

Annex 2: Governance

Annex 2.1: 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
3 (1)	Responsibilities of the Board	
	The Board has strengthened the security 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 pages 20 to 23. These are communicated to all levels of employees through structured meetings and reinforced monthly at team meetings which review performance vis-à-vis strategic goals. The corporate values are included in the Code of Conduct and Business Ethics which is communicated to all employees via hard copy, via the Bank's 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 five year Corporate Strategic Plan from 2018-2022 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's Risk Management Policy Framework and included in the strategic goals.	
	The Bank's Strategic Plan for 2019-2023 was approved on December 19, 2018 by the Board at a special Board meeting with the presence of all the members of Corporate Management.	
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. Risk Management on pages 115 to 139 and the Report of the BIRMC on pages 92 and 93 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 with stakeholders:	
	<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. Interim Financial Statements are made available to shareholders within 45 days for the first three quarters and within 60 days for the last quarter from the end of the relevant 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 stockbrokers. • Customers – Customers include <i>inter alia</i> 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 policy set out by the Bank to handle customer complaints, provides contact numbers to reach as well as the Financial Ombudsman. There is a 24-hour trilingual customer hotline set up for this purpose and reports are reviewed by both the EIRMC and 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 coordinates 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.	

Section	Principle, compliance, and implementation	Complied
f.	<p>Key Management Personnel (KMP)</p> <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. 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 all members of the Corporate Management in addition to the KMP identified for financial reporting purposes.</p>	☑
g.	<p>Define areas of authority and key responsibilities for Directors and KMP</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 KMP</p> <p>The Board reviews the performance of the Bank vis-à-vis the strategic plan and receives reports from its committees on financial reporting, internal control, risk management, changes in KMP and other relevant matters delegated to the committees. 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.</p>	☑
i.	<p>Assess effectiveness of own governance practices</p> <p>Completed Board evaluation forms were received from all Board members for 2018 for review 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 KMP</p> <p>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 Chief Executive Officer and Chief Operating Officer was reviewed by the BNC and approved by the Board during 2018. Members of the BNC unanimously decided and recommended and the Board had a special meeting on May 25, 2018 to select the CEO and COO, in keeping with the principles of good corporate governance.</p>	☑
k.	<p>Regular meetings with KMP</p> <p>Progress towards corporate objectives is a regular agenda item for the Board and members of the Corporate Management 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 committees 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 KMP 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. Board members attend the Director Forums arranged by the CBSL 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, 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/Chief Executive Officer are separated in the Board Charter to maintain a balance of power. Further, functions and responsibilities of the Chairman and the CEO are defined and approved in line with Section 3 (5) of this Direction as given on page 378.</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 at the meeting actively participate in deliberating matters set before the Board. Attendance at Board meetings is given on page 78 together with the number of meetings of the Board. The Bank has minimised obtaining approval via circular resolutions and it is carried out only on an exceptional basis and such resolutions are ratified by the Board at the next meeting.</p>	☑

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Section	Principle, compliance, and implementation	Complied
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 providing Directors adequate 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 Banking Act Direction No. 11 of 2007 (the Direction). Details of the Directors' attendance are set out on page 78. 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 Association 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 past Board papers and minutes through a secure electronic link.</p>	
3 (1) (x)	<p>Maintaining minutes with sufficient details to 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; (f) the decisions and Board resolutions including reports and minutes of all Board committees; and (g) the actions to be taken by the KMP. 	
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. A quarterly report is sent to the Board on possible areas of conflict (if any). Directors withdraw from the meeting, 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 14 to 19.</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
3 (1) (xiv)	Inform Central Bank on probable solvency issues The Bank is solvent and no situations have arisen to challenge its solvency. 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.	
3 (1) (xv)	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 adequacy requirements.	
3 (1) (xvi)	Publish Corporate Governance Report in this Annual Report This Report forms part of the Corporate Governance Report of the Bank which is set out on pages 74 to 83 and pages 374 to 395.	
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.	
3 (2)	Board Composition	
3 (2) (i)	Number of Directors As per CBSL Governance Direction and Articles of Association of the Bank the number of Directors should not be less than seven (7) and not more than thirteen (13). The Bank's Board comprised 12 Directors as at December 31, 2018.	
3 (2) (ii)	Period of service of a Director The period of service of a Director is limited to nine years excluding the Executive Directors as per the Direction issued to Licensed Commercial Banks. Details of their tenures of service are given on page 78.	
3 (2) (iii)	Board balance There are two Executive Directors and ten NEDs which is compliant with the requirement to limit the number of Executive Directors to one-third of the total.	
3 (2) (iv)	Independent NEDs The Board has nine Independent Directors which is well above the regulatory requirement to satisfy the criteria for determining independence.	
3 (2) (v)	Alternate Independent Directors There are no alternate Directors.	
3 (2) (vi)	Criteria for Non-Executive Directors 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. 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.	
3 (2) (vii)	More than half the quorum to comprise Non-Executive Directors This requirement is strictly observed and it is noteworthy that the majority of the Board are NEDs.	
3 (2) (viii)	Identify Independent Non-Executive Directors in communications and disclose categories of Directors in this Annual Report 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 and Non-Executive Directors and Independent and Non-Independent Directors are given on page 78.	
3 (2) (ix)	Formal and transparent procedure for appointments to the Board The Board has established a BNC, Terms of Reference of which 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. Members of the BNC unanimously decided and had a special Board meeting on May 25, 2018 to select the CEO and COO, in keeping with the principles of good corporate governance.	

Section	Principle, compliance, and implementation	Complied
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 Director 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.	
3 (2) (xii)	Prohibition of Directors or employees of a bank becoming a Director 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 of any other bank.	
3 (3)	Criteria to assess fitness and propriety of Directors	
3 (3) (i)	Age of Director should not exceed 70 There are no Directors who are over 70 years of age.	
3 (3) (ii)	Directors should not be Directors of more than 20 companies and not more than 10 companies classified as specified business entities No Director holds directorships in excess of 20 companies/entities/institutions inclusive of subsidiaries or associates of the Bank.	
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)	Review delegation arrangements periodically to ensure relevance to operations of the Bank 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 Section 3 (4) (i), (ii) and (iii) above.	
3 (5)	The Chairman and Chief Executive Officer	
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)	A Non-Executive Independent Director as the Chairman or if not independent, designation of an Independent Director as the Senior 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 the CEO are disclosed in the Annual Report on page 16. 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 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". All key and appropriate issues are discussed by the Board on a timely basis.	
3 (5) (v)	Responsibility for agenda lies with the Chairman but may be delegated to the Company Secretary The Company Secretary draws up the agenda for the meetings in consultation with the Chairman.	

Section	Principle, compliance, and implementation	Complied
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 that:</p> <p>(a) Circulation of Board papers including minutes of the previous meeting seven days prior to meeting</p> <p>(b) Clarification of matters by KMP when required</p>	☑
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>Ten members of the Board are NEDs which creates a conducive environment for active participation by the NEDs. Additionally, NEDs chair the committees of the Board providing further opportunity for active participation.</p>	☑
3 (5) (ix)	<p>Refrain from direct supervision of KMP and executive duties</p> <p>The Chairman does not get involved in the supervision of KMP 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 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.</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 by the Board of Directors.</p>	☑
3 (6)	<p>Board appointed committees</p>	
3 (6) (i)	<p>Establishing Board Committees, their functions and reporting</p> <p>The Board has established nine 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 Board Committees are given on pages 89 to 101.</p> <p>The Chairpersons of the committees are available at the AGM to clarify any matters that may be referred to them by the Chairman.</p>	☑
3 (6) (ii)	<p>Audit Committee</p>	
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. Mr S Swarnajothi's profile is given on page 89.</p>	☑
b.	<p>Committee to comprise solely of Non-Executive Directors</p> <p>All members of the BAC are Independent Non-Executive Directors.</p>	☑
c.	<p>Audit Committee functions</p> <p>In accordance with the Terms of Reference, the BAC has made the following recommendations:</p> <p>(i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;</p> <p>(ii) the implementation of the Central Bank Guidelines issued to Auditors from time to time;</p> <p>(iii) the application of the relevant Accounting Standards; and</p> <p>(iv) the service period, audit fee and any resignation or dismissal of the Auditor.</p> <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>	☑







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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"> (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. (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>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; and (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 coordinating activities with other auditors.</p>	
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; and (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 Auditor 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 requirements relating to the Audit Plan.</p> <p>The services of four 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 also ensure that the recommendations of such investigations were implemented.</p>	

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I.	<p>Attendees at Board Audit Committee meetings</p> <p>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 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 pages 89 to 91.</p>	
n.	<p>Regular meetings</p> <p>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 Secretary of the BAC.</p>	
o.	<p>Disclosure in Annual Report</p> <p>The Report of the BAC on pages 89 to 91 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>Assistant General Manager – 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 a fair and independent investigation and appropriate follow-up action regarding any concerns raised by the employees of the Bank, in relation to possible improprieties in 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 External Auditor on a regular basis to discharge this function.</p>	
3 (6) (iii)	<p>Human Resources and Remuneration Committee (BHRRC)</p> <p>Charter of the Committee</p> <p>The BHRRC is responsible for:</p> <ul style="list-style-type: none"> (a) determining the remuneration policy relating to Directors, CEO and KMP; (b) setting goals and targets for the Directors, CEO and KMP; and (c) 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. <p>The CEO attends all meetings of the Committee, except when matters relating to the CEO are being discussed.</p>	

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3 (6) (iv)	Nomination Committee	
a.	<p>Appointment of Directors, CEO and KMP</p> <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 comprises three other NEDs, two of whom are independent. The CEO may be present at meetings by invitation. Refer the BNC Report on page 94.</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 also considering the requirements of the Articles of Association.</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>	
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 KMP 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 KMP is carried out by the BHRRC. 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>	
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 attended 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 (CRO) who serves as a non-board member. Other KMP supervising credit, market, liquidity, operational, and strategic risks are invited to attend the meetings 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 EIRMC, ALCO, CPC and ECMN 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>	

Section	Principle, compliance, and implementation	Complied
e.	<p>Frequency of meetings</p> <p>The Committee meets quarterly 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 2018.</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 with observations and suggestions.</p>	
g.	<p>Risk Assessment Report to the 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 oversees the processes relating to this subject and their Report is on page 97.</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, 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 312 to 316.</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 page 114 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 prescribed 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
3 (7) (iv)	Granting accommodation to a Director or close relation of a Director A procedure is in place for granting accommodation to Directors or to a close relation/Close Family Member (CFM) 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. Refer section on "Conflicts of Interest" on page 77 for more details.	☑
3 (7) (v)	Accommodations granted to persons, concerns of persons, or close relations of persons, who subsequently are appointed as Directors of the Bank The Company Secretary obtains declarations/affidavits from all Directors prior to their appointment and they are requested to declare any further transactions. Employees of the Bank are aware of the requirement to obtain necessary security, as defined by the Monetary Board, if the need arises. Processes for compliance with this regulation is also monitored by the Compliance Unit.	☑
3 (7) (vi)	Favourable treatment or accommodation to bank employees or their close relations 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.	☑
3 (7) (vii)	Remittance of accommodation subject to Monetary Board approval No such situation has arisen during the year.	☑
3 (8)	Disclosures	
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 2018 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" and "Managing Director's and Chief Financial Officer's Statement of Responsibility". Refer pages 108 and 113 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: Annual Report of the Board of Directors on page 4. Statement of Compliance on pages 102 to 107. Statement of Directors' Responsibility on pages 108 and 109. Directors' Statement on Internal Control over Financial Reporting on pages 110 and 111.	☑
c.	External Auditors 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 pages 110 to 111.	☑
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"> • Profiles of Board members are given on pages 14 to 19. • Directors' Interests in Contracts with the Bank on page 114. • Details of remuneration paid by the Bank are given in Note 22 to the Financial Statements on page 215. 	☑








Section	Principle, compliance, and implementation	Complied											
e.	<p>Total accommodation granted to each category of related party and as a percentage of the Bank's regulatory capital</p> <p>The net accommodation granted to each category of related party 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">Percentage of the regulatory capital</th> </tr> <tr> <th>2018</th> <th>2017</th> </tr> </thead> <tbody> <tr> <td>KMP CFM and related entities</td> <td>2.92</td> <td>3.62</td> </tr> <tr> <td>Subsidiaries</td> <td>0.87</td> <td>0.77</td> </tr> </tbody> </table>	Category of related party	Percentage of the regulatory capital		2018	2017	KMP CFM and related entities	2.92	3.62	Subsidiaries	0.87	0.77	
Category of related party	Percentage of the regulatory capital												
	2018	2017											
KMP CFM and related entities	2.92	3.62											
Subsidiaries	0.87	0.77											
f.	<p>Aggregate values of remuneration to and transactions with Key Management Personnel</p> <p>The aggregate values of remuneration paid to KMPs amounted to Rs. 484.74 Mn.</p> <p>The total deposits and repurchase agreements held and total net accommodations obtained, as at December 31, 2018 by the KMP amounted to Rs. 422.19 Mn. (Rs. 357.7 Mn. in 2017) and Rs. 264.26 Mn. (Rs. 152.26 Mn. in 2017), respectively.</p>												
g.	<p>External Auditors Certification of Compliance</p> <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.	<p>Report confirming compliance with prudential requirements, regulations, laws, and internal controls</p> <p>The Statement of Directors' Responsibility on pages 108 and 109 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 concerns on lapses in the Bank's Risk Management Systems or non-compliance with the Direction 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 2.2: Compliance with Code of Best Practice on Corporate Governance

Compliance with the Code of Best Practice on Corporate Governance 2017 (the Code) issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)

Code ref.	Compliance and implementation	Complied
A.	Directors	
A.1	The Board The Board of Commercial Bank comprises 12 eminent professionals drawn from multiple fields and 10 out of them are NEDs. They bring diverse perspectives and independent judgement to deliberate of matters set before the Board. Directors are elected by shareholders at the AGMs with the exception of the CEO and the COO who are appointed by the Board and remain as Executive Directors until retirement, resignation 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. The Board is assisted by the Company Secretary.	
A.1.1	Regular meetings The Board meets on a monthly basis and each Board committee also has its own schedule of meetings as set out in the respective committee reports. The regularity of Board meetings and the structure and process of submitting information have been agreed to and documented by the Board. Attendance at meetings is summarised in Table 23 on page 78. Information required to be reported under this Section is reported on a regular basis.	
A.1.2	Role and responsibilities of the Board The roles and responsibilities of the Board are set out in the Board Charter as summarised on page 79. The Board Charter was updated with the new requirements of the Code of Best Practice on Corporate Governance.	
A.1.3	Act in accordance with laws 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 by any Director coordinated through the Company Secretary. Independent professional advice was sought on matters in accordance with the above provision in 2018 on four (4) occasions for which the expenses were borne by the Bank.	
A.1.4	Access to advice and services of Company Secretary All Directors are able to obtain the advice and services of the Company Secretary. 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. The Bank has obtained appropriate insurance cover as recommended by the BNC for the Board, Directors and KMP.	
A.1.5	Independent judgement The Board comprises senior professionals who are luminaries in their respective fields and use their independent judgement in discharging their duties and responsibilities on matters of strategy, performance, resource allocation, risk management, compliance, and standards of business conduct. The composition of the Board ensures that there is a sufficient balance of power and contribution by all Directors which minimises the tendency for one or a few members of the Board to dominate the Board processes or decision-making.	
A.1.6	Dedicate adequate time and effort to matters of the Board and the Company 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 presentations 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. The NEDs dedicate more than 12 days per annum for the affairs of the Bank and those Directors who are also on the BAC and the BIRMC dedicate at least further four days for the affairs of the Bank.	
A.1.7	If necessary in the best interest of the Bank, one-third of the Directors can call for a resolution to be presented to the Board.	
A.1.8	Board induction and training Refer the Section on "Induction and Training of Directors" on page 82.	

Code ref.	Compliance and implementation	Complied
A.2	Separating the business of the Board from the executive responsibilities for management of the Company 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 an Independent 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 approved Board paper and the Board Charter.	
A.3	Chairman's role in preserving good corporate governance 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 KMP, acting as a sound Board on strategic and operational matters. The agenda for Board meetings is developed by the Chairman in consultation with the Directors, the CEO, and the Company Secretary, taking into consideration matters relating to strategy, performance, resource allocation, risk management, and compliance. Sufficiently detailed information on matters included in the agenda is provided to the Directors on time. Both Executive and NEDs ensure the balance of power on the Board, for the benefit of the Bank, by effectively participating in decision making. All Directors have been made aware of their duties and responsibilities and the Board and Committee structures. All Directors are encouraged to seek information necessary to discuss matters on the agenda. Views expressed by Directors on issues under consideration are recorded in the minutes.	
A.4	Availability of financial acumen and knowledge to offer guidance on matters of finance 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 vast experience on matters of finance.	
A.5	Board balance The Board comprises ten NEDs and two Executive Directors facilitating an appropriate balance within the Board. Nine 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 are evaluated to ensure compliance with the criteria for determining independence in line with the requirements of the applicable regulations and this Code. The Chairman is an Independent Non-Executive Director. There are no alternate Directors appointed to represent the Directors of the Bank. 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.	
A.6	Provision of appropriate and timely information Board members receive information regarding matters set before the Board seven days prior to the meetings. The Chairman ensures that all Directors are properly briefed on same by requiring the presence of members of the Corporate Management when deemed necessary. Management also makes presentations on regular agenda items to the Board and its committees. Additionally, the Directors have access to members of the Corporate Management 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. Minutes of a meeting is ordinarily provided to Directors at least within two weeks after the meeting date.	
A.7	Appointments to the Board and re-election Refer Sections on "Appointment of Directors", "Re-Election of Directors" and BNC report on page 94.	
A.8	All Directors should submit themselves for re-election at regular intervals Refer Sections on "Re-Election of Directors" and Annual Report of the Board of Directors on page 82. In the event of resignation of a Director prior to completion of his/her appointed term, such resignation including reasons for decision shall be communicated in writing. No Director resigned during the year prior to the completion of the appointed term.	
A.9	Appraisal of Board and Committee performance Refer Section on "Board and Board Committee Evaluations" on page 83.	
A.10	Annual Report to disclose specified information regarding Directors Information specified in the Code with regard to Directors is disclosed within this Annual Report as follows: Profiles including qualifications, expertise, material business interests and key appointments on pages 14 to 19. Remuneration paid to Directors in Note 22 to the Financial Statements on page 215. Related Party Transactions and other business interests in Note 64 on pages 312 to 316 and on page 114. Membership of committees and attendance at Board meetings and committee meetings on page 78.	

Code ref.	Compliance and implementation	Complied
A.11	Appraisal of the CEO Refer section on "Appraisal of the CEO" on page 83.	
B.	Directors' remuneration	
B.1	Remuneration procedure Refer section on "Directors' and Executive Remuneration", and BHRRC Report on pages 82, 95 and 96.	
B.2	Level and make-up of remuneration Refer section on "Level and make up of remuneration" on page 82.	
B.3	Disclosures related to remuneration in Annual Report (i) Statement of Remuneration Policy – Refer page 82. (ii) Details of remuneration of the Board as a whole – Refer Note 22 to the Financial Statements on page 215. (iii) Names of the members of the BHRRC and their Report – Refer pages 95 and 96.	
C	Relations with shareholders	
C.1	Constructive use of the AGM and conduct of other general meetings 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. Separate resolutions are proposed for each substantially separate issue. The Chairman ensures the presence of the Chairmen of the BAC, BHRRC, BNC and BRPTRC to respond to any questions that may be directed to them. 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. The Bank ensures that all valid proxy appointments received for the AGM are counted and properly recorded. A summary of the procedures governing voting at general meetings is included on page 83 of this Annual Report. Where a vote is required on a show of hands, the Bank will ensure that information required under the Code will be made available at the meeting and be published in the website within a month from the date of the AGM.	
C.2	Communication with shareholders The Shareholder Communication Policy sets out multiple channels of communication for engaging with shareholders. Channels include investor relations section of the website at http://www.combank.lk/newweb/en/investors , 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 provides information on risk management, economy and financial markets in addition to the financial information. The Interim Financial Statements are published in English, Sinhala and Tamil newspapers within stipulated deadlines. Every effort is made to ensure that the Annual Report provides a balanced review of the Bank's performance. 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.	
C.3	Disclosure of major and material transactions The Shareholders Communication Policy addresses the need to disclose major and material transactions to shareholders as required by the rules and regulations of the SEC and the CSE and the Bank has in place a defined process for doing that. There were no transactions which would materially alter the Company's or Group's net assets nor any major related party transactions apart from those disclosed in the: <ul style="list-style-type: none">• Annual Report of the Board of Directors on page 4• Statement of Compliance pages 102 to 107• Note 64 to the Financial Statements on pages 312 to 316.	

Code ref.	Compliance and implementation	Complied
D	Accountability and audit	
D.1	<p>Present a balanced and understandable assessment of the Company's financial position, performance, business model, governance, structure, risk management, internal controls, and challenges, opportunities and prospects</p> <p>All efforts are taken to ensure that the Annual Report presents a balanced review of the Bank's financial position, performance, Business Model, Governance, Structure, Risk Management, Internal Controls, and Challenges, Opportunities and Prospects combining narrative and visual elements to facilitate readability and comprehension. Due care has been exercised to ensure that all statutory requirements are complied within the Annual Report and the issue of interim communications on financial performance which are reviewed by the BAC and recommended prior to publication. The following disclosures as required by the Code are included in this Report:</p> <ul style="list-style-type: none"> • Management Discussion and Analysis – Refer pages 36 to 73. • Annual Report of the Board of Directors – Refer page 4. • Statement of Compliance pages 102 to 107. • Statement of Directors' Responsibility – Refer pages 108 and 109. • Statement of Going Concern of the Company is set out in the Statement of Directors' Responsibility – Refer pages 108 and 109 • Directors' Statement on Internal Control over Financial Reporting – Refer pages 110 and 111 and Independent Auditors' Report – Refer pages 152 to 154. • Managing Director's and Chief Financial Officer's Statement of Responsibility on page 113. • Related Party Transactions disclosed on page 105 of the Statement of Compliance, Note 64 in the Financial Statements on pages 312 to 316 and the process in place is described in the Report of the BRPTRC page 97. <p>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 pages 142 to 150.</p>	☑
D.2	<p>Process of risk management and a sound system of internal control to safeguard shareholders' investments and the Company's assets</p> <p>The Board is responsible for determining the risk appetite for achieving the strategic objectives and formulates and implements 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 the discharge of its duties in relation to internal control which in turn is supported by the Inspection Department. Their responsibilities are summarised in the respective Committee 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 Integrated Risk Management function of the Bank and a comprehensive report of how the Bank manages risk is included on pages 115 to 139 and the Committee Reports on pages 92 and 93.</p>	☑
D.3	<p>Audit Committee</p> <p>The BAC of the Board comprises five 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 reports directly to the BAC. The Chairman of the Committee is Mr S Swarnajothi, a Fellow member of CA Sri Lanka and a former Auditor General of Sri Lanka. The Committee has also appointed Mr Reyaz Mihular FCA, FCMA, Managing Partner of Messrs KPMG as a Consultant to the Committee who 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 given on page 112.</p>	☑
D.4	<p>Related Party Transactions Review Committee (BPRTRC)</p> <p>The Bank formed a BRPTRC in December 2014 by early adopting the Code of Best Practice on Related Party Transactions as issued by the SEC which requirement became mandatory from January 1, 2016. The Committee comprises three Independent Non-Executive Directors. The two Executive Directors also attend the meetings by invitation. A summary of responsibilities and activities of the BRPTRC are given in the report of the BPRTRC on page 97.</p> <p>The Bank has a Board-Approved Related Party Transactions Policy in place which addresses requirements under this section.</p>	☑

Code ref.	Compliance and implementation	Complied
D.5	<p>Code of Ethics</p> <p>The Bank has an internally-developed Code of Business Conduct and Ethics which is applicable to Directors, other KMP, and all other employees. The Bank also has Board-adopted rules applicable to dealing in shares of the Bank which are fully compliant with the Listing Rules of the CSE.</p> <p>The Code of Conduct is in compliance with the requirements of the Schedule J of the Code 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 including information assets, compliance with laws, rules and regulations (including insider trading laws), fair and transparent procurement practices, and encouraging the reporting of any illegal, fraudulent, or unethical behaviour. The Code also requires any incidents involving any non-compliance be brought to the attention of those charged with governance. The BHRRC of the Bank reviews the Code on an annual basis to ensure that it is sufficient and relevant with reference to the current operations of the Bank. “Chairman’s Statement” on pages 10 and 11 provides confirmation of the Bank’s adherence to the code of Business Conduct and Ethics.</p> <p>The Bank has a process in place to ensure that material and price sensitive information is promptly identified and reported in accordance with the relevant regulations. All the employees of the Bank are required to declare details of their dealings in shares of the Bank in a prescribed format to the Company Secretary of the Bank immediately. In addition, the Directors of the Bank too are required to disclose their dealings in shares of the Bank to the Company Secretary, enabling her to inform such transactions to the CSE. The Bank’s Chief Financial Officer too monitors daily share transactions list to identify whether Directors, other KMP or employees involved in financial reporting are dealing in shares.</p>	
D.6	<p>Corporate governance disclosures</p> <p>This Corporate Governance Report from pages 74 to 83 and pages 374 to 395 complies with the requirement to disclose the extent of compliance with the Code of Best Practice on Corporate Governance as specified in Principle D6.</p>	
E & F	<p>Encourage voting at AGM</p> <p>The Bank has 10,615 ordinary voting shareholders of which 5.28% are institutional shareholders. The Bank has regular 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. The Bank facilitates the analysis of its securities 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 Bank, 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> <p>All prospectuses include a clause which require all prospective investors in shares and debentures of the Bank to seek independent professional advice before investing.</p> <p>The Board of Directors reviewed the Shareholder Communications Policy during the year.</p>	
G	<p>Internet of things and cyber security</p> <p>A Board-approved Information Security Policy (ISP) is in place. A designated officer has been appointed to independently monitor implementation of the ISP and report to the CRO who makes arrangements to regularly keep the Board of Directors informed of any exceptions through the BIRMC. Further, sufficient time is allocated in the agenda of the BTC for discussion on cyber risk management. Minutes of both the BIRMC and the BTC meetings are submitted to the Board for information. Refer reports of the BIRMC and BTC on pages 92 and 100 for further information.</p> <p>Four external and four internal vulnerability assessments are also undertaken during the year under review.</p>	
H	<p>Environment, Society and Governance (ESG)</p> <p>H.1 ESG reporting</p> <p>The Bank is an early champion of ESG and ESG reporting. ESG principles are embedded in our business operations and considered in formulating our business strategy as reported in this Report. Information required by the Code is given in the following sections of the Annual Report:</p> <p>Refer Management Discussion and Analysis on pages 36 to 73</p> <p>Refer Governance and Risk Management on pages 74 to 114 and 115 to 139</p> <p>Refer Connecting with Stakeholders and Materiality Matters on pages 31 to 35</p> <p>This Annual Report has been prepared in accordance with the IIRC Framework, the GRI Guidelines and “A Preparer’s Guide to Integrated Corporate Reporting” published by CA Sri Lanka.</p> <p>Refer “Introducing our 50th Annual Report” on page 5.</p>	

ANNEX 2.3: Other Disclosure Requirements as required by the CBSL

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 27 – Classification of financial assets and financial liabilities	221
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> The Bank has not designated any financial asset/liability at fair value through profit or loss.	180
(ii) Reclassifications of financial instruments from one category to another.	<i>Significant Accounting Policies:</i> Note 7.1.6 – Reclassification of financial assets and liabilities	186
(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 69.1.4 – Collateral Held	333
(iv) Reconciliation of the allowance account for credit losses by class of financial assets.	<i>Notes to the Financial Statements:</i> Movement in provision for impairment during the year for each classes of assets are given in Notes 29.1 (Cash and cash equivalents), 31.1 (Placements with banks), 34.1 (Financial assets at amortised cost – Loans and advances to banks), 35.2 and 35.3 (Financial assets at amortised cost – Loans and advances other customers), 36.1 (Financial assets at amortised cost – Debt and other financial instruments), 37.2 (Financial assets measured at fair value through other comprehensive income)	231, 233, 238, 242, 243, 248, 251
(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 13 to 24 the Financial Statements.	202 to 216
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 14 – Net interest income	202 to 205
(ii) Fee income and expense.	<i>Notes to the Financial Statements:</i> Note 15 – Net fee and commission income	205 to 206
(iii) Amount of impairment losses by class of financial assets.	<i>Notes to the Financial Statements:</i> Note 19 – Impairment charges and other losses	208 to 212
(iv) Interest income on impaired financial assets.	<i>Notes to the Financial Statements:</i> Note 14.1 – Interest income	203
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	182 to 189
1.3.2 Information on financial liabilities designated at FVTPL.	The Group/Bank has not designated any financial liability at FVTPL	184 to 185
1.3.3 Investments in equity instruments designated at FVOCI		
(i) Details of equity instruments that have been designated as at FVOCI and the reasons for the designation.	Note 37 – Financial assets measured at fair value through other comprehensive income/financial investments – available for sale	250 to 254
(ii) Fair value of each investment at the reporting date.	Note 37.3 and 37.4 – Equity securities	252 to 254
(iii) Dividends recognised during the period, separately for investments derecognised during the reporting period and those held at the reporting date.	Note 18 – Net other operating income	208
(iv) Transfer cumulative gain or loss within equity during the period and the reasons for those transfers.	Statement of Profit or Loss and Other Comprehensive Income and Statement of Changes in Equity.	158 and 160 to 167

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Disclosure requirements	Description	Page No/s.
(v) If investments in equity instruments measured at FVOCI are derecognised during the reporting period, - reasons for disposing of the investments - fair value of the investments at the date of derecognition - the cumulative gain or loss on disposal.	Statement of Profit or Loss and Other Comprehensive Income and Statement of Changes in Equity.	158 and 160 to 167
1.3.4 Reclassification of financial assets		
(i) For all reclassifications of financial assets in the current or previous reporting period - date of reclassification - detailed explanation of the change in the business model and a qualitative description of its effect on the financial statements - the amount reclassified into and out of each category	Note 12 – Transition Disclosures.	196 to 201
(ii) For reclassifications from FVTPL to amortised cost or FVOCI - the effective interest rate (EIR) determined on the date of reclassification - the interest revenue recognised	During the period, the Bank has not reclassified financial instruments from FVOCI to amortised cost.	186
(iii) For reclassifications from FVOCI to amortised cost, or from FVTPL to amortised cost or FVOCI - the fair value of the financial assets at the reporting date - the fair value gain or loss that would have been recognised in profit or loss or OCI during the reporting period if the financial assets had not been reclassified	During the period, the Bank has not reclassified financial instruments from FVTPL to amortised cost or FVOCI.	186
1.3.5 Information on hedge accounting	The Bank applied hedge accounting principles for an interest rate SWAP entered into in March 2017. Refer Significant Accounting Policies. Note 7.1.5 – Derivatives held for risk management purposes and hedge accounting, Note 32.2 – Derivative financial assets – cash flow hedges for risk management.	185 and 234
1.3.6 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 28.1 – Assets and liabilities measured at fair value and fair value hierarchy, Note 28.3 – Financial instruments not measured at fair value and fair value hierarchy	226 and 228
(ii) Description of how fair value was determined.	<i>Significant Accounting Policies:</i> Note 4 – Fair value measurement	178
(iii) The level of inputs used in determining fair value.	<i>Notes to the Financial Statements:</i> Note 28.3 – Financial instruments not measured at fair value – fair value hierarchy, Note 28.4 – Valuation techniques and inputs in measuring the fair value, Note 40.5 (b) and 40.5 (c) – Information on valuations of freehold land and buildings of the Bank	228, 230, 265 and 269
(iv) a. Reconciliations of movements between levels of fair value measurement hierarchy. b. Additional disclosures for financial instruments that fair value is determined using level 3 inputs.	There were no movements between levels of fair value hierarchy during the period under review. <i>Notes to the Financial Statements:</i> Note 28.2 – Level 3 – Fair value measurement	228
(v) Information if fair value cannot be reliably measured.	<i>None</i>	
2. Information about the nature and extent of risks arising from financial instruments		
2.1 Qualitative disclosures		
2.1.1 Risk exposures for each type of financial instrument	<i>Significant Accounting Policies:</i> Note 3 – Financial Risk Management <i>Notes to the Financial Statements:</i> Note 69 – Financial Risk Review	174 to 177 319 to 353
2.1.2 Management's objectives, policies and processes for managing those risks.	<i>Significant Accounting Policies:</i> Note 3 – Financial Risk Management Refer the Section on "Risk Management" for comprehensive disclosure of Management's objectives, policies and processes.	174 to 177 115 to 139

Disclosure requirements	Description	Page No/s.
2.1.3 Changes from the prior period.	There were no major policy changes during the period under review.	
2.2 Quantitative disclosures		
2.2.1 Summary of quantitative data about exposure to each risk at the reporting date.	<i>Notes to the Financial Statements:</i> Note 69 – Financial Risk Review	319 to 353
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 Note 69.1.4 – Collateral Held	320 to 330 333 to 334
(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 – Credit Quality Analysis Note 19 – Impairment charges and other losses – collateral valuation for description on collaterals Note 69.1.3 – Collateral Held <i>Significant Accounting Policies:</i> Note 7.1.12 – Identification and measurement of impairment of financial assets for factors considered in determining the financial assets as impaired	320 to 330 208 to 212 333 188 to 189
(c) Information about collateral or other credit enhancements obtained or called.	<i>Notes to the Financial Statements:</i> Note 69.1.4 – Collateral held	333 to 334
(d) Credit risk management practices		
- CRM practices and how they relate to the recognition and measurement ECL, including the methods, assumptions and information used to measure ECL	Note 7.1.12.1 – Overview of ECL principles Note 19 – Impairment charges and other losses	188 208 to 212
- Quantitative and qualitative information to evaluate the amounts in the Financial Statements arising from ECL, including changes and the reasons for those changes.	Note 19.1 – Impairment charges and other losses	212
- How the Bank determines whether the credit risk of financial instruments has increased significantly since initial recognition	Note 7.1.12.2 – Significant increase in credit risk	188
- The Bank's definitions of default for different financial instruments, including the reasons for selecting those definitions	Note 7.1.12.3 – Definition of default and credit impaired assets	189
- How instruments are grouped if ECL are measured on a collective basis	Note 19 – Impairment charges and other losses	208 to 212
- How the bank determines that financial assets are credit-impaired	Note 7.1.12 – Identification and measurement of impairment of financial assets	188 to 189
- The Bank's write-off policy, including the indicators that there is no reasonable expectation of recovery	"Write-off of financial assets" given in Note 19 – Impairment charges and other losses	208 to 212
- How the modification requirements have been applied	Note 7.1.8 – Modification of financial assets and financial liabilities	187
(e) ECL calculations		
- Basis of the inputs, assumptions and the estimation techniques used when estimating ECL	Note 19 – Impairment charges and other losses	208 to 212
- How forward-looking information has been incorporated into the determination of ECL.	"Forward-looking information" given in Note 19 – Impairment charges and other losses	208 to 212
- Changes in estimation techniques or significant assumptions made during the reporting period	Note 5 – Changes in accounting policies, Note 7.1.12 – Identification and measurement of impairment of financial assets	178 to 180 and 188 to 189
(f) Amounts arising from ECL		
- Reconciliation for each class of financial instrument of the opening balance to the closing balance of the impairment loss allowance.	Movement in provision for impairment during the year for each classes of assets are given in Notes 29.1(Cash and cash equivalents), 31.1(Placements with banks), 34.1(Financial assets at amortised cost – Loans and advances to banks), 35.2 and 35.3 (Financial assets at amortised cost – Loans and advances other customers), 36.1 (Financial assets at amortised cost – Debt and other financial instruments), 37.2 (Financial assets measured at fair value through other comprehensive income).	231, 233, 238, 242, 243, 248 and 251
- Explain the reasons for changes in the loss allowances in the reconciliation.		

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Disclosure requirements	Description	Page No/s.
(g) Collateral – Bank's maximum exposure to credit risk at the reporting date – Description of collateral held as security and other credit enhancements	Note 69.1 – Credit risk	320 to 338
(h) Written-off assets	Note 35.2 – Movement in impairment provision during the year and Note 35.3 – Movement in provision for individual and collective impairment during the year, Note 18 – Net other operating income	208, 242 and 243
(i) Pillar III disclosures of the Banking Act Directions No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	Note 69.5 – Capital management and Pillar III disclosures as per Basel III	352 to 353
(ii) Liquidity risk		
(a) A maturity analysis of financial liabilities.	<i>Notes to the Financial Statements:</i> Note 62 – Maturity Analysis – Group Note 69.2.2 – Maturity analysis of financial assets and financial liabilities – Bank	307 to 309 340 to 343
(b) Description of approach to risk management.	<i>Significant Accounting Policies:</i> Note 3 – Financial Risk Management Refer the Section on "Risk Management"	174 to 177 115 to 139
(c) Pillar III disclosures of the Banking Act Directions No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	Refer the Section on "Risk Management"	115 to 139
(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 69.3.2 – Exposure to interest rate risk – sensitivity analysis	347 to 349
(b) Additional information, if the sensitivity analysis is not representative of the Bank's risk exposure.	Note 69.3.3 – Exposure to currency risk – Non-trading portfolio	349 to 350
(c) Pillar III disclosures of the Banking Act Directions No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	Refer the Section on "Risk Management"	115 to 139
(iv) Operational risk		
Pillar III disclosures of the Banking Act Directions No. 1 of 2016 on Capital requirements under Basel III for Licensed Banks	Refer the Section on "Risk Management"	115 to 139
(v) Equity risk in the banking book		
(a) Qualitative Disclosures		
• Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.	Note 33 – Financial assets recognised through profit or loss/ Held for trading – measured at fair value Note 37 – Financial assets measured at FVOCI/ Financial Investments available for sale.	234 to 237 250 to 254
• Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.	Note 69.3.4 – Exposure to equity price risk	351
(b) Quantitative Disclosures		
• Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.	<i>Notes to the Financial Statements:</i> Note 33 – Financial assets recognised through profit or loss/ Held for trading – measured at fair value Note 37 – Financial assets measured at fair value through other comprehensive income/Financial investments – Available for sale	234 to 237 250 to 254
• The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period	<i>Notes to the Financial Statements:</i> Note 16 – Net gains/(losses) from trading Note 17 – Net gains/(losses) from derecognition of financial assets	207 207

Disclosure requirements	Description	Page No/s.
(vi) Interest rate risk in the banking book		
(a) Qualitative Disclosures	Note 69.3.2 – Exposure to Interest Rate Risk – Sensitivity analysis	347 to 349
• Nature of interest rate risk in the banking book (IRRBB) and key assumptions.	Refer the Section on “Risk Management”	115 to 139
(b) Quantitative disclosures	Note 69.3.2 – Exposure to Interest Rate Risk – Sensitivity Analysis	347 to 349
• 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).	Refer the Section on “Risk Management”	115 to 139
2.2.3 Information on concentrations of risk.	<i>Notes to the Financial Statements:</i> Note 69.1.5 – Concentration of credit risk	334 to 338
3. Other disclosures		
3.1 Capital		
3.1.1 Capital structure		
3.2 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 and Pillar III disclosures as per Basel III	352 to 353
3.3 Quantitative disclosure		
(a) The amount of Tier 1 capital, with separate disclosure of:	<i>Notes to the Financial Statements:</i> Note 69.5 – Capital Management and Pillar III disclosures as per Basel III	352 to 353
• Paid-up share capital/common stock		
• Reserves		
• Non-controlling interests in the equity of subsidiaries	Refer the Section on “Risk Management”	115 to 139
• Innovative instruments		
• Other capital instruments		
• Deductions from Tier 1 capital		
(b) The total amount of Tier 2 and Tier 3 capital		
(c) Other deductions from capital		
(d) Total eligible capital		
3.4 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 and Pillar III disclosures as per Basel III	352 to 353
	Refer the Section on “Risk Management”	115 to 139
(ii) Quantitative disclosures		
(a) Capital requirements for credit risk, market risk, and operational risk	Refer the Section on “Risk Management”	115 to 139
(b) Total and Tier 1 capital ratio		