | Principle, Compliance and Implementation | Complied |
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| 3 (5) (iv) | <p>Chairman to provide Leadership to the Board</p> <p>Board approved List of Functions and Responsibilities of the Chairman includes, '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'.</p> <p>All key and appropriate issues are discussed by the Board on a timely basis.</p> | ✔ |
| 3 (5) (v) | <p>Responsibility for Agenda Lies with Chairman but may be Delegated to Company Secretary</p> <p>The Company Secretary draws up the agenda for the meetings in consultation with the Chairman.</p> | ✔ |
| 3 (5) (vi) | <p>Ensure that Directors are Properly Briefed and Provided Adequate Information</p> <p>The Chairman ensures that the Board is sufficiently briefed and informed regarding the matters arising at Board meetings. The following procedures ensure this:</p> <ul style="list-style-type: none"> • Circulation of Board papers seven days prior to meeting • Clarification of matters by KMPs when required | ✔ |
| 3 (5) (vii) | <p>Encourage Active Participation by all Directors and Lead in Acting in the Interests of the Bank</p> <p>This requirement is addressed in the List of Functions and Responsibilities of the Chairman approved by the Board.</p> | ✔ |
| 3 (5) (viii) | <p>Encourage Participation of Non-Executive Directors and Relationships between Non-Executive and Executive Directors</p> <p>Eight members of the Board are NEDs which creates a conducive environment for active participation by the NEDs. Additionally, NEDs chair the Subcommittees of the Board providing further opportunity for active participation.</p> | ✔ |
| 3 (5) (ix) | <p>Refrain from Direct Supervision of Key Management Personnel and Executive Duties</p> <p>The Chairman does not get involved in the supervision of KMPs or any other executive duties.</p> | ✔ |
| 3 (5) (x) | <p>Ensure Effective Communication with Shareholders</p> <p>The Bank historically has active shareholder participation at the Annual General Meeting. At the Annual General Meeting the shareholders are given the opportunity to take up matters for which clarification is needed. These matters are adequately clarified by the Chairman and/or CEO and/or any other officer.</p> | ✔ |
| 3 (5) (xi) | <p>CEO Functions as the Apex Executive in charge of the day-to-day operations</p> <p>The day-to-day operations of the Bank have been delegated to the CEO.</p> | ✔ |
| 3 (6) | Board Appointed Committees | |
| 3 (6) (i) | <p>Establishing Board Committees, their Functions and Reporting</p> <p>The Board has established eight committees with written terms of reference for each of which five 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 Subcommittees are included in the Annual Report as follows:</p> <ul style="list-style-type: none"> • Board Audit Committee on page 140 • Board Integrated Risk Management Committee on page 143 • Board Nomination Committee on page 145 • Board Human Resources and Remuneration Committee on page 147 • Board Related Party Transactions Review Committee on page 149 • Board Credit Committee on page 150 • Board Investments Committee on page 151 • Board Technology Committee on page 152 <p>The chairpersons of the Subcommittees are available at the AGM to clarify any matters that may be referred to them by the Chairman.</p> | ✔ |

| Section | Principle, Compliance and Implementation | Complied |
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| 3 (6) (ii) | Audit Committee | |
| a. | <p>Chairman to be an Independent Non-Executive Director with Qualifications and Experience in Accountancy and/or Audit</p> <p>Chairman of the Committee, Mr. S. Swarnajothi is an Independent Non-Executive Director. He is a Fellow of The Institute of Chartered Accountants of Sri Lanka and a Fellow of the Certified Management Accountants of Sri Lanka and also a member of the Institute of Certified Management Accountants of Australia. A former Auditor General of Sri Lanka, he has the required skills and experience to function effectively in this capacity.</p> |  |
| b. | <p>Committee to Comprise Solely of Non-Executive Directors</p> <p>All members of the BAC are independent NEDs.</p> |  |
| c. | <p>Audit Committee Functions</p> <p>In accordance with the Terms of Reference, the BAC has made the following recommendations:</p> <ul style="list-style-type: none"> (i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank Guidelines issued to Auditors from time to time; (iii) the application of the relevant Accounting Standards; and (iv) the service period, audit fee and any resignation or dismissal of the Auditor. <p>The 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. | <p>Review and Monitor External Auditor's Independence and Objectivity and the Effectiveness of the Audit Processes</p> <p>The Board has adopted a policy of rotation of Auditors, once in every five years, in keeping with the principles of good Corporate Governance.</p> |  |
| e. | <p>Provision of Non-Audit Services by External Auditor</p> <p>Following action is taken prior to the assignment of non-audit services to External Auditors by the Bank:</p> <ul style="list-style-type: none"> a. If the management is of the view that the independence is likely to be impaired with the assignment of any non-audit services to External Auditors, no assignment will be made to obtain such services. b. Further, relevant information is obtained from External Auditors to ensure that their independence is not impaired, as a result of providing any non-audit services. <p>Assigning such non-audit services to External Auditors is discussed at BAC meetings and required approval is obtained to that effect.</p> |  |
| f. | <p>Determines Scope of Audit</p> <p>The committee discussed the Audit Plan and scope of the audit with External Auditors to ensure that it includes:</p> <ul style="list-style-type: none"> (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; (ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations. <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> |  |

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| g. | <p>Review Financial Information of the Bank</p> <p>The BAC reviews the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgements contained therein. The review focuses on the following:</p> <ul style="list-style-type: none"> (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; (v) compliance with relevant Accounting Standards and other legal requirements. <p>The BAC makes their recommendations to the Board on the above on a quarterly basis.</p> | ✔ |
| h. | <p>Discussions with External Auditor on Interim and Final Audits</p> <p>The BAC discusses issues, problems and reservations arising from the interim and final audits with the External Auditor. The Committee met on two occasions with the External Auditors in the absence of executive staff of the Bank.</p> | ✔ |
| i. | <p>Review of Management Letter and Bank's response</p> <p>The BAC has reviewed the External Auditor's Management Letter and the management's response thereto.</p> | ✔ |
| j. | <p>Review of Internal Audit Function</p> <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 Department and ensures that appropriate action is taken on the recommendations.</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 BAC.</p> <p>The BAC is kept apprised of terminations/resignations of senior internal audit staff members and recommends their appointment.</p> <p>The above processes ensure that audits are performed with impartiality, proficiency and due professional care.</p> | ✔ |
| k. | <p>Internal Investigations</p> <p>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.</p> | ✔ |
| l. | <p>Attendees at Board Audit Committee Meetings</p> <p>The CEO, CFO, AGM – 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 two occasions during the year.</p> | ✔ |
| m. | <p>Explicit Authority, Resources and Access to Information</p> <p>The Terms of Reference for the BAC includes:</p> <ul style="list-style-type: none"> (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary. <p>Refer the BAC Report on page 140.</p> | ✔ |

| Section | Principle, Compliance and Implementation | Complied |
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| n. | <p>Regular Meetings</p> <p>The BAC has scheduled regular quarterly meetings and additional meetings are scheduled when required. Accordingly, the Committee met eleven 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 Secretary of the BAC.</p> |  |
| o. | <p>Disclosure in Annual Report</p> <p>The Report of the BAC on page 140 includes the following:</p> <ul style="list-style-type: none"> (i) details of the activities of the Audit Committee; (ii) the number of BAC meetings held in the year; and (iii) details of attendance of each individual Director at such meetings. |  |
| p. | <p>Maintain Minutes of Meetings</p> <p>AGM – Management Audit serves as the Secretary for the BAC and maintains minutes of the committee meetings.</p> |  |
| q. | <p>Whistle Blowing Policy and Relationship with External Auditor</p> <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 are 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> <p>The BAC is the key representative body for overseeing the Bank's relations with the External Auditor and meets the Auditor on a regular basis to discharge this function.</p> |  |
| 3 (6) (iii) | <p>Human Resources and Remuneration Committee</p> <p>Charter of the Committee</p> <p>The HR and Remuneration Committee (BHRRC) is responsible for:</p> <ul style="list-style-type: none"> a. determining the remuneration policy relating to Directors, CEO and KMPs; b. setting goals and targets for the Directors, CEO and KMPs; c. evaluating performance of the CEO and KMPs against agreed targets and goals and determining the basis for revising remuneration, benefits and other payments of performance based incentives. <p>The CEO attends all meetings of the Committee, except when matters relating to the CEO are being discussed.</p> |  |
| 3 (6) (iv) | <p>Nomination Committee</p> <p>a. Appointment of Directors, CEO and Key Management Personnel</p> <p>The Committee has developed and implemented a procedure to appoint new Directors, CEO and KMPs.</p> <p>The Committee is chaired by the Chairman of the Bank and comprises three other NEDs, two of whom are independent.</p> <p>The CEO may be present at meetings by invitation. Refer the BNC Report on page 145.</p> |  |
| b. | <p>Re-Election of Directors</p> <p>The Committee makes recommendations regarding the re-election of current Directors, considering the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.</p> |  |
| c. | <p>Eligibility Criteria for Appointments to Key Managerial Positions Including CEO</p> <p>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.</p> |  |

| Section | Principle, Compliance and Implementation | Complied |
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| d. | <p>Fit and Proper persons</p> <p>The Committee obtains annual declarations from Directors, CEO and COO to ensure that they are fit and proper persons to hold office as specified in the criteria given in the Section 3 (3) of this Direction and as set out in the Statutes.</p> <p>Further, the BHRRC obtains declaration from KMPs to ensure that they too are fit and proper persons to hold office as specified in the said Direction.</p> |  |
| e. | <p>Succession Plan and New Expertise</p> <p>The Committee has developed a succession plan for the Directors whilst succession planning for KMPs is carried out by the BHRRC. The need for new expertise may be identified by the Board or its Subcommittees and brought to the attention of the BNC who will take appropriate action.</p> |  |
| f. | <p>Committee to be chaired by an Independent Director</p> <p>The Committee was chaired by an Independent Non-Executive Director and the CEO was presented at the meetings by invitation.</p> |  |
| 3 (6) (v) | Integrated Risk Management Committee/Board Risk Management Committee | |
| a. | <p>Composition of Integrated Risk Management Committee</p> <p>The Committee comprises NEDs, the CEO and the Chief Risk Officer who serves as the secretary to the committee. Other KMPs supervising credit, market, liquidity, operational and strategic risk are invited to attend the meeting on a regular basis.</p> |  |
| b. | <p>Risk Assessment</p> <p>The Committee has approved the policies on Credit Risk Management, Market Risk Management and Operational Risk Management, which provide a framework for management and assessment of risks. Accordingly, monthly information on pre-established risk indicators is reviewed by the Committee in discharging its responsibilities as per the Terms of Reference.</p> |  |
| c. | <p>Review of Management Level Committees on Risk</p> <p>The Committee reviews the reports of the management level Credit Policy Risk and Portfolio Review Committee and the Asset and Liability Management Committee (ALCO) to assess their adequacy and effectiveness in addressing specific risks and managing same within the quantitative and qualitative risk limits set out in the Risk Appetite Statement reviewed and approved by the Board on a regular basis.</p> <p>Further, adequacy and effectiveness of all management level risk-related committees such as Executive Integrated Risk Management Committee, ALCO, Credit Policy Committee and Executive Committee on Monitoring NPAs are reviewed by the BIRMC annually.</p> |  |
| d. | <p>Corrective Action to Mitigate Risks Exceeding Prudential Levels</p> <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 monthly and discussed in detail at quarterly meetings.</p> <p>The Committee takes prompt corrective action to mitigate the effects of specific risks in the case, such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements.</p> |  |
| e. | <p>Frequency of Meetings</p> <p>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 five times during 2016.</p> |  |
| f. | <p>Actions against Officers Responsible for Failure to Identify specific Risks or Implement Corrective Action</p> <p>The Committee refers such matters, if any, to the Human Resources Department for necessary action.</p> |  |









| Section | Principle, Compliance and Implementation | Complied |
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| g. | <p>Risk Assessment Report to Board</p> <p>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.</p> |  |
| h. | <p>Compliance function</p> <p>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 a quarterly basis to BAC and BIRMC.</p> |  |
| 3 (7) | Related Party Transactions | |
| 3 (7) (i) | <p>Avoid Conflict of Interest</p> <p>The BRPTRC is tasked with the oversight of the processes relating to this subject and their report is on page 149.</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 Department, 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 relevant sessions, in which lending to related entities are discussed to avoid any kind of an influence and conflict of interest.</p> <p>Transactions carried out with related parties as defined by LKAS 24 on 'Related Party Disclosures', in the normal course of business, are disclosed in Note 64 to the Financial Statements on 'Related Party Disclosures' on pages 313 to 318.</p> <p>Directors' interest in contracts, which do not fall into the definition of related party transactions as per LKAS 24, are reported separately in the Annual Report, outside the Financial Statements. Refer pages 170 and 171 for more details.</p> |  |
| 3 (7) (ii) | <p>Related Party Transactions Covered by Direction</p> <p>The Related Party Transactions Policy approved by the Board, covers the following transactions:</p> <ol style="list-style-type: none"> The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation; The creation of any liabilities of the Bank in the form of deposits, borrowings and investments; The provision of any services of a financial or non-financial nature to the Bank or received from the Bank; The creation or maintenance of reporting lines and information flows between the Bank and any related parties, which may lead to sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties. |  |
| 3 (7) (iii) | <p>Prohibited Transactions</p> <p>The Bank's Related Party Transactions Policy prohibits transactions, which would grant related parties more favourable treatment than that accorded to other customers. These include the following:</p> <ol style="list-style-type: none"> Granting of 'total net accommodation' to related parties, exceeding a prudent percentage of the Bank's regulatory capital; 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; 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; Providing services to or receiving services from a related party without an evaluation procedure; Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions. |  |

| Section | Principle, Compliance and Implementation | Complied |
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| 3 (7) (iv) | <p>Granting Accommodation to a Director or Close Relation of a Director</p> <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 two thirds of the number of Directors, other than the Director concerned, voting in favour of such accommodation or through circulation of papers, which require 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) | <p>Accommodations granted to Persons, Concerns of Persons or Close Relations of Persons, who subsequently are appointed as Directors of the Bank</p> <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>Ms. N.T.M.S. Cooray was appointed as a Director to the Board on September 19, 2016. The Bank had granted facilities to companies in which she was a Director. Since appointment to the Board, granting of these facilities have been disclosed as RPTs. Upon obtaining the accommodation, the necessary securities were obtained for the facilities under consideration.</p> | ✔ |
| 3 (7) (vi) | <p>Favourable Treatment or Accommodation to Bank Employees or their Close Relations</p> <p>No favourable treatment/accommodation is provided to Bank employees, other than staff benefits. 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) | <p>Remittance of Accommodation Subject to Monetary Board approval</p> <p>No such situation has arisen during the year.</p> | ✔ |
| 3 (8) | Disclosures | |
| 3 (8) (i) | <p>Publish Annual and Quarterly Financial Statements</p> <p>Annual Audited Financial Statements and Interim Financial Statements of the Bank were prepared and published during 2016 in the newspapers (in Sinhala, Tamil and English), in accordance with the formats prescribed by the Supervisory and Regulatory Authorities and applicable accounting standards.</p> | ✔ |
| 3 (8) (ii) | <p>Disclosures in Annual Report</p> <p>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.</p> <p>Disclosures on the compliance with the applicable accounting standards and regulatory requirements in preparation of the Annual Audited Financial Statements, have been made in the 'Statement of Directors' Responsibility', 'Managing Director's and Chief Financial Officer's Statement of Responsibility'. Refer pages 164 and 169.</p> <p>b. Report by the Board on the Bank's Internal Control Mechanism</p> <p>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:</p> <ul style="list-style-type: none"> • Directors' Statement on Internal Control on page 166 and 167. • Statement of Director's Responsibility on pages 164 and 165. • Annual Report of the Board of Directors on pages 153 to 163. | ✔ |







| Section | Principle, Compliance and Implementation | Complied | | | | | | | | | | | | | | |
|---------------------------|--|---------------------------|-----------------------------|--|------|------|---------------|------|------|--------------|------|------|------------|------|------|---|
| c. | <p>External Auditor's Certification on the Effectiveness of the Internal Control Mechanism</p> <p>The Bank has obtained a Certificate on the Effectiveness of Internal Controls over Financial Reporting, which is published on page 168.</p> | ✓ | | | | | | | | | | | | | | |
| d. | <p>Details of Directors, Including Names, Fitness and Propriety, Transactions with the Bank and the Total of Fees/ Remuneration paid by the Bank</p> <ul style="list-style-type: none"> • Profiles of Directors are given on pages 11 to 13. • Directors' interests in contracts with the Company on pages 170 and 171. • Remunerations paid by the Bank are given in Note 21 to the Financial Statements on page 224. | ✓ | | | | | | | | | | | | | | |
| e. | <p>Total Accommodations Granted to each Category of Related Parties and as a Percentage of the Bank's Regulatory Capital</p> <p>Total accommodations granted to each category of Related Parties are given in Note 64 to the Financial Statements on pages 313 to 318. The net accommodations granted to each category of related parties as a percentage of the Bank's Regulatory Capital are given below:</p> <p>Direct and indirect accommodation to related parties:</p> <table border="1"> <thead> <tr> <th rowspan="2">Category of Related Party</th> <th colspan="2">% of the Regulatory Capital</th> </tr> <tr> <th>2016</th> <th>2015</th> </tr> </thead> <tbody> <tr> <td>KMPs and CFMs</td> <td>0.48</td> <td>0.22</td> </tr> <tr> <td>Subsidiaries</td> <td>0.86</td> <td>1.28</td> </tr> <tr> <td>Associates</td> <td>0.00</td> <td>0.00</td> </tr> </tbody> </table> <p>CFMs – Close Family Members</p> | Category of Related Party | % of the Regulatory Capital | | 2016 | 2015 | KMPs and CFMs | 0.48 | 0.22 | Subsidiaries | 0.86 | 1.28 | Associates | 0.00 | 0.00 | ✓ |
| Category of Related Party | % of the Regulatory Capital | | | | | | | | | | | | | | | |
| | 2016 | 2015 | | | | | | | | | | | | | | |
| KMPs and CFMs | 0.48 | 0.22 | | | | | | | | | | | | | | |
| Subsidiaries | 0.86 | 1.28 | | | | | | | | | | | | | | |
| Associates | 0.00 | 0.00 | | | | | | | | | | | | | | |
| f. | <p>Aggregate Values of Remuneration to and Transactions with Key Management Personnel</p> <p>The aggregate values of remuneration paid and transactions with the Bank by KMPs as defined by LKAS 24 for financial reporting purposes, are given in Note 64 to the Financial Statements on pages 313 to 318.</p> <p>Further, total Deposits and repurchase agreements held and total Direct and Indirect facilities obtained, as at December 31, 2016 by the KMPs (Board and selected members of Corporate Management) amounted to Rs. 200.3 Mn. (Rs. 135.3 Mn. in 2015) and Rs. 156.1 Mn. (Rs. 177.6 Mn. in 2015), respectively.</p> | ✓ | | | | | | | | | | | | | | |
| g. | <p>External Auditors Certification of Compliance</p> <p>The factual findings report has been issued by the External Auditor 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. | <p>Report Confirming Compliance with Prudential Requirements, Regulations, Laws and Internal Controls</p> <p>The Statement of Directors' Responsibility on pages 164 and 165 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. | <p>Non-compliance Report</p> <p>There were no supervisory concern 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 in this regard.</p> | ✓ | | | | | | | | | | | | | | |
| 3 (9) | <p>Transitional and Other General Provisions</p> <p>The Bank has complied with the transitional provisions.</p> | ✓ | | | | | | | | | | | | | | |

ANNEX 1.2: CODES OF BEST PRACTICE ON CORPORATE GOVERNANCE




Compliance with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka

| Code Ref. | Compliance and Implementation | Complied |
|-----------|--|---|
| A. | Directors | |
| A.1 | <p>The Board</p> <p>The Board of Commercial Bank comprises 10 eminent professionals drawn from multiple fields. They bring diverse perspectives and independent judgement to the deliberation of matters set before the Board.</p> <p>Directors are elected by shareholders at the AGMs with the exception of the CEO and COO who are appointed by the Board and remain as Executive Directors until expiry or termination of such appointment. Casual vacancies are filled by the Board based on the recommendations of the BNC as provided for in the Articles of Association. They are assisted by the Company Secretary.</p> |  |
| A.1.1 | <p>Regular Meetings</p> <p>The Board meets on a monthly basis and each Board Subcommittee also has its own schedule of meetings as set out in the respective committee reports. Attendance at meetings is summarised in Table 22 on pages 127 to 129.</p> |  |
| A.1.2 | <p>Role and Responsibilities of the Board</p> <p>The Role and Responsibilities of the Board are set out in the Board Charter as summarised in Figure 29 on page 131.</p> |  |
| A.1.3 | <p>Act in Accordance with Laws</p> <p>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 regards to the operations of the Bank. This includes provision to obtain independent professional advice as and when necessary coordinated through the Company Secretary. Independent professional advices were sought on matters in accordance with the above provision in 2016 on four occasions for which the expenses were borne by the Bank.</p> |  |
| A.1.4 | <p>Access to Advice and Services of Company Secretary</p> <p>All Directors are able to obtain the advice and services of the Company Secretary and the appointment and removal of the Company Secretary is a matter involving the whole Board under advisement of the BNC as it is a Key Management position.</p> |  |
| A.1.5 | <p>Independent Judgement</p> <p>The Board comprises senior professionals who are luminaries in their respective fields and 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.</p> |  |
| A.1.6 | <p>Dedicate Adequate Time and Effort to Matters of the Board and the Company</p> <p>Board meetings and Board 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 papers closer to the meeting in exceptional circumstances, this is generally discouraged. Members of the Corporate Management Team and external experts make representations to the Board 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.</p> <p>It is estimated that NEDs dedicate not less than 12 days per annum for the affairs of the Bank and those Directors who are also on the BAC and the BIRMC dedicate a further four days for the affairs of the Bank.</p> |  |
| A.1.7 | <p>Board Induction and Training</p> <p>Refer the Section on 'Induction and Training of Directors' on page 132.</p> |  |

| Code Ref. | Compliance and Implementation | Complied |
|-----------|---|----------|
| A.2 | <p>Separating the Activities of the Board from the Executive Responsibilities of the Company</p> <p>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.</p> | ✓ |
| A.3 | <p>Chairman's Role in Preserving Good Corporate Governance</p> <p>The Chairman provides leadership to the Board, preserving order and facilitating the effective discharge of duties of the Board and is responsible for ensuring the effective participation of all Directors and maintaining open lines of communication with KMPs, 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 same.</p> | ✓ |
| A.4 | <p>Availability of Financial Acumen and Knowledge to offer Guidance on Matters of Finance</p> <p>The Chairman of the BAC and the Deputy Chairman of the Bank both of whom are NEDs are Fellow members of the CA Sri Lanka ensuring a sufficiency of financial acumen within the Board on matters of finance. Additionally, the Executive Directors and two NEDs are professional Bankers with considerable experience on matters of finance.</p> | ✓ |
| A.5 | <p>Board Balance</p> <p>The Board comprises eight NEDs and two Executive Directors facilitating an appropriate balance within the Board. Seven NEDs 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 evaluated to ensure compliance with the criteria for determining independence which are based on the requirements of the Code.</p> <p>The Chairman holds a meeting at least once a year with only the NEDs without the presence of the Executive Directors. Directors' concerns regarding matters which are not resolved unanimously are recorded in the minutes.</p> | ✓ |
| A.6 | <p>Provision of Appropriate and Timely Information</p> <p>Board members receive information regarding matters set before the Board seven days prior to the meetings and the Chairman ensures that all Directors are properly briefed on same by requiring the presence of KMPs when deemed necessary. Management also makes presentations on regular agenda items to the Board and its Subcommittees. Additionally, the Directors have access to KMPs 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.</p> | ✓ |
| A.7 | <p>Appointments to the Board and Re-election</p> <p>Refer Sections on 'Appointment of Director' and 'Re-Election' on page 132.</p> | ✓ |
| A.8 | <p>All Directors should Submit themselves for Re-election at Regular Intervals</p> <p>Refer the Section on 'Re-Election' on page 132.</p> | ✓ |
| A.9 | <p>Appraisal of Board and Committee Performance</p> <p>Refer the Section on 'Board and Subcommittee Evaluations' on page 133.</p> | ✓ |
| A.10 | <p>Annual Report to Disclose Specified Information Regarding Directors</p> <p>Information specified in the Code with regard to Directors are disclosed within this Annual Report as follows:</p> <ul style="list-style-type: none"> • Profiles including qualifications, expertise, material business interests and key appointments on pages 11 to 13. • Remuneration paid to Directors in Note 21 to the Financial Statements on page 224. • Related Party Transactions and other business interests on pages 313 to 318 and 170 and 171. • Membership of committees and attendance at Board Meetings and Committee meetings on the pages 127 to 129. | ✓ |
| A.11 | <p>Appraisal of the CEO – Refer page 133</p> | ✓ |

| Code Ref. | Compliance and Implementation | Complied |
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| B. | Directors' Remuneration | |
| B.1 | Directors' and Executive Remuneration – Refer page 224. |  |
| B.2 | Level and Make-Up of Remuneration – Refer page 133. |  |
| B.3 | Disclosures Related to Remuneration in Annual Report <ul style="list-style-type: none"> • Statement of Remuneration Policy – Refer page 133. • Details of remuneration of the Board as a whole – Refer Note 21 to the Financial Statements on page 224. • Names of the members of the BHRRC and their Report – Refer page 147. |  |
| C | Relations with Shareholders | |
| C.1 | Constructive use of the AGM and Other General Meetings <p>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. 7 of 2007. The Chairman ensures the presence of the Chairmen of the Audit, Remuneration and Nomination Committees to respond to any questions that may be directed to them by the Chairman. Notice of the AGM is circulated 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 15 working days in advance. A summary of the procedures governing voting at General Meetings is included on page 133 of this Annual Report.</p> |  |
| C.2 | Communication with Shareholders <p>The Shareholder Communication Policy sets out multiple channels of communication for engaging with shareholders. Channels 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 Bank's website which was re-designed during the year now provides information on risk management, economy and financial markets in addition to the financial information. The Interim Financial Statements are published in the English, Sinhala and Tamil newspapers within 45 days. Every effort is made to ensure that the Annual Report provides a balanced review of the Bank's performance.</p> <p>The principal forum for shareholders is the AGM, while matters can also be raised through the Company Secretary. The Company Secretary keeps the Board apprised of issues raised by the shareholders to ensure that they are addressed in an appropriate manner in keeping with the corporate values of the Bank. Matters raised in writing are responded to in writing by the Company Secretary.</p> |  |
| C.3 | Disclosure of Major Transactions <p>The Shareholders Communication Policy addresses the need to disclose major transactions to shareholders and has in place a defined process for doing the same. There were no transactions which would materially alter the Company's or Group's net asset base nor any major related party transactions apart from those disclosed in the –</p> <ul style="list-style-type: none"> • Annual Report of the Board of Directors on pages 153 to 163; and • Note 64 to the Financial Statements on page 313 |  |

| Code Ref. | Compliance and Implementation | Complied |
|-----------|---|----------|
| D | Accountability and Audit | |
| D.1 | <p data-bbox="208 381 1381 401">Present a Balanced and Understandable Assessment of the Company's Financial Position, Performance and Prospects</p> <p data-bbox="208 422 1381 561">All efforts are taken to ensure that the Annual Report presents a balanced review of the Bank's financial position, performance and prospects combining narrative and visual elements to facilitate readability and comprehension. 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 BAC and approved prior to publication. The following disclosures as required by the Code are included in this report:</p> <ul data-bbox="208 571 1381 851" style="list-style-type: none"> • Annual Report of the Board of Directors – Refer pages 153 to 163. • Statement of Directors' Responsibility – Refer pages 164 and 165. • Independent Auditors' Report – Refer page 180. • Directors' Statement on Internal Control – Refer pages 160 and 167. • Management Discussion and Analysis – Refer pages 37 to 122. • Statement of going concern of the Company is set out in the Statement of Directors' Responsibility and Item 20 of the Annual Report of the Directors. • Related Party Transactions disclosed on page 161 of the Directors' Report and in Note 64 in the Financial Statements on pages 313 to 318 and the process in place is described in the Report of the BRPTRC on page 149. <p data-bbox="208 861 1381 975">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 (EGM) to notify the shareholders of the position and to explain the remedial action being taken. The Annual Report clearly explains how net assets have increased during the year in the Financial Review on page 46.</p> | ☑ |
| D.2 | <p data-bbox="208 996 1381 1048">Process of Risk Management and a Sound System of Internal Control to Safeguard Shareholders' Investments and the Company's Assets</p> <p data-bbox="208 1058 1381 1286">The Board is responsible for formulating and implementing appropriate processes for risk management and internal control systems to safeguard shareholder investments and assets of the Bank. The 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 control. Their responsibilities are summarised in the respective Subcommittee reports 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 Risk Management Department of the Bank and a comprehensive report of how the Bank manages risk is included on pages 172 to 175 and the Subcommittee Reports on pages 143 and 144.</p> | ☑ |
| D.3 | <p data-bbox="208 1307 1381 1328">Audit Committee</p> <p data-bbox="208 1348 1381 1545">The BAC of the Board comprises four independent NEDs and a summary of its responsibilities and activities are given in the Report of the BAC. It is supported by the Internal Audit function of the Bank who report directly to the BAC. The Chairman of the Committee is Mr. S. Swarnajothi, a Fellow member of the CA Sri Lanka 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 Committee 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 168.</p> | ☑ |
| D.4 | <p data-bbox="208 1566 1381 1587">Code of Ethics</p> <p data-bbox="208 1607 1381 1680">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 to share transactions of Commercial Bank by the Directors which are fully compliant with the Listing Rules of the CSE.</p> <p data-bbox="208 1701 1381 1897">The Code of Conduct is in compliance with the requirements of the Schedule I of the Code of Best Practice on Corporate Governance 2013 which encompasses conflict of interest, bribery and corruption, entertainment and gifts, accurate accounting and record-keeping, corporate opportunities, confidentiality, fair dealing, protection and proper use of company assets, compliance with laws, rules and regulations (including insider trading laws), and encouraging the reporting of any illegal or unethical behaviour. The BHRRC of the Bank reviews the Code of Ethics on an annual basis to ensure that it is sufficient and relevant with reference to the current operations of the Bank.</p> | ☑ |

| Code Ref. | Compliance and Implementation | Complied |
|-----------|--|---|
| D.5 | <p>Corporate Governance Disclosures</p> <p>This Corporate Governance Report from pages 123 to 175 and pages 354 to 371 complies with the requirement to disclose the extent of compliance with the Code of Best Practice on Corporate Governance as specified in Principle D5.</p> |  |
| E & F | <p>Encourage Voting at AGM</p> <p>The Bank has 9,610 ordinary voting shareholders of which 5.74% 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 Annual General Meeting. 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. The Interactive Annual Report also has a tab where investors can provide feedback and request for specified information.</p> |  |
| G | <p>Sustainability Reporting</p> <p>The Bank is an early champion of sustainability and sustainability reporting commenced in 2009. Sustainability principles are embedded in our business operations and considered in formulating our business strategy and reported in a holistic manner throughout this Report. Information required by the Code is located as follows:</p> <p>Principle 1 – Reporting of Economic Sustainability (Financial and Manufactured Capital) – Refer pages 46 to 51.</p> <p>Principle 2 – Reporting on the Environment (Impact on Environment) – Refer pages 76 to 81.</p> <p>Principle 3 – Reporting on Labour Practices (Human Capital) – Refer pages 68 to 75.</p> <p>Principle 4 – Reporting on Society (Social Impact) – Refer pages 52 to 63.</p> <p>Principle 5 – Reporting on Product Responsibility (Social and Network Capital) – Refer pages 52 to 63.</p> <p>Principle 6 – Reporting on Stakeholder identification, engagement and effective communication (Stakeholder Engagement) – Refer pages 30 and 31.</p> <p>Principle 7 – Sustainable reporting to be formalised as part of the reporting process and to take place regularly (About this Report) – Refer page 03.</p> |  |

ANNEX 1.3: OTHER DISCLOSURE REQUIREMENTS

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

| Disclosure Requirements | Description | Page No/s. |
|--|--|------------|
| 1. Information about the Significance of Financial Instruments for Financial Position and Performance | | |
| 1.1 Statement of Financial Position | | |
| 1.1.1 Disclosures on categories of financial assets and financial liabilities. | <i>Notes to the Financial Statements:</i> Note 25 – Classification of Financial Assets and Financial Liabilities | 229 |
| 1.1.2 Other Disclosures | | |
| (i) Special disclosures about financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement. | <i>Significant Accounting Policies:</i> Note 7.1.3.1.2 – Financial Assets Designated at Fair Value through Profit or Loss Note 7.1.4.1.2 – Financial Liabilities Designated at Fair Value through Profit or Loss | 202 203 |
| (ii) Reclassifications of financial instruments from one category to another. | <i>Significant Accounting Policies:</i> Note No. 7.1.5 – Reclassification of Financial Assets and Liabilities | 204 |
| (iii) Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral. | <i>Notes to the Financial Statements:</i> Note 69.1.3 – Collateral Held | 332 |
| (iv) Reconciliation of the allowance account for credit losses by class of financial assets. | <i>Notes to the Financial Statements:</i> Note 33.2 – Movement in Provision for Individual and Collective Impairment during the year | 247 |
| (v) Information about compound financial instruments with multiple embedded derivatives. | The Bank does not have compound financial instruments with multiple embedded derivatives. | – |
| (vi) Breaches of terms of loan agreements. | None | – |
| 1.2 Statement of Comprehensive Income | | |
| 1.2.1 Disclosures on items of income, expense, gains and losses. | <i>Notes to the Financial Statements:</i> Notes 12 – 22 to the Financial Statements | 214 to 226 |
| 1.2.2 Other Disclosures | | |
| (i) Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit and loss. | <i>Notes to the Financial Statements:</i> Note 13 – Net Interest Income | 214 |
| (ii) Fee income and expense. | <i>Notes to the Financial Statements:</i> Note 14 – Net Fees and Commission Income | 217 |
| (iii) Amount of impairment losses by class of financial assets. | <i>Notes to the Financial Statements:</i> Note 18 – Impairment Charges for Loans and Other Losses | 220 |
| (iv) Interest income on impaired financial assets. | <i>Notes to the Financial Statements:</i> Note 13.1 – Interest income | 215 |

| Disclosure Requirements | | Description | Page No/s. |
|-------------------------|--|--|------------|
| 1.3 | Other Disclosures | | |
| 1.3.1 | Accounting policies for financial instruments. | <i>Significant Accounting Policies:</i> Note 7.1 – Financial Instruments – Initial Recognition, Classification and Subsequent Measurement | 202 |
| 1.3.2 | Information on hedge accounting. | The Bank did not elect to follow hedge accounting. | |
| 1.3.3 | Information about the fair values of each class of financial asset and financial liability, along with: | | |
| | (i) Comparable carrying amounts. | <i>Notes to the Financial Statements:</i> Note 26.1 – Assets and Liabilities Measured at Fair Value and Fair Value Hierarchy | 234 |
| | | Note 26.3 – Financial Instruments not Measured at Fair Value and Fair Value Hierarchy | 236 |
| | (ii) Description of how fair value was determined. | <i>Significant Accounting Policies:</i> Note 4 - Fair Value Measurement | 199 |
| | (iii) The level of inputs used in determining fair value. | <i>Notes to the Financial Statements:</i> Note 26.3 – Financial Instruments not Measured at Fair Value and Fair Value Hierarchy | 236 |
| | | Note 26.4 – Valuation Techniques and Inputs in Measuring the Fair Value | 238 |
| | | Note 39.5 (b) – Information on Valuations of Freehold Land and Buildings of the Bank | 271 |
| | (iv) (a) Reconciliations of movements between levels of fair value measurement hierarchy. | There were no movements between levels of fair value hierarchy during the period under review. | |
| | (b) Additional disclosures for financial instruments that fair value is determined using level 3 inputs. | <i>Notes to the Financial Statements:</i> Note 26.2 – Level 3 Fair Value Measurement | 236 |
| | (v) Information if fair value cannot be reliably measured. | <i>Notes to the Financial Statements:</i> Note 34 – Financial Investments – Available-for-Sale | 251 |
| 2. | Information about the Nature and Extent of Risks Arising from Financial Instruments | | |
| 2.1 | Qualitative Disclosures | | |
| 2.1.1 | Risk exposures for each type of financial instrument. | <i>Significant Accounting Policies:</i> Note 3 – Financial Risk Management | 196 |
| | | <i>Notes to the Financial Statements:</i> Note 69 – Financial Risk Review | 321 |
| 2.1.2 | Management's objectives, policies and processes for managing those risks. | <i>Significant Accounting Policies:</i> Note 3 – Financial Risk Management | 196 |
| | | Refer the Section on 'Managing Risk: An Overview' for comprehensive disclosure of Management's objectives, policies and processes. | 172 |
| 2.1.3 | Changes from the prior period. | There were no major policy changes during the period under review. | |

| Disclosure Requirements | Description | Page No/s. |
|-------------------------|---|--|
| 2.2 | Quantitative disclosures | |
| 2.2.1 | Summary of quantitative data about exposure to each risk at the Reporting date. | <i>Notes to the Financial Statements:</i> Note 69 – Financial Risk Review 321 |
| 2.2.2 | Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed. | |
| | (i) Credit Risk | |
| | (a) Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets. | <i>Notes to the Financial Statements:</i> Note 69.1.1 – Credit Quality Analysis 323 Note 69.1.3 – Collateral Held 332 |
| | (b) For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset. | <i>Notes to the Financial Statements:</i> Note 69.1.1 (b) – Age Analysis by Class of Financial Assets 325 Note 18 – Impairment Charges for Loans and Other Losses – Collateral Valuation for description on collaterals 220 <i>Significant Accounting Policies:</i> Note 7.1.10 – Identification and Measurement of Impairment of Financial Assets for factors considered in determining the financial assets as impaired 205 |
| | (c) Information about collateral or other credit enhancements obtained or called. | <i>Notes to the Financial Statements:</i> Note 69.1.3 – Collateral Held 332 |
| | (d) Other disclosures (As required by the Section H of the Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework for Licensed Banks). | Refer the Section on 'Managing Risk: An Overview' 172 |
| | (ii) Liquidity Risk | |
| | (a) A maturity analysis of financial liabilities. | <i>Notes to the Financial Statements</i> Note 62 – Maturity Analysis – Group 308 Note 69.2.2 (a) – Maturity Analysis of Financial Assets and Financial Liabilities – Bank 338 |
| | (b) Description of approach to risk management. | <i>Significant Accounting Policies:</i> Note 3 – Financial Risk Management 196 Refer the Section on 'Managing Risk: An Overview' 172 |
| | (c) Other disclosures (As per Section H of the Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework for Licensed Banks). | Refer the Section on 'Managing Risk: An Overview' 172 |

| Disclosure Requirements | Description | Page No/s. |
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| (iii) Market Risk | | |
| (a) A sensitivity analysis of each type of market risk to which the Bank is exposed. | <i>Notes to the Financial Statements:</i> Note 69.3 – Market Risk | 334 |
| (b) Additional information, if the sensitivity analysis is not representative of the Bank's risk exposure. | None | |
| (c) Other disclosures (As required by the Section H of the Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework for Licensed Banks). | <i>Notes to the Financial Statements:</i> Note 69.4 – Operational Risk | 350 |
| | Refer the Section on 'Managing Risk: An Overview' | 172 |
| (iv) Operational Risk | | |
| Disclosures as required by the Section H of the Banking Act Direction No. 07 of 2011 on Integrated Risk Management Framework for Licensed Banks. | Refer the Section on 'Managing Risk: An Overview' | 172 |
| (v) Equity Risk in the Banking Book | | |
| (a) Qualitative Disclosures | | |
| <ul style="list-style-type: none"> • Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons. • Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. | <i>Significant Accounting Policies:</i> Note 4 – Fair Value Measurement | 199 |
| | Note 6.1.3 – Subsidiaries | 201 |
| | Note 6.1.5 – Associates | 201 |
| | Note 7.1.3.1.1 – Financial Assets – Held-for-Trading | 202 |
| | Note 7.1.3.4 – Financial Investments – Available-for-sale | 203 |
| (b) Quantitative Disclosures | | |
| <ul style="list-style-type: none"> • Value disclosed in the Statement of Financial Position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value. • The types and nature of investments. | <i>Notes to the Financial Statements:</i> Note 31 – Other Financial Instruments – Held-for-Trading | 241 |
| | Note 34 – Financial investments – Available-for-sale | 251 |
| | Note 35 – Financial Investments – Held-for-Maturity | 257 |
| | Note 36 – Financial Investments – Loans and Receivables | 258 |
| | Note 37 – Investments in Subsidiaries | 260 |
| | Note 38 – Investments in Associates | 262 |
| <ul style="list-style-type: none"> • The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period. | <i>Notes to the Financial Statements:</i> Note 15 – Net Gains/(Losses) from Trading | 218 |
| | Note 16 – Net Gains/(Losses) from Financial Investments | 218 |
| (vi) Interest Rate Risk in the Banking Book | | |
| (a) Qualitative Disclosures | | |
| <ul style="list-style-type: none"> • Nature of interest rate risk in the banking book (IRRBB) and key assumptions. | <i>Notes to the Financial Statements:</i> Note 69.3.1 – Exposure to Market Risk – Trading and non-trading portfolios | 344 |
| | Refer the section on 'Managing Risk: An Overview' | 172 |

| Disclosure Requirements | Description | Page No/s. |
|---|--|------------|
| (b) Quantitative disclosures | | |
| <ul style="list-style-type: none"> The increase/(decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to the management's method for measuring IRRBB, broken down by currency (as relevant). | <i>Notes to the Financial Statements:</i> Note 69.3.2 – Exposure to Interest Rate risk – Sensitivity Analysis | 346 |
| | Refer the Section on 'Managing Risk: An Overview' | 172 |
| 2.2.3 Information on concentrations of risk. | <i>Notes to the Financial Statements:</i> Note 69.1.4 – Concentration of credit risk | 332 |
| 3. Other Disclosures | | |
| 3.1 Capital | | |
| 3.1.1 Capital Structure | | |
| (i) Qualitative Disclosures | | |
| Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments. | <i>Notes to the Financial Statements:</i> Note 69.5 – Capital Management | 351 |
| (ii) Quantitative Disclosures | | |
| (a) The amount of Tier 1 capital, with separate disclosure of: <ul style="list-style-type: none"> Paid-up share capital/common stock Reserves Non-controlling interests in the equity of subsidiaries Innovative instruments Other capital instruments Deductions from Tier 1 capital | <i>Notes to the Financial Statements:</i> Note 69.5 – Capital Management | 351 |
| (b) The total amount of Tier 2 and Tier 3 capital | | |
| (c) Other deductions from capital | | |
| (d) Total eligible capital | | |
| 3.1.2 Capital Adequacy | | |
| (i) Qualitative Disclosures | | |
| A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities. | <i>Notes to the Financial Statements:</i> Note 69.5 – Capital Management | 351 |
| | Refer the Section on 'Managing Risk: An Overview' | 172 |
| (ii) Quantitative Disclosures | | |
| (a) Capital requirements for credit risk, market risk and operational risk | Refer the Section on 'Managing Risk: An Overview' | |
| (b) Total and Tier 1 capital ratio | | 172 |