

**Dear Stakeholders,**

It is with great pleasure that we present the Corporate Governance Report for 2016. The Corporate Governance Report illustrates the important areas of the governance framework of the Bank. This report also covers the "Factual Finding Report" submitted by the External Auditors, in relation to compliance with the Corporate Governance Directions issued by the Central Bank of Sri Lanka (CBSL).

As required by 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 in 2013, (the Code) we hereby confirm that, we are not aware of any material violations of any of the provisions of the Code of Business Conduct and Ethics (as embodied in the internal Code of Corporate Governance applicable to Directors and Key Management Personnel of the Bank as the case may be) by any Director or Key Management Personnel of the Bank.

Corporate governance is the set of principles, processes and systems by which an organization is governed. They provide the guidelines on how the organization could be directed and controlled, in order to achieve its objectives, in a manner in which, the Bank could ultimately add value to the organization and all its Stakeholders. Better corporate governance leads to greater long-term values.

It is fundamentally, doing the right thing and asking the right questions.

This is done by aligning the Vision and the Values of the Bank with our Business. Our Values apply universally to all Employees across the Bank's Group and set the standard against which decisions and actions are benchmarked and our individual and corporate performance is measured.

Asking the right questions is a key element, in which a Board would excel in achieving the Bank's long-term objectives. The Board's diversity plays a major role in this aspect as the Bank's Board consists of individuals who possess a diverse set of skills, knowledge and expertise. Further, the Board embraces and encourages exchange of alternate views and ways of thinking. While Board and management hold close ties to one another, their duties and responsibilities are distinctly different. The Board fully supports The Leadership Team, who takes accountability in running the day to day operations of the Bank, keeping in mind the agreed strategy.

The Bank abides strictly by the governing laws and regulations and observes the applicable guidelines and rules issued by regulatory authorities. It regularly undertakes review of its corporate governance system, to ensure it is in line with international and local best practices.

In 2015, we clearly set out values – Integrity, Excellence, Creativity, Accountability and Sincerity, that we expect everyone in the Bank's Group to demonstrate when achieving the Bank's Vision of being the driving force for a financially empowered Sri Lanka. To reinforce these values and drive good behaviour, 2016 saw the launch of a new Compliance Policy and Code of Conduct themed "Living Our Values". This new Compliance Policy and Code of Conduct consolidated all our governance related policies and was fully endorsed by the Board and applies across the Bank. It sets out how, our values should be put into practice by each of us in our interactions with our Stakeholders.

During 2016, the Bank also took measures to further strengthen the Securities Trading Policy and Anti-Bribery and Corruption Policy which applies to the Directors of the Bank and all Employees across the Group.

We strongly believe that good and effective governance helps create value for our Stakeholders. We look forward to unleashing our potential to unlock yours.



**A W Atukorala**  
*Chairman*



**Mrs. K Fernando**  
*Chairperson – Corporate Governance  
and Legal Affairs Committee*

22 February 2017  
Colombo

## CORPORATE GOVERNANCE INITIATIVES FOR THE YEAR 2016

- The Bank's Compliance Policy and Code of Conduct was reviewed and updated aligning it with the Bank's Vision, Mission and Values and making it a referral point for all governance related policies of the Bank.
- A Group Securities Trading Policy was approved by the Board in August 2016, which applies to all Employees and Directors of the Bank and the Group.
- Anti-Bribery and Corruption Policy, applicable to all Employees and Directors of the Bank and the Group, was also approved by the Board in August 2016, which sets out the minimum standards and describes the Group's stance on bribery and corruption.
- Eflyers/Guidance notes were circulated to Employees of the Bank, which covers governance related Policies in order to create awareness.
- The Board and all Board Subcommittees carried out self-assessments to critically evaluate the effectiveness of the Board and each of the Subcommittees. The results of the self-evaluations were discussed in detail and areas for improvement together with an action plan were mandated.
- All Policies, Procedures and Product Programme Guides are tracked on a monthly basis to ensure that they are reviewed in a timely manner, up-to-date and in compliance with laws, regulations and internal operational standards.
- All documents pertaining to Board and Subcommittee meetings were made available in electronic format to enable timely, more efficient and interactive real time communication among Board members in line with sustainability initiatives adopted by the Bank to reduce paper usage.

The Bank inherits a robust corporate governance framework since its inception, which was further enhanced during the year through these initiatives.

## BENCHMARKS ON CORPORATE GOVERNANCE

The Bank's Corporate Governance Framework is governed by the following internal and external regulations:

### REGULATORY BENCHMARKS ON CORPORATE GOVERNANCE

- **Companies Act No. 07 of 2007**  
Mandatory compliance
- **Banking Act No. 30 of 1988 (as amended) and all Directions/ Guidelines issued thereunder**  
Mandatory compliance
- **Corporate Governance Direction No. 11 of 2007 (as amended), issued by the Central Bank of Sri Lanka**  
Mandatory compliance
- **Listing Rules of the Colombo Stock Exchange (CSE)**  
Mandatory compliance
- **The Code of Best Practice on Corporate Governance as published by the Securities and Exchange Commission and The Institute of Chartered Accountants of Sri Lanka**  
Voluntary compliance
- **Related Party Transactions Section 9 of the Listing Rules of the CSE**  
Mandatory compliance
- **Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 (as amended)**  
Mandatory compliance

### INTERNAL BENCHMARKS ON CORPORATE GOVERNANCE

Articles of Association

Internal Code of Corporate Governance for Board and Key Management Personnel

Charters/Terms of Reference of Board Subcommittees and Management Committees

Compliance Policy and Code of Conduct

Group Securities Trading Policy

Group Anti-Bribery and Corruption Policy

Human Resources Policy and Manual

Whistleblowing Policy

Communication Policy

Procurement Policy

Outsourcing Policy

Disclosure Policy

Complaint Handling Policy

Related Party Transactions Policy

Integrated Risk Management Policies

IT related Policies

Finance related Policies

Document Retention and Destruction Policy

Anti-Money Laundering and Suppression of Terrorist Financing Policy

Product Program Guides

All Board approved Policies on operational areas

## OUR GOVERNANCE FRAMEWORK

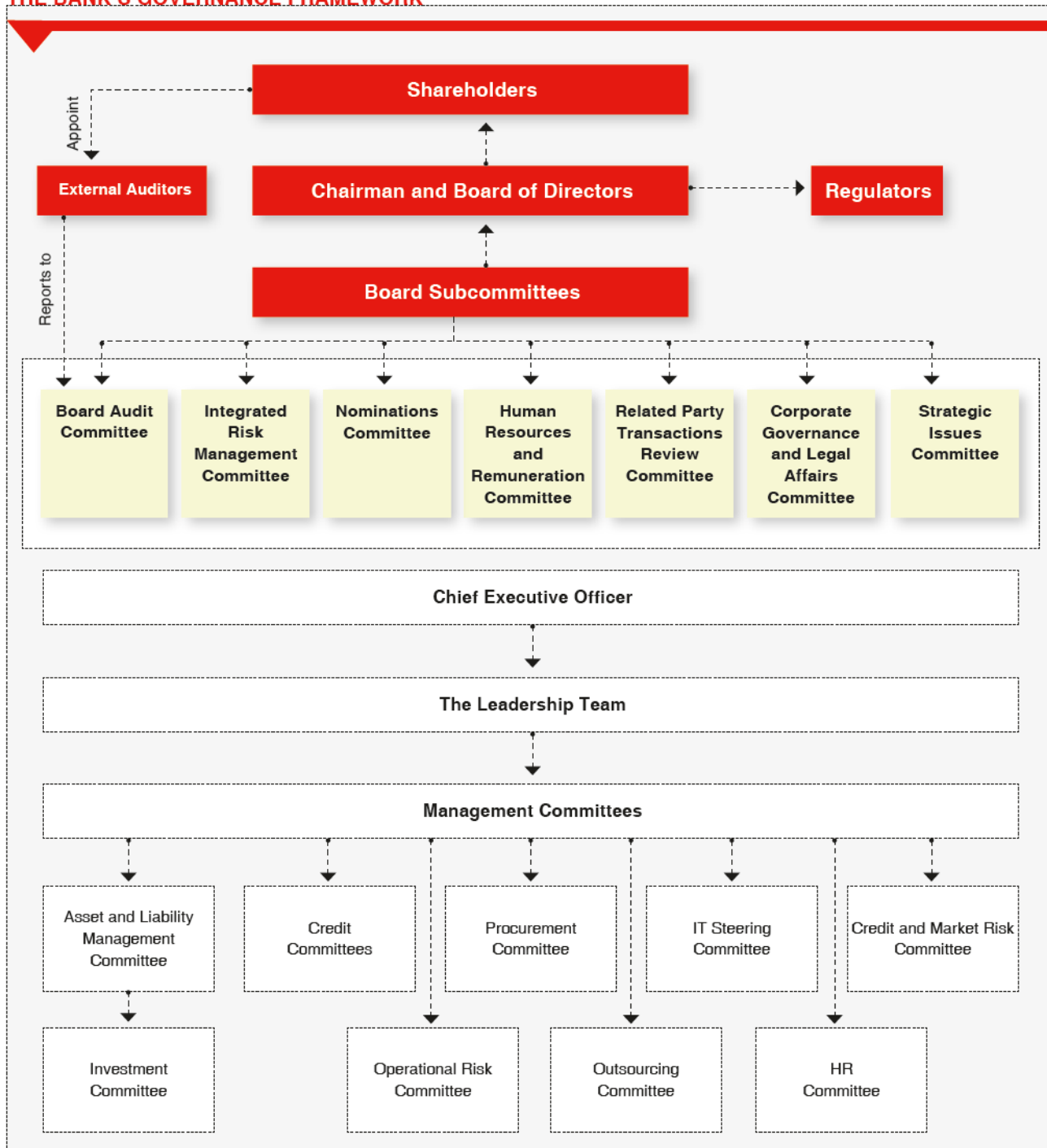
We have a clearly defined governance framework that promotes transparency, fairness and accountability. The Board believes that corporate governance principles should be embedded in our corporate culture. Our corporate culture is anchored on:

- (a) competent leadership;
- (b) effective internal controls; and
- (c) a set of common values.

Our internal controls cover financial, operational, compliance, technology controls, as well as risk management policies and systems.

We work closely with our regulators to ensure that our internal governance standards meet their increasing expectations. We are committed to the highest standards of corporate governance.

### THE BANK'S GOVERNANCE FRAMEWORK



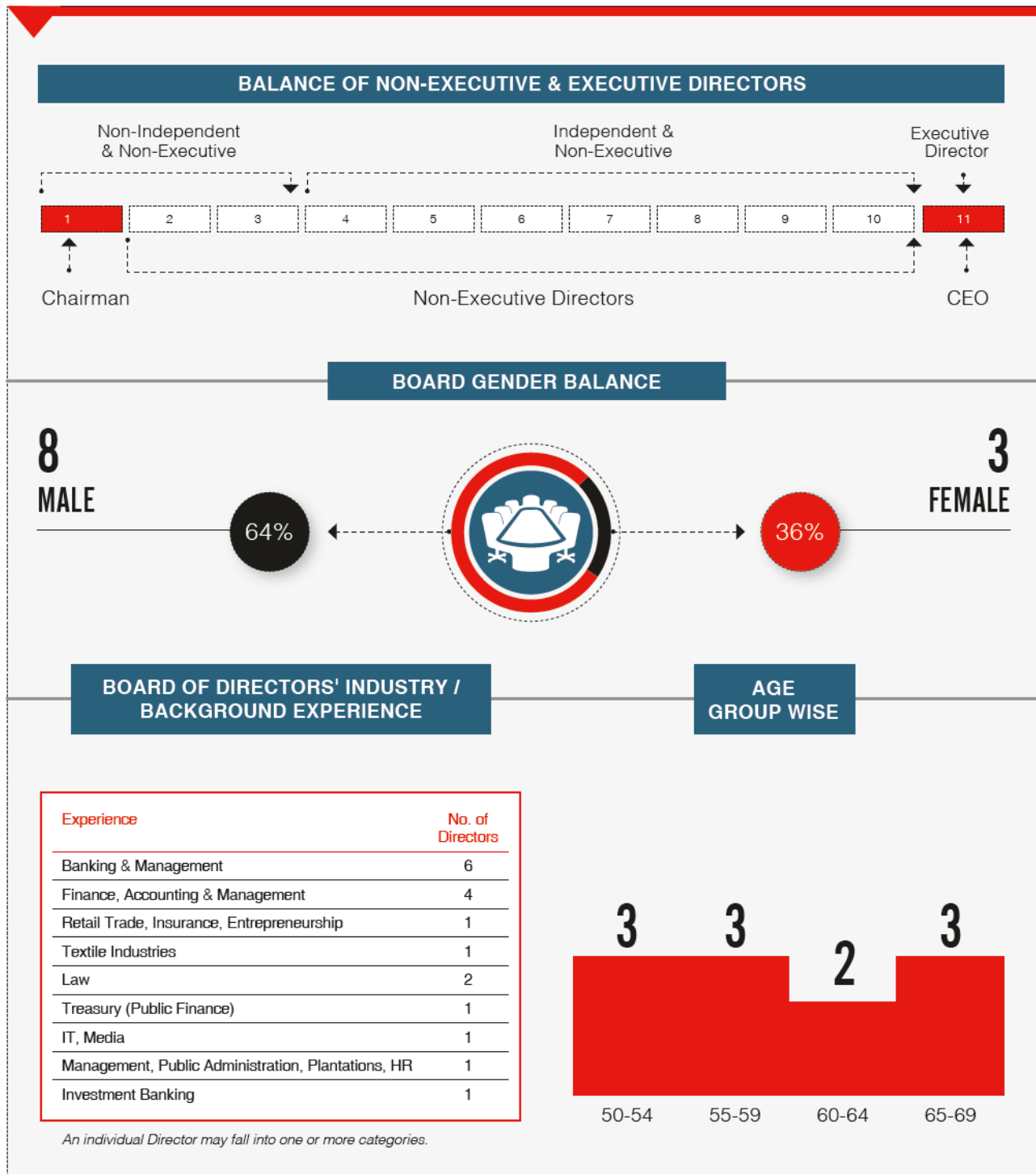
### Board Composition

Our Board members have a broad range of experience and industry expertise. The tenure of our Directors demonstrates a good balance between continuity and fresh perspectives. The size and composition of the Board is

appropriate, given the current size and footprint of the Group's operations. The independence of Non-Executive Directors is reviewed on an annual basis as part of the Directors' evaluation process, taking into account length of tenure and any relationships that

might be considered as factors when determining independence. The proportion of Independent Non-Executive Directors on the Board (seven out of eleven) is high. The make up of our Board reflects diversity of gender.

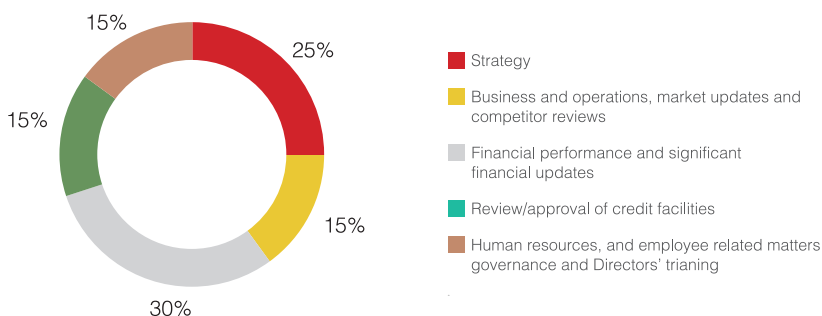
### BOARD COMPOSITION



## The Structure, Composition and Attendance of the Board as at 31 December 2016

Name of Director	Areas of Expertise	Independent/ Non-Independent under CBSL Direction	Independent/ Non-Independent under ICASL/SEC Code	Date of Appointment	No. of Board Meetings Eligible to Attend in 2016	No. of Meetings Attended
A W Atukorala (Chairman)	Management and Banking	Independent	Independent	31.08.2016	7	7
N G Wickremeratne (Retired w.e.f. 31.08.2016)	Management and Banking	Independent	Independent	15.04.2015	11	11
A K Pathirage (Deputy Chairman)	Retail Trade, Insurance, Entrepreneurship	Non-Independent	Non-Independent	18.02.2011	18	18
R Theagarajah (Resigned w.e.f. 30.11.2016)	Banking, Finance and Management	Non-Independent	Non-Independent	24.08.2013	16	15
T L F Jayasekera	Accounting, Banking and Textile Industries	Independent	Independent	10.02.2010	18	18
D S P Wikramanayake	Accounting, Banking and Investment Banking	Non-Independent	Non-Independent	04.06.2010	18	18
Mrs. K Fernando	Law, Banking and Management	Independent	Independent	04.06.2010	18	17
Mrs. W A I Sugathadasa	Management, Public Administration, Plantations and HR	Independent	Independent	04.10.2013	18	17
Mrs. D M A Harasgama	Finance, Public Policy and Management	Non-Independent	Independent	22.04.2015	18	18
D M R Phillips, PC	Law	Independent	Independent	22.04.2015	18	17
K D W Ratnayaka	Management, IT and Media	Independent	Independent	13.05.2015	18	16
N S Welikala	Banking, Finance and Management	Independent	Independent	11.10.2016	5	5

### How the Board Spent its Time in 2016



The Bank's Board is highly engaged and facilitates active participation during Board meetings which discusses key topics such as strategy, governance and operational issues.

## Board Meetings

### Prior to Board Meetings

### During Board Meetings-Effective Engagement with the Board

All Board meetings are scheduled and informed to the Board at the beginning of each calendar year to provide Directors an opportunity to attend

The Chairman encourages and facilitates constructive dialogue during Board meetings

All Directors are given an opportunity to include matters and proposals in the agenda for Board meetings if required

Board members come well prepared and engage in robust discussions on key matters pertaining to the Bank

The Chairman draws up the agenda in consultation with the Chief Executive Officer and the Company Secretary to ensure that there is sufficient information and time to address all agenda items

The Board Subcommittee Chairpersons provide detailed updates to the Board

Formal notice of meetings, the agenda and Board Papers related to each Board meeting are circulated at least 7 days in advance of the Board meeting. These documents are now uploaded through a secure connection to the Ipads of all Directors in order to ensure that Board members have access to complete information prior to Board meetings

CEO prepares complete and accurate Financial Statements and disclosures in accordance with the financial reporting standards which illustrates a fair view of the Bank's performance

Directors have the discretion to engage external advisors

Directors have direct access to senior management. The Key Management Personnel 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 respective areas

Directors can participate by telephone or video conference

If a Director of the Bank has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, such matters are disclosed and discussed at the Board meetings, where Independent Non-Executive Directors who have no material interest in the transaction, are present

Further a Director who has an interest in a transaction abstains from voting on the said matter and is not counted in the quorum for the relevant agenda item at the Board meeting

The Board is provided with detailed financial performance reports on a monthly basis

## Board Subcommittees

The Board has delegated certain responsibilities to Board Subcommittees to assist it in carrying out its functions and to ensure independent oversight of internal controls and risk management.

Board Subcommittee	Role
Board Audit Committee	To provide effective governance and oversight over the Bank's financial reporting, performance of the internal audit function, external audit function and management of the Bank's internal controls and related activities
Integrated Risk Management Committee	Responsible to design, implement and monitor an effective risk management programme for the Bank
Nominations Committee	To ensure that the Board and the Key Management Personnel comprises of individuals with the necessary skills, knowledge and experience to enable effective discharge of their duties
Human Resources and Remuneration Committee	To assess and make recommendations to the Board on the policy on recruitment, remuneration, benefits and talent management of the Bank's Employees
Related Party Transactions Review Committee	To ensure on behalf of the Board, that all related party transactions of the Bank and its Subsidiaries are consistent with the regulatory provisions laid out under LKAS 24, the Corporate Governance Directions and Listing Rules issued by the Colombo Stock Exchange
Corporate Governance and Legal Affairs Committee	Defines the governance role, improves Board processes and ensure effective governance in the Bank and the Group
Strategic Issues Committee	Examines and evaluates strategic issues and recommends any action required to be taken by the Board

## Details of Members of the Board Subcommittees as at 31 December 2016

Name of Committee	Human Resources and Remuneration Committee		Integrated Risk Management Committee		Nominations Committee		Board Audit Committee		Related Party Transactions Review Committee		Corporate Governance and Legal Affairs Committee		Strategic Issues Committee	
Name of Director	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA
N G Wickremeratne <sup>•</sup>					C	15.04.2015			C	20.04.2015			C	20.04.2015
A W Atukorala					C	06.09.2016			C	06.09.2016	M	06.09.2016	C	06.09.2016
A K Pathirage	M	01.01.2014			M	11.08.2011							M	18.02.2011
R Theagarajah <sup>■</sup>			M	01.01.2014							M	01.01.2014		
T L F Jayasekera	M	10.02.2010			M	10.02.2010	C	10.02.2010	M	19.12.2014			M	11.08.2011
D S P Wikramanayake			C	22.06.2010			M	22.06.2010	M	19.12.2014			M	22.06.2010
Mrs. K Fernando	M	22.06.2010			M	30.03.2015	M	11.08.2011	M	19.12.2014	C	22.06.2010	M	04.06.2010
Mrs. W A I Sugathadasa	C	01.01.2014					M	01.01.2014	M	19.12.2014	M	14.11.2014		
Mrs. D M A Harasgama			M	22.04.2015			M	22.04.2015	M	22.04.2015				
D M R Phillips, PC			M	22.04.2015							M	22.04.2015		
K D W Ratnayaka <sup>▲</sup>	M	15.03.2016	M	13.05.2015			M	13.05.2015	M	13.05.2015				
N S Welikala			M	11.11.2016			M	11.11.2016	M	11.11.2016			M	11.11.2016

## Number of Meetings Held and Attendance of the Board Subcommittees as at 31 December 2016

Name of Committee	Human Resources and Remuneration Committee		Integrated Risk Management Committee		Nominations Committee		Board Audit Committee		Related Party Transactions Review Committee		Corporate Governance & Legal Affairs Committee		Strategic Issues Committee	
Name of Director	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
N G Wickremeratne <sup>•</sup>					4	4			3	3				
A W Atukorala					5	5			2	2	1	1	1	1
A K Pathirage	8	7			9	9							1	1
R Theagarajah <sup>■</sup>			5	4							3	3		
T L F Jayasekera	8	8			9	9	8	8	5	5			1	1
D S P Wikramanayake			5	5			8	8	5	5			1	1
Mrs. K Fernando	8	6			9	6	8	7	5	4	4	4	1	1
Mrs. W A I Sugathadasa	8	7					8	7	5	4	4	4		
Mrs. D M A Harasgama			5	4			8	7	5	5				
D M R Phillips, PC			5	3							4	4		
K D W Ratnayaka <sup>▲</sup>	6	6	5	3			1	1	1	1				
N S Welikala							1	–	1	1			1	1

DOA - Date of Appointment, Status - C - Chairman /M - Member

N G Wickremeratne<sup>•</sup> – Retired w.e.f. 31.08.2016

R Theagarajah<sup>■</sup> – Resigned w.e.f. 30.11.2016

K D W Ratnayaka<sup>▲</sup> – Resigned from the Board Audit Committee w.e.f. 15.03.2016

### Directors' Remuneration

The Directors' remuneration is disclosed on page 251.

### Directors' Interest in Shares

Interests in the Bank's shares held by the Directors in office during the year, are disclosed on page 135.

### Related Party Transactions

The Bank and the Group is committed to conducting its business professionally and ethically. The Board appointed a Related Party Transactions Review Committee mandated to evaluate and consider all transactions that require approval and review by



the Related Party Transactions Review Committee, in line with the Bank's Related Party Transactions Policy. The said policy which is a Board approved document, incorporates processes to ensure compliance with laws and regulations in relation to related parties, as required under the Banking Act, the Corporate Governance Direction issued by CBSL, and section 9 of the Colombo Stock Exchange Listing Rules.

The Related Party Policy of the Bank governs all transactions that the Bank may enter into with related parties of the Bank and Group in order to ensure that related parties are treated on par with other shareholders and constituents of the Bank.

Please refer pages 272 and 273 of this report for the Subcommittee Report of the Related Party Transactions Review Committee of the Bank.

**Conflict of Interest**

In line with various statutory requirements on the disclosure of Directors' interests, members of the Board are required to make a declaration at the Board meeting, when they have interests in proposals being considered by the Board, including where such interest arises through close family members.

In all situations where the Directors could be deemed as interested, they would excuse themselves from the

discussion and leave the meeting room. The minutes of meeting would also reflect as such.

**Performance Evaluation of the Board**

The Board evaluation process helps improve Board effectiveness and identifies areas for improvement. A well conducted Board evaluation is vital in helping the Board, Board Subcommittees and each individual Director to perform to their maximum capability. The Board believes that annual self-evaluations provide a valuable opportunity for continuous improvement. In 2016, the Board self-evaluation process took the form of a structured questionnaire, which covered a range of key topics, including effectiveness of Board conduct, the respective roles and responsibilities of the Non-Executive and Executive Directors, quality of strategic and risk debate, the effectiveness of decision making and interactions with management. All Directors participated in the self-assessment and the findings were evaluated by the Chairman and Deputy Chairman and key findings were discussed with the Board.

The effectiveness of each Board Subcommittee was assessed through a separate exercise, again using a structured questionnaire. The findings that are noted pursuant to each of these evaluations are shared with the Chairman and taken up for discussion at the Board.

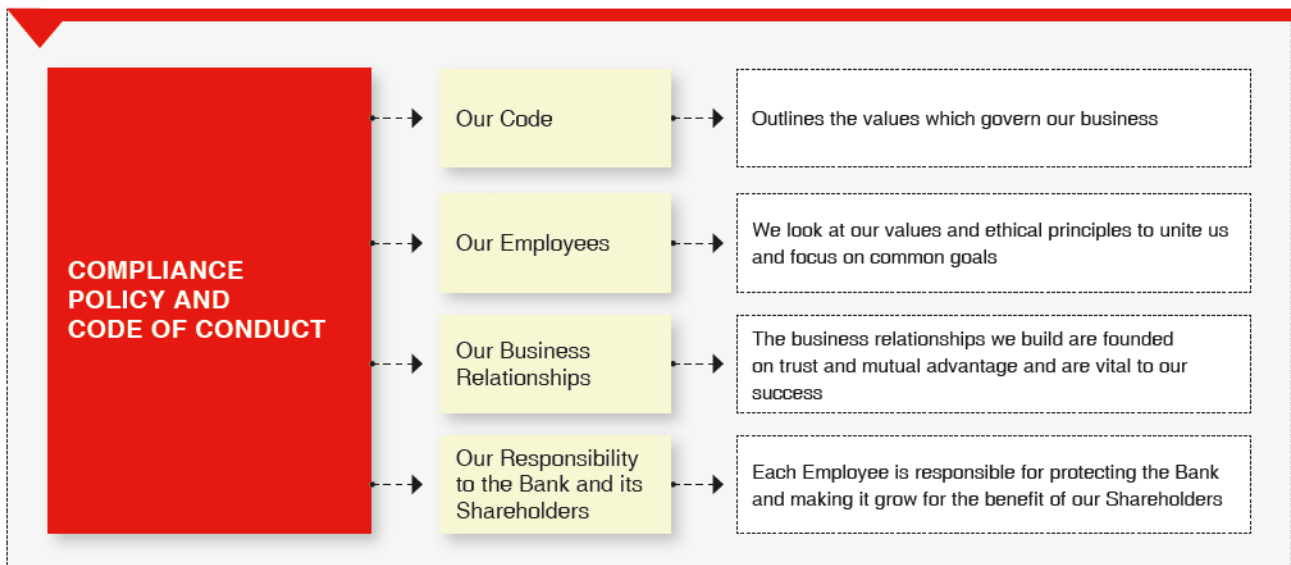
**Our Values and Ethics**

Our values underpin the way we behave and form the backbone of our reputation as a trusted financial services provider. Our revised Values culminated with the launch of the Compliance Policy and Code of Conduct themed 'Living our Values' to embed clear and consistent expectations of behaviours across the Bank. It constitutes a reference point covering all aspects of Employees' working relationships, specifically (but not exclusively) with other Employees, Customers, Regulators, Service Providers, Suppliers, Competitors and the broader community. It also covers the standards of personal integrity that Employees of the Group are required to exercise in conducting their own private and financial affairs. The revised Compliance Policy and Code of Conduct is a referral point for all governance related policies of the Bank.

In addition to our underlying values, we believe that laws, regulations and the Bank's internal policies are an enabler to our business ensuring that we make informed decisions in how we manage our business and sustain ourselves into the future.

The Compliance Policy and Code of Conduct is segregated into four main areas as illustrated below:

**OUR VALUES AND ETHICS**



## Risk Governance

Maintaining an active focus on risk and compliance underpins how we run our business. We identify and actively manage risks as part of a Group-wide “Risk Management Framework” for which the Board is ultimately responsible. The Integrated Risk Management Committee of the Board supports the Board to carry out certain responsibilities within the risk governance framework.

Risk accountability, across the three lines of defence, are maintained as detailed on page 158 of this report. For more on our risk governance framework see page 154 of this report

## IT Governance

IT Governance forms an essential part of the Bank’s Corporate Governance framework. Alignment to business objectives, prudent expenditure, compliance, risk management, security, and responsible allocation of resources are core principles of the Bank’s IT Governance. The Bank is ISO:IEC 27001:2005 certified and conforms to the Baseline Security Standard of the Central Bank of Sri Lanka. Further, the Group Risk Management Department,

independently assesses technology risk on an ongoing basis. Periodic internal and external audits ensure regular verification of the degree of compliance to Policies, Procedures and Standards. The IT Governance disciplines at the Bank ensure technology investments made by the Bank are appropriate and result in customer convenience, competitive advantage, and business growth.

## Governance in Our Subsidiaries

The Governance Framework in our Subsidiaries has been aligned to the governance framework of the Bank, in order to achieve consistent standards across the Group. During 2016, the Group Securities Trading Policy, Anti-Bribery and Corruption Policy and the Complaints Handling Policy have been aligned with the reviewed Policies of the Bank. Corporate Governance developments in the subsidiaries of the Bank are monitored regularly in order to ensure that legal and regulatory requirements are up to date. The Bank and the Group companies maintain a close relationship in order to entrench and improve their corporate governance framework.

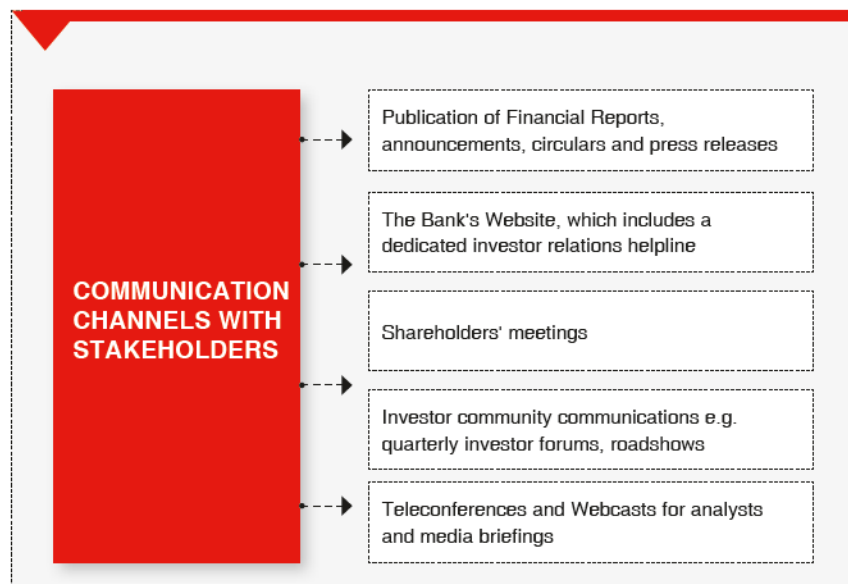
## Communication with Stakeholders

It is our utmost priority to provide our stakeholders with high level transparency in all our disclosures, which will enable stakeholders to access information in a timely manner, in accordance with the Bank’s Board approved Disclosure Policy. The Bank has a dedicated investor relations team that promotes open, transparent, efficient and consistent communication with shareholders, investors and equity analysts. Necessary information is provided to investors in a timely manner in order to make informative decisions.

The Chairman and CEO ensures effective communication with Shareholders. The views of the investors are escalated to Board by the Chairman. The Bank’s engagement with Shareholders has been disclosed in detail in the Investor Relations Report found on pages 128 to 150. Further, Shareholders can raise matters relating to their shareholding and business of the Bank at any time to the Company Secretary.

In order to encourage engagement with the Bank’s Customers and Stakeholders, the Bank has in place a Customer Charter, a formal Compliant Handling Procedure supported by a MIS system that is built in house by the IT Department.

The Channels which the Bank reaches it’s Stakeholders are depicted below:



## Statement of Compliance – Direction No. 11 of 2007 (as amended) on Corporate Governance issued by the Monetary Board of the Central Bank of Sri Lanka (the Corporate Governance Direction)

The Corporate Governance Direction provides processes and practices deemed to be the framework that facilitates the conduct of the Banking business in a responsible and accountable manner so as to promote the safety and soundness of the Bank, thereby leading to the stability of the overall banking sector. The disclosures below reflect the Bank's Compliance with the Corporate Governance Direction under the following key principles:

1. The responsibilities of the Board;
2. The Board's composition;
3. Criteria for the assessment of the fitness and propriety of Directors;
4. Management functions delegated by the Board;
5. The Chairman and Chief Executive Officer;
6. Board appointed Sub-committees;
7. Related Party Transactions and;
8. Disclosures;

Rule No.	Corporate Governance Principles	Compliance Status
<b>3 (1)</b>	<b>Responsibilities of the Board</b>	
3 (1) (i)	The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following:	
	(a) Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank;	<p>Complied</p> <p>Board approved Strategic Plan for 2014 - 2018 is in place, which includes strategic objectives and corporate values.</p> <p>The re-positioned and updated Vision, Mission and Corporate Values, which was approved by the Board, has been communicated through the Bank's intranet (NDB Cloud) and through Brand Play Book given to all staff.</p>
	(b) Approve the overall business strategy of the Bank, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years;	<p>The Bank's overall business strategy was approved by the Board for a period of five years, viz 2014 – 2018, after detailed discussions had with the corporate management of the Bank. The Bank's overall business strategy was re-validated in October 2015 for the period 2016 – 2018. The Bank's Strategic Plan for 2017 – 2020 is currently under discussion and will be finalised before 30 June 2017.</p> <p>There are separate risk policies and risk management procedures with regard to credit risk, operational risk, and market risk segments.</p> <p>The Bank has established an Integrated Risk Management Framework covering all risks approved by the Board. This has been further reviewed by the Integrated Risk Management Committee (IRMC) during the year 2016.</p>
	(c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently;	<p>Complied</p> <p>The Board is responsible for the overall risk framework of the Bank.</p> <p>The IRMC appointed by the Board, reviews and recommends to the Board, the Bank's risk policies and procedures defining the Bank's risk appetite, identifying principal risks, setting governance structures and implementing policies and systems to measure, monitor and manage the principal risks of the Bank. The Board has approved risk management policies and procedures as reviewed and recommended by the IRMC, based on these parameters and as required by this Direction.</p> <p>The following reports provide further insight in this regard:</p> <ul style="list-style-type: none"> <li>- Risk Management Report on pages 154 to 185.</li> <li>- The Board Integrated Risk Management Committee Report on pages 267 to 268.</li> </ul>
	(d) Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	<p>Complied</p> <p>The Bank has in place a Board approved Communications Policy. It's most recent revision was approved by the Corporate Governance and Legal Affairs Committee and the Board. The said policy is available in the Bank's public folder and is accessible to all Employees of the Bank .</p>

Rule No.	Corporate Governance Principles	Compliance Status
(e)	Review the adequacy and the integrity of the Bank's internal control systems and management information systems;	<p>Complied</p> <p>The Board is assisted by the Board Audit Committee (BAC), who evaluates the adequacy and effectiveness of the internal control systems, and reviews internal control issues identified by the Bank's Group Audit, External Auditor, regulatory authorities and the management. The Bank has in place a Management Information Systems (MIS) Policy, approved by the Board. The MIS process of the Bank is reviewed by the Bank's Group Audit and discussed with the BAC. The Board also reviews the adequacy of the Bank's Management Information Systems, based on the monthly MIS pack submitted to the Board each month.</p>
(f)	Identify and designate key management personnel, as defined in Banking Act Determination No. 3 of 2010 on the Assessment of Fitness and propriety of officers performing executive functions in LCBs.	<p>Complied</p> <p>Key Management Personnel (KMP) of the Bank have been identified by the Board and currently include:</p> <ol style="list-style-type: none"> <li>1. The Leadership Team, whose names are detailed on pages 204 to 206 of this Report; and</li> <li>2. Chandana Guniyangoda, in view of the fact that he holds a Directorship in one of the Bank's subsidiaries</li> </ol>
(g)	Define the areas of authority and key responsibilities for the Board Directors themselves and for the key management personnel;	<p>Complied</p> <p>There is clear segregation of authority and responsibilities between the Directors and the KMPs. Board members are responsible for taking strategic decisions of the Bank and the KMPs are responsible for carrying out the decisions made by the Board and carrying out the day-to-day operations of the Bank.</p> <p>Areas of authority and key responsibilities of Board of Directors are included in the Bank's internal Code of Corporate Governance.</p> <p>Areas of key responsibilities of KMPs are defined in their respective job descriptions and the selection criteria of KMPs approved by the Nominations Committee.</p> <p>Further, authority levels are defined under delegation authority assigned for KMP's which have been approved by the Board.</p>
(h)	Ensure that there is appropriate oversight of the affairs of the Bank by key management personnel, that is consistent with board policy;	<p>Complied</p> <p>Oversight by the Board over KMPs, takes place at Board meetings and through Board Subcommittees. The KMPs makes regular presentations to the Board on matters under their purview and are also called in by the Board to explain matters relating to their respective areas. Banking operations carried out in-line with the Bank's strategic objectives, including any issues faced by the Bank, are discussed on a regular basis at Board meetings. The CEO, at weekly meetings held with The Leadership Team, updates them on key decisions taken by the Board.</p>
(i)	Periodically assess the effectiveness of the Board Directors' own governance practices, including: (i) the selection, nomination and election of Directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;	<p>Complied</p> <p>The Board has delegated the function of selection, nomination and election of Directors and KMPs to the Nominations Committee.</p> <p>The Director's interests are disclosed to the Board and Directors who have a particular interest, have abstained from voting in such a situation and he/she is not counted in the quorum.</p> <p>Determination of weaknesses in Board of Directors own governance practices and implementation of changes are addressed through the annual self-evaluation process among the Board members.</p> <p>Self-evaluations for the year 2016 were collated and summarized by the Company Secretary and submitted to the Chairman &amp; Deputy Chairman for their review. The Chairman and Deputy Chairman then discuss areas of weaknesses and recommend changes where necessary at a Board meeting.</p>
(j)	Ensure that the Bank has an appropriate succession plan for key management personnel;	<p>In view of the changes that have taken place during the year 2016, the Board will review and update the Succession Plan of the Bank by 30 June 2017.</p>
(k)	Meet regularly, on a needs basis, with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives;	<p>Complied</p> <p>KMPs are regularly present or are called in for discussions at the meetings of the Board and its Subcommittees on policy and other matters relating to their areas. Progress towards corporate objectives is a regular agenda item for the Board and the KMPs are regularly involved in Board level discussions on the same.</p>

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	(l) Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators;	<p>Complied</p> <p>Circulars, Directions and Guidelines issued by the Regulators are circulated to the Directors on a quarterly basis for their information.</p> <p>The CEO meets with Central Bank officials at the monthly CEO's meeting. The Chairman of the Bank and the Chairpersons of the Board subcommittees meet with the CBSL officials.</p> <p>Further, Directors, the CEO and KMPs of the Bank also maintains a dialog with the Regulators on an ongoing basis.</p>
	(m) Exercise due diligence in the hiring and oversight of External Auditors.	<p>Complied</p> <p>Audit Committee Charter includes the functions of hiring and overseeing of External Auditors. The Board Audit Committee (BAC) carries out the necessary due diligence regarding the hiring/ evaluation of the External Auditor and makes recommendations to the Board. The appointment/re-appointment of the External Auditor is made at the Annual General Meeting.</p> <p>Oversight of the External Auditor is carried out by the BAC and the Board is briefed of any concerns in this regard if required.</p> <p>A formal evaluation of the External Auditors' performance is completed annually by the BAC and conclusions together with any recommendations are discussed at Board level.</p>
3 (1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer, in-line with Direction 3 (5) of these Directions.	<p>Complied</p> <p>N G Wickremeratne retired as the Chairman w.e.f. 31 August 2016 and A W Atukorala an Independent Director was appointed by the Board w.e.f. 31 August 2016.</p> <p>R Theagarajah resigned as CEO w.e.f. 30 November 2016. P L D N Seneviratne has been appointed as the new CEO by the Board w.e.f. 1 January 2017.</p> <p>Functions and responsibilities of the Chairman and the CEO are documented in Board approved internal Code of Corporate Governance, in-line with this Direction.</p>
3 (1) (iii)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of Directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	<p>Complied</p> <p>The Board met eighteen (18) times during 2016, which included six (6) special meetings.</p> <p>Ten (10) Circular resolutions have been passed during the year 2016.</p>
3 (1) (iv)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular board meetings, where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	<p>Complied</p> <p>The internal Code of Corporate Governance includes a provision, which enables all Directors to include such matters and proposals in the agenda for Board meetings. Monthly meetings are scheduled and informed to the Board at the beginning of each calendar year, thereby informing Directors in advance of the date/s of regular Board meetings. This process supports the requirement detailed in this Direction and a Director may include a proposal (if required) in the agenda of a Board meeting.</p>
3 (1) (v)	The Board procedures shall ensure that notice of at least 7 days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice may be given.	<p>Complied</p> <p>Monthly meetings are scheduled and informed to the Board at the beginning of each calendar year to provide Directors an opportunity to attend.</p> <p>Formal notice of meetings, the agenda and Board papers related to each Board meeting are circulated at least seven days in advance of the Board meeting. These documents are now uploaded through a secure connection to the iPad's of all Directors.</p>
3 (1) (vi)	The Board procedures shall ensure that a Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the Directors' meetings through an alternate Director shall, however, be acceptable as attendance.	<p>Complied</p> <p>The Company Secretary monitors the attendance register to ensure compliance. All Directors have attended at least two thirds of the meetings held during the year 2016 and no Director has been absent from three consecutive meetings during 2016.</p> <p>Attendance of Board Directors at Board meetings is detailed on page 217.</p>

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3 (1) (vii)	The Board shall appoint a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied Company Secretary appointed by the Board is an Attorney-at-Law who satisfies the provision of section 43 of the Banking Act.  The internal Code of Corporate Governance includes the responsibilities of the Company Secretary as specified in the statutes and other regulations.
3 (1) (viii)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	Complied The internal Code of Corporate Governance of the Bank includes a provision to enable all Directors to have access to the advice and services of the Company Secretary. For the year 2016, the Company Secretary has provided assistance to the Directors when requested.
3 (1) (ix)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Complied The Company Secretary maintains detailed Board minutes and circulates minutes to all Directors. The minutes are approved at subsequent Board meetings. The Bank's internal Code of Corporate Governance also provides that minutes are open for inspection at any reasonable times, on reasonable notice by any Director. Additionally, copies have been provided of previous meetings to Directors when requested.
3 (1) (x)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board meetings. Therefore, the minutes of a Board meeting shall clearly contain or refer to the following: (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 which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.	Complied There is a Board approved procedure in place for recording of minutes by the Company Secretary.  The minutes contain adequate details appropriate to the matters dealt with. The minutes are read together with the corresponding Board papers, which supplement the information in the minutes. All matters required to be minuted in terms 3 (1) (x) (a) – (f) are recorded in the minutes.
3 (1) (xi)	There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/their duties to the Bank.	Complied As per the Bank's internal Code of Corporate Governance, there is a process for Board members to obtain independent professional advice at the expense of the Bank. The Directors have obtained independent professional advice wherever necessary during the year.
3 (1) (xii)	Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or related parties.  If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter should be dealt with at a Board meeting, where independent Non-Executive Directors [refer to Direction 3 (2) (iv) of these Directions] who have no material interest in the transaction, are present. Further, a Director shall abstain from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Complied The Directors are conscious of their obligations to deal with situations where there is a conflict of interest in accordance with the Articles of Association of the Bank and the Corporate Governance Direction No. 11 of 2007 (as amended)  The internal Code of Corporate Governance adopted by the Board, requires each Board member to determine whether he/ she has a potential or actual conflict of interest. If a Director of the Bank has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, such matters are disclosed and discussed at the Board meetings, where Independent Non-Executive Directors who have no material interest in the transaction are present.

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3 (1) (xiii)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority.	Complied A formal schedule of matters has been specifically reserved for the decision of the Board and is detailed in the Bank's internal Code of Corporate Governance
3 (1) (xiv)	The Board shall, if it considers that the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the Bank, prior to taking any decision or action.	Complied The Bank is aware of the requirement but the situation has not arisen within the year. A Solvency Statement is prepared quarterly and tabled at the IRMC and the Board. The Bank also has an IRMC approved Liquidity Contingency Funding Plan in place.
3 (1) (xv)	The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	Complied Monthly and quarterly compliance reports have been submitted to the Board, which contains the Capital Adequacy Ratio (CAR). The Bank is fully compliant with the Capital Adequacy requirements stipulated by the Central Bank of Sri Lanka. Also the Internal Capital Adequacy Assessment Process (ICAAP) covers capital planning over the next three years.
3 (1) (xvi)	The Board shall publish in the Bank's Annual Report, an annual corporate governance report, setting out the compliance with Direction 3 of these Directions.	Complied This requirement is met through the presentation of this Report
3 (1) (xvii)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	Complied The Board has a scheme of annual self- assessment and records are maintained by the Company Secretary.
3 (2)	<b>The Board's Composition</b>	
3 (2) (i)	The number of Directors on the Board shall not be less than seven and not more than 13.	Complied As at 31 December 2016, the Board comprised of ten (10) Directors. The number of Board Directors during the year 2016 was in compliance of the thresholds detailed in this Direction.
3 (2) (ii)	The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years.	Complied None of the Directors have exceeded nine years of service during the year 2016. The Company Secretary monitors this requirement
3 (2) (iii)	An employee of a bank may be appointed, elected or nominated as a Director of the Bank (hereinafter referred to as an 'Executive Director') provided that the number of Executive Directors shall not exceed one-third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank.	Complied The CEO of the Bank is the only Executive Director and thus the Bank complies with this requirement.
3 (2) (iv)	The Board shall have at least three Independent Non-Executive Directors or one-third of the total number of Directors, whichever is higher. A Non-Executive Director shall not be considered independent if he/she: <ul style="list-style-type: none"> <li>(a) has direct and indirect shareholdings of more than one per cent of the Bank;</li> <li>(b) currently has or had during the period of two years immediately preceding his/her appointment as Director, any business transactions with the Bank as described in Direction 3 (7) hereof, exceeding 10 per cent of the regulatory capital of the Bank.</li> <li>(c) has been employed by the Bank during the two year period, immediately preceding the appointment as Director;</li> <li>(d) has a close relation who is a Director or Chief Executive Officer or a member of key management personnel or a material shareholder of the Bank or another Bank. For this purpose, a "close relation" shall mean the spouse or a financially dependant child;</li> <li>(e) represents a specific stakeholder of the Bank;</li> </ul>	Complied There are seven Independent Non-Executive Directors on the Board as at 31 December 2016. The Non-Executive Directors are detailed on page 217 of this Report. Accordingly, the number of Independent Non-Executive Directors exceeds one-third of the total number of Directors on the Board. The Board assesses the independence or non-independence of each Non-Executive Director, based on a declaration made by each Director to the Company Secretary each year.

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	(f) is an employee or a Director or a material shareholder in a company or business organization: <ol style="list-style-type: none"> <li>i. which currently has a transaction with the Bank as defined in Direction 3 (7) of these Directions, exceeding 10 per cent of the regulatory capital of the Bank, or</li> <li>ii. in which any of the other Directors of the Bank are employed or are Directors or are material shareholders; or</li> <li>iii. in which any of the other Directors of the Bank have a transaction as defined in Direction 3 (7) of these Directions, exceeding 10 per cent of regulatory capital in the Bank;</li> </ol>	
3 (2) (v)	In the event an Alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that applies to the Independent Director.	Complied Directors appoint Alternate Directors in-line with the Articles of the Association of the Bank, as and when required for a particular meeting. During the year 2016, Alternate Directors appointed for a particular meeting met the criteria that applies to an Independent Director.
3 (2) (vi)	Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	Complied A Board approved procedure to select and appoint Non-Executive Directors is in place. The Non-Executive Directors of the Bank are persons with credible track records and have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance, and resources. Please refer the profiles of Non-Executive Directors on pages 194 to 203 of this Report.
3 (2) (vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such a meeting is present, unless more than one half of the number of Directors present at such meetings are Non-Executive Directors.	Complied The attendance of Directors is monitored by the Company Secretary. During 2016, more than one half (1/2) of the Directors have attended the meetings and out of them, more than one half (1/2) were Non-Executive Directors .
3 (2) (viii)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The Bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual Corporate Governance Report.	Complied The Independent Non-Executive Directors are expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors are given on page 217 of this Report.
3 (2) (ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied There is in place a formal, considered and transparent procedure for the appointment of new Directors to the Board. In practice Directors are appointed, based on recommendations made by the Nominations Committee.
3 (2) (x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied Appointment to fill a casual vacancy is made by the Board on the recommendations of the Nominations Committee. A person so appointed would stand for re-election at the next Annual General Meeting in accordance with the Articles of Association of the Bank. Two Directors A W Atukorala and N S Welikala were appointed in 2016 to fill casual vacancies and thereby will stand for re-election by the Shareholders at the Annual General Meeting.
3 (2) (xi)	If a Director resigns or is removed from office, the Board shall: (a) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and  (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Complied Two Directors, N G Wickremeratne and R Theagarajah retired and resigned respectively, from the Bank in 2016. The Bank informed the Regulatory authorities and Shareholders as per CSE requirements of such resignation stating the reasons for such resignation and confirming that there were no matters that needed to be brought to the attention of Shareholders.



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3 (2) (xii)	A Director or an employee of a bank shall not be appointed, elected or nominated as a Director of another Bank except where such Bank is a subsidiary company or an associate company of the first mentioned Bank.	Complied The Nominations Committee takes into account this requirement in their deliberations when considering the appointments of Directors. The Bank's 'Compliance Policy and Code of Conduct' further incorporates this requirement for Employees. No Directors or Employees of the Bank is a Director of another Bank.
<b>3 (3)</b>	<b>Criteria to Assess the Fitness and Propriety of Directors</b>	
3 (3) (i)	The age of a person who serves as Director shall not exceed 70 years.	Complied There are no Directors who are over 70 years of age.
3 (3) (ii)	A person shall not hold office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.	Complied No Director holds Directorships of more than 20 companies. The other Directorships of each of the Directors is disclosed on pages 194 to 203 of the Annual Report .
<b>3 (4)</b>	<b>Management Function Delegated By the Board</b>	
3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	Complied The Board periodically reviews and approves the delegation arrangements in place to ensure they are relevant and addresses the needs of the Bank. Delegation papers are prepared in detail and recommended by the IRMC to the Board.
3 (4) (ii)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Terms of Reference of each of the Board Subcommittees which are incorporated in the respective charters of each Board Subcommittee are approved by the Board. In addition, it is to be noted that by delegating, the Board does not lose the authority to deal with matters that have been delegated when necessary.
3 (4) (iii)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	
<b>3 (5)</b>	<b>The Chairman and Chief Executive Officer</b>	
3 (5) (i)	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	Complied The roles of Chairman and CEO of the Bank are held by separate individuals. In addition, there is a clear division of responsibilities between the Chairman and the CEO, thereby maintaining the balance of power between the two roles.
3 (5) (ii)	The Chairman shall be a Non-Executive Director and preferably an Independent Director as well. In the case where the Chairman is not an Independent Director, the Board shall designate an Independent Director as the Senior Director with suitably documented terms of reference, to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the Bank's Annual Report.	Complied Both former Chairman N.G. Wickremeratne and present Chairman A W Atukorala were/are Independent Non-Executive Directors of the Bank. Therefore, the appointment of an Independent Director as the Senior Director does not arise.
3 (5) (iii)	The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/ relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied The Company Secretary obtains a declarations from each Director to identify the nature of any relationship [including financial, business, family or other material/ relevant relationship(s)], if any, between the Chairman and the CEO and the relationships among members of the Board in accordance with this Direction. Based on the said declarations, there are no material relationships between the Chairman and the CEO and among the Board members.
3 (5) (iv)	The Chairman shall: (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges it's responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner.	Complied The Chairman is responsible for the running of the Board, preserving order and ensuring that proceedings at meetings are conducted in a proper manner. Further, he ascertains the views of the Directors on the issues being discussed before decisions are taken. The self-evaluation process, carried out by the members of the Board each year, assists the Chairman to effectively carry out his responsibilities by providing him the required feedback.

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3 (5) (v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	Complied The Chairman draws up of the agenda in consultation with the CEO and Company Secretary. The Bank's internal Code of Corporate Governance also casts this responsibility with the Chairman.
3 (5) (vi)	The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner.	Complied The Directors are adequately briefed in the course of discussions by the Chairman, CEO and Officers of management in respect of matters that are taken up by the Board. The following procedures are in place to ensure this: Board papers are circulated in advance among the Directors, Management information is provided on a regular basis to enable Directors to assess the performance and stability of the Bank, relevant KMPs are on hand for explanations and clarifications, and, Directors are able to seek independent professional advice on a needs basis at the Bank's expense
3 (5) (vii)	The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	Complied The Chairman ensures that all members effectively participate as a team in Board decisions and Directors concerns and comments are duly recorded in the minutes
3 (5) (viii)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors.	Complied All Directors of the Board, except the CEO are Non-Executive Directors, which encourages active participation. Further, Non-Executive Directors participate in Board appointed Subcommittees providing further opportunity for active participation.  In addition, the feedback received from the self-evaluation process carried out by the Board supports the Chairman in improving contributions of Non-Executive Directors.
3 (5) (ix)	The Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied The Chairman is a Non-Executive Director and he does not directly get involved in the day-to-day operations of the Bank.  'Role of the Chairman' is included in the Bank's internal Code of Corporate Governance
3 (5) (x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied Shareholders are encouraged to provide their feedback to the Company Secretary using feedback forms made available with the Annual Report. In addition, there is an e-mail address dedicated for investor relations and the link is available on the Bank's website. The Bank also has a dedicated Investor Relations Team. The Chairman together with the CEO ensures effective communication with shareholders through investor's forums held each quarter and through continuous engagements with our institutional investors. Members of the Board are apprised of the views of major Investors and other key Stakeholders pursuant to these meetings.
3 (5) (xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the Bank's operations and business.	Complied The CEO is responsible for providing the leadership, expertise and professional environment within the Bank for the implementation of the Board's Policies and the achievement of the Bank's Goals and Objectives. The operations of the Bank are carried out in conformity to this requirement.
<b>3 (6)</b>	<b>Board Appointed Committees</b>	
3 (6) (i)	Each bank shall have at least four board committees as set out in Directions 3 (6) (ii), 3 (6) (iii), 3 (6) (iv) and 3 (6) (v) of these Directions. Each committee shall report directly to the Board. All committees shall appoint a secretary to arrange the meetings and maintain minutes, records, etc., under the supervision of the Chairman of the committee. The Board shall present a report of the performance on each committee, on their duties and roles at the annual general meeting.	Complied The Board has established a Corporate Governance and Legal Affairs Committee, a Strategic Issues Committee and a Related Party Transactions Review Committee in addition to the four Board Subcommittees, required in terms of the Direction, namely the Audit Committee, Human Resources and Remuneration Committee, Nominations Committee and Integrated Risk Management Committee.  Recommendations of such Subcommittees are addressed directly to the Board and minutes of the same are discussed and noted at the main Board Meetings.  This Annual Report includes individual reports of each such committee on pages 261 to 273 which include a summary of duties, roles and performance of each Subcommittee.

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3 (6) (ii)	The following rules shall apply in relation to the Audit Committee:	
	(a) The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Complied T L F Jayasekera, the Chairman of the BAC is an Independent Non-Executive Director and a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and an Associate Member of the Chartered Institute of Management Accountants, UK.
	(b) All members of the Committee shall be Non-Executive Directors.	Complied All members of the BAC are Non-Executive Directors.
	(c) The Committee shall make recommendations on matters in connection with:	Complied The matters referred to in the Direction are reviewed and appropriate recommendations are made by the BAC;
	(i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;	(i) Re-appointment of the External Auditor for audit services has been recommended to the Board by the BAC; The BAC has discussed the audit plan and methodology with the External Auditors.
	(ii) the implementation of the Central Bank guidelines issued to auditors from time to time;	(ii) – (iii) BAC has discussed the implementation of the Central Bank guidelines issued to Auditors from time to time and the application of the relevant accounting standards;
	(iii) the application of the relevant accounting standards; and	
	(iv) the service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the 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.	(iv) The External Audit Partner was rotated during 2013 as per the five-year rotation requirement, in order to ensure the independence of the Auditor to comply with the requirements of this Direction. The BAC evaluates and makes recommendations to the Board with regard to the audit fee.  Refer the 'Report of the Board Audit Committee' given on pages 269 to 271.
	(d) The Committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied The BAC obtains representations from the External Auditor on their independence and that the audit is carried out in accordance with the Sri Lanka Accounting Standards.
	(e) The Committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditor's independence or objectivity. When assessing the External Auditor's independence or objectivity in relation to the provision of non-audit services, the Committee shall consider:	Complied A Policy for 'Engaging the External Auditor for non-audit services' is in place which covers all aspects stated in this Direction. This Policy was revised and updated by the BAC and Board in May 2016.
	(i) whether the skills and experience of the audit firm make it a suitable provider of the non-audit services;	
	(ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the External Auditor; and	
	(iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the External Auditor.	
	(f) The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including:	Complied The BAC Charter requires the BAC to discuss and finalise with the External Auditor the nature and scope of the audit. In order to comply, the External Auditors make a presentation at the BAC meeting detailing the proposed audit plan and scope.  The Committee discussed and finalized the audit plan, methodology and scope with the External Auditor to ensure that it includes:  An assessment of the Bank's compliance with the relevant Directions in relation to Corporate Governance and Internal Controls over Financial Reporting;
	(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;	

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	<p>(ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations; and</p> <p>(iii) the co-ordination between firms where more than one audit firm is involved.</p>	<p>The preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations.</p> <p>As all audits within the Group are carried out by the same External Auditor, there was no requirement to discuss arrangements for coordinating activities with other Auditors.</p>
	<p>(g) The Committee shall review 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 judgments contained therein. In reviewing the Bank's Annual Report and accounts and quarterly reports before submission to the Board, the Committee shall focus particularly on: (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.</p>	<p>Complied</p> <p>Quarterly Financial Statements as well as year-end Financial Statements are reviewed and discussed at BAC meetings. Once the members of the BAC have obtained required clarifications in respect of all aspects included in the Financial Statements, such Financial Statements are recommended for approval of the Board of Directors.</p>
	<p>(h) The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss, including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.</p>	<p>Complied</p> <p>The Committee met the External Auditors in February and October 2016, without the presence of the Executive Management, to discuss issues, concerns and reservations arising from their audits.</p>
	<p>(i) The Committee shall review the External Auditor's Management Letter and the management's response thereto.</p>	<p>Complied</p> <p>BAC reviewed the External Auditor's Management Letter for the year ended 2015 and the Management's response thereto.</p>
	<p>(j) The Committee shall take the following steps with regard to the internal audit function of the Bank:</p> <p>(i) Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the department has the necessary authority to carry out its work;</p> <p>(ii) Review the Internal Audit Programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department;</p> <p>(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;</p> <p>(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</p> <p>(v) Ensure that the Committee is appraised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;</p> <p>(vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.</p>	<p>Complied</p> <p>The BAC has oversight of the Internal Audit Department (IAD) of the Bank and carries out the following duties:</p> <p>i. Reviews and discusses with the Head of Internal Audit (HIA) the annual Audit Plan covering the Group, the adequacy of the scope and functions and the resources of IAD.</p> <p>ii. The Audit Plan for the year is approved by the BAC and the progress is tabled at the BAC meetings. The BAC reviews the internal audit reports and discusses the Management Action Plans to resolve the issues raised by IAD. Further, BAC members are kept informed of "Critical" and "Significant" issues arising from ongoing audits, as a "Heads up". All audit findings are sent to Operational Risk Department for inclusion in the Risk Grid and for necessary follow up.</p> <p>iii. Reviews the performance of the HIA, based on the feedback given by the CEO and BAC Chairman. Further the senior team members performance are discussed with the BAC.</p> <p>iv. Senior appointments made to IAD are informed to the BAC. (There were no senior level appointments during 2016)</p> <p>v. BAC is appraised of any resignations of senior level staff members of IAD and are provided an opportunity to submit reasons for resignation. (However, there have been no resignations of senior level staff during the year 2016)</p> <p>vi. Ensures that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care. The IAD staff reports directly to the HIA who in turn reports directly to the BAC.</p>
	<p>(k) The Committee shall consider the major findings of internal investigations and management's responses thereto.</p>	<p>Complied</p> <p>Major findings of internal investigations and management's responses thereto are reviewed by the BAC.</p>

Rule No.	Corporate Governance Principles	Compliance Status
	(l) The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors' may normally attend meetings. Other Board Members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at least twice a year, the Committee shall meet with the External Auditors without the Executive Directors being present.	<p>Complied</p> <p>Head of Audit and Group Chief Financial Officer attended all meetings as permanent invitees. The CEO and Chief Operating Officer attended meetings as well on invitation and other members of the Senior Management were invited to attend meetings on a need basis.</p> <p>On the invitation of the Committee, the Bank's External Auditors, Messrs.' Ernst &amp; Young attended all meetings during the year.</p> <p>The Chairman of the Bank, being an optional invitee, attended three meetings during the year.</p> <p>The BAC met the External Auditors twice during the year (i.e. in February and October 2016) without the presence of KMPs.</p>
	(m) The Committee shall have: (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>Complied</p> <p>The Charter of the BAC clearly defines the authority and terms of reference of the Committee, which is in compliance with this Guideline</p>
	(n) The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	<p>Complied</p> <p>The BAC has scheduled regular meetings and met eight times during 2016. 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 HIA who functions as the Secretary to the BAC.</p>
	(o) The Board shall disclose in an informative way; (i) details of the activities of the Audit Committee; (ii) the number of Audit Committee meetings held in the year; and (iii) details of attendance of each individual Director at such meetings.	<p>Complied</p> <p>Please refer 'Board Audit Committee Report' on pages 269 to 271 for the details of the activities of the Audit Committee.</p> <p>Complied</p> <p>Attendance of the Committee members at each of these meetings is given in the table on page 219 of the Annual Report.</p>
	(p) The Secretary of the Committee (who may be the Company Secretary or the Head of the Internal Audit function) shall record and keep detailed minutes of the committee meetings.	<p>Complied</p> <p>The Head of the Internal Audit functions as the Secretary to the BAC and maintains detailed minutes of all meetings. Copies of these approved minutes have been tabled at Board Meetings.</p>
	(q) The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow up action and to act as the key representative body for overseeing the Bank's relations with the External Auditor.	<p>Complied</p> <p>The Bank has in place a Board approved Whistle-Blowing Policy, which was revised and updated in October 2016. The Employees of the Bank may, in confidence, raise concerns about possible improprieties in Financial Reporting, Internal Control or other matters. A process has been established to track such whistle-blowing and take necessary action. The BAC is the key representative body for overseeing the Banks' relations with the External Auditor.</p>
3 (6) (iii)	Human Resources and Remuneration Committee (HRRC) – Composition & Responsibilities	<p>Complied .</p> <p>Please refer page 261 for the composition and responsibilities of the HRRC.</p>
	(a) Determine the Remuneration Policy relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank	<p>Complied</p> <p>The HRRC makes recommendations on remuneration payable to Directors and KMPs of the Bank.</p> <p>There is in place a Board approved Remuneration Policy and process for Directors, CEO and KMPs.</p>
	(b) Set goals and targets for the Directors, CEO and the Key Management Personnel.	<p>Complied</p> <p>The Goals and Targets set for the CEO and KMPs were reviewed and approved by the HRRC and noted/approved by the Board. The Goals and Targets for the Directors for the year 2016 have been deliberated in detail and approved at HRRC and Board level.</p>

Rule No.	Corporate Governance Principles	Compliance Status
	(c) Evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance based incentives.	Complied The performance of KMPs (including the CEO) against set goals and targets are evaluated by the HRRC in March of every year and recommendations are then discussed and approved by the full Board. This process has been carried out in 2016 for the year 2015.
	(d) The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	Complied The CEO was present at all meetings and has stepped out when matters relating to the CEO were discussed.
3 (6) (iv)	Nomination Committee (NC) – Composition and Responsibilities	Complied Please refer page 264 for the composition and responsibilities of the NC.
	(a) The Committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel.	Complied A Board approved procedure for selection and appointment of Directors is in place. Further the Bank has in place a Board approved procedure to select CEO and KMPs since December 2008.
	(b) The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.	Complied The NC determines the Directors who will be re-elected every year, pursuant to taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities. The Committee has considered and recommended the re-election of A K Pathirage and Mrs. W A I Sugathadasa and re-appointment of A W Atukorala and N S Welikala.
	(c) The Committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions.	Complied Committee has set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the KMPs. The Committee is guided by applicable statutes in considering the suitable criteria for each appointment/promotion.
	(d) The Committee shall ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the Statutes.	Complied Company Secretary has obtained the declarations for the year 2016 from the Directors through the NC and submitted same to CBSL.
	(e) The Committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel.	Interim succession plan for KMPs of the Bank has been submitted and approved at the NC and approved by the Board and will be reviewed by 30 June 2017.
	(f) The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	Complied The NC is chaired by the Chairman of the Bank who is an Independent Director and is constituted by a majority of Independent Directors. The CEO is present only if invited.
3 (6) (v)	Integrated Risk Management Committee (IRMC) – Composition & Responsibilities	Complied Please refer page 267 for the composition and responsibilities of the IRMC. The Terms of Reference of the IRMC was reviewed and updated in 2016.
	(a) The Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories - i.e., credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied In 2017 the Committee was reconstituted to align itself more closely with this requirement.
	(b) The Committee shall assess all risks - i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of Subsidiary Companies and Associate Companies, risk management shall be done, both on a Bank basis and Group basis.	Complied. The IRMC assesses all risks of the Bank and Group on a monthly basis through Key Risk Indicators, Risk Dashboards and through quarterly Risk Assessment Reports done for the Bank and Group. The Bank has formed management committees to assess risks on a monthly/ quarterly basis and their findings are submitted to the IRMC and a summary of the minutes of the IRMC and quarterly Risk Assessment Reports are submitted to the main Board.

Rule No.	Corporate Governance Principles	Compliance Status
	(c) The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Complied. The adequacy of the effectiveness of all management level committees was reviewed at IRMC meeting based on summary of minutes tabled. Also all members carried out self assessments for the year 2016 and the findings were at a satisfactory level. Going forward an independent process will be implemented to determine the adequacy and effectiveness of the Management Committee against the TORs.
	(d) The Committee shall take 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.	Complied The IRMC 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 IRMC on the basis of the Bank's policies and regulatory and supervisory requirements. The Risk Appetite of the Bank decided through the ICAAP was approved by the Board.
	(e) The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied The Committee has met five times in the year 2016.
	(f) The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision.	Complied The IRMC shall, if the need arises take action appropriate to the relevance of the situation as per the Bank's Human Resources Policy.
	(g) The Committee shall submit a risk assessment report within a week of each meeting to the Board, seeking the Board's views, concurrence and/or specific Directions.	Complied A detailed report is submitted to the Board subsequent to the IRMC meeting seeking the Board's views, concurrence and/or specific directions.
	(h) The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated Compliance Officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	Complied The Bank has appointed a Compliance Officer, who is a KMP, to carry out the Compliance function of the Bank. The Compliance function assesses the Bank's compliance with laws and regulations and the Bank's internal controls, policies, product programme guides and business operations against applicable laws and regulations and the compliance function reports quarterly to the IRMC. The Compliance Officer in consultation with the IRMC agrees on the annual Compliance Programme, which includes but is not limited to the review of products, accuracy of statutory returns, all product programme guides to determine the compliance with applicable regulations. A detailed quarterly report indicating the status of compliance of the Bank is submitted to the IRMC and the Board. A quarterly compliance sign off from all business unit heads, is obtained and submitted to the Committee.
3 (7)	<b>Related Party Transaction</b>	
3 (7) (i)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as 'related parties' for the purposes of this Direction: (a) Any of the Bank's subsidiary companies; (b) Any of the Bank's associate companies; (c) Any of the Directors of the Bank; (d) Any of the Bank's key management personnel; (e) A close relation of any of the Bank's Directors or key management personnel; (f) A shareholder owning a material interest in the Bank; (g) A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest.	Complied Steps have been taken by the Board to avoid conflicts of interest that may arise in terms of this section Using information submitted to the Bank by Directors and information obtained from the Secretarial Department and HR Department, the Bank maintains a register of the names of related parties set out in the Direction and this list is circulated every quarter to all Relationships Managers of Business Units and Branch Managers together with the Internal Circular on Related Party Transactions. This has been introduced to ensure the Bank avoids conflicts of interest, which may arise from any transaction of the Bank with any person particularly with related party transactions. Board approved Related Party Policy was reviewed and updated in 2016 which lays down processes to identify, approve, monitor, and disclose all related party transactions of the Bank coming within these Guidelines.

Rule No.	Corporate Governance Principles	Compliance Status
3 (7) (ii)	<p>The type of transactions with related parties, that shall be covered by this Direction, shall include the following:</p> <p>(a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation,</p> <p>(b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments,</p> <p>(c) The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank,</p> <p>(d) The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.</p>	<p>Complied</p> <p>All transactions defined in this Directions come within the scope of the Related Party Transactions Policy of the Bank.</p>
3 (7) (iii)	<p>The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the Bank carrying on the same business. In this context, "more favourable treatment" shall mean and include treatment, including the:</p> <p>(a) Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the Bank's regulatory capital, as determined by the Board. For purposes of this sub-direction:</p> <p>I. 'Accommodation' shall mean accommodation as defined in the Banking Act Directions, No. 07 of 2007 on Maximum Amount of Accommodation.</p> <p>II. The 'total net accommodation' shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of 5 years or more.</p> <p>(b) 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;</p> <p>(c) 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;</p> <p>(d) Providing services to or receiving services from a related party without an evaluation procedure;</p> <p>(e) 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.</p>	<p>Complied</p> <p>A list identifying Related Parties of the Bank in line with this Direction is shared with business lines on a quarterly basis.</p> <p>The regulations and process that needs to be complied with is explained in an internal circular which accompanies the related party list.</p> <p>Business line are requested to ensure compliance with the required regulation and to refrain from granting "more favourable treatment" to related parties of the Bank.</p> <p>Further the Compliance Department reviews transactions with related parties to determine if "more favourable treatment" has been offered to them. Any deviations are required to be reported to the Related Party Transactions Review Committee.</p>
3 (7) (iv)	<p>A bank shall not grant any accommodation to any of its Directors or to a close relation of such Director, unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors, other than the Director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.</p>	<p>Complied</p> <p>This requirement has been included in the Bank's Related Party Transactions Policy. The Company Secretary, upon being informed of a transaction with a related party, shall ensure compliance with this requirement.</p>



Rule No.	Corporate Governance Principles	Compliance Status
3 (7) (v)	<p>(a) Where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security, as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.</p> <p>(b) Where such security is not provided by the period, as provided in Direction 3(7)(v)(a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of granting of accommodation or at the expiry of a period of 18 months from the date of appointment of such Director, whichever is earlier.</p> <p>(c) Any Director who fails to comply with the above sub-directions, shall be deemed to have vacated the office of Director and the Bank shall disclose such fact to the public.</p> <p>(d) This sub-direction, however, shall not apply to a Director who at the time of the grant of accommodation, was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such a bank.</p>	<p>Complied</p> <p>Prior to the appointment of a Director, the Bank is required to submit an affidavit disclosing all their interest with the Bank. The Company Secretary is aware of the requirement in this Direction and will take necessary action to inform the relevant Director and the business unit in this regard.</p> <p>Such a situation has not arisen during the year 2016.</p>
3 (7) (vi)	<p>A bank shall not grant any accommodation or 'more favourable treatment' relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest, other than on the basis of a scheme applicable to the employees of such a bank or when secured by security, as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3 (7) (v) above.</p>	<p>Complied</p> <p>No favourable treatment / accommodation is provided to the 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>No accommodation granted by a bank under Direction 3 (7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon, shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.</p>	<p>Complied</p> <p>Such a situation has not arisen in the Bank to date.</p>
<b>3 (8)</b>	<b>Disclosures</b>	
3 (8) (i)	<p>The Board shall ensure that:</p> <p>(a) annual audited Financial Statements and quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that</p> <p>(b) such statements are published in the newspapers, in an abridged form, in Sinhala, Tamil and English.</p>	<p>Complied</p> <p>The Financial Statement for the years ended 31st December 2016 and quarterly Financial Statements are in conformity with all rules and regulations. These statements have been published in the newspaper in all three languages.</p>
3 (8) (ii)	<p>The Board shall ensure that the following minimum disclosures are made in the 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>Complied</p> <p>Compliance with applicable Accounting Standards and regulatory requirements has been reported under the 'Directors Responsibility for Financial Report' on page 274 The CEO's and CFO's responsibility statement on page 278 and Note 2 (Statement of Compliance) to the Financial Statements on page 297.</p>

Rule No.	Corporate Governance Principles	Compliance Status												
(b)	A report by the Board on the Bank's internal control mechanism that 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.	Complied The Directors Report on the effectiveness of the internal control system over Financial Reporting is given under the "Statement of Internal Control" on, pages 276 and 277.												
(c)	The Assurance Report, issued by the Auditors on the "Sri Lanka Standard on Assurance Engagement on SLSAE 3050 – Assurance Report for the Bank's Directors Statement on Internal Control".	Complied The Assurance Report issued by the External Auditor on the internal control over Financial Reporting based on the auditing framework issued by ICASL, is detailed on page 279 of this report.												
(d)	Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank.	Complied Please refer to Board Directors on pages 194 to 203 and page 251 for Directors, Remuneration  Details of Directors' transactions with the Bank are given below: <table border="1"> <thead> <tr> <th>Transactions</th> <th>Outstanding balance as at 31.12.2016 LKR '000</th> </tr> </thead> <tbody> <tr> <td>Accommodation</td> <td>–</td> </tr> <tr> <td>Deposits</td> <td>26,088</td> </tr> <tr> <td>Investments</td> <td>–</td> </tr> </tbody> </table>	Transactions	Outstanding balance as at 31.12.2016 LKR '000	Accommodation	–	Deposits	26,088	Investments	–				
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(e)	Total net accommodation as defined in 3 (7) (iii), granted to each category of related parties. The net accommodation granted to each category of related parties, shall also be disclosed as a percentage of the Bank's regulatory capital.	<table border="1"> <thead> <tr> <th>Category of Related Parties</th> <th>Net Accommodation as at 31.12.2016 LKR'000</th> <th>% of Regulatory Capital</th> </tr> </thead> <tbody> <tr> <td>Directors/Close Family Members/ Substantial Interest concerns</td> <td>1</td> <td>0.00%</td> </tr> <tr> <td>Key Management Personnel/ Close Family Members/ Substantial Interest concerns</td> <td>82,138</td> <td>0.26%</td> </tr> <tr> <td>The Bank's subsidiaries and associate companies</td> <td>30,405</td> <td>0.10%</td> </tr> </tbody> </table>	Category of Related Parties	Net Accommodation as at 31.12.2016 LKR'000	% of Regulatory Capital	Directors/Close Family Members/ Substantial Interest concerns	1	0.00%	Key Management Personnel/ Close Family Members/ Substantial Interest concerns	82,138	0.26%	The Bank's subsidiaries and associate companies	30,405	0.10%
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(f)	The aggregate values of remuneration paid by the Bank to its key management personnel and the aggregate values of the transactions of the Bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.	<table border="1"> <thead> <tr> <th></th> <th>Aggregate Value LKR '000</th> </tr> </thead> <tbody> <tr> <td>Remuneration Paid</td> <td>353,199</td> </tr> <tr> <td>Accommodation</td> <td>82,138</td> </tr> <tr> <td>Deposits</td> <td>231,894</td> </tr> <tr> <td>Investments</td> <td>7,000</td> </tr> </tbody> </table>		Aggregate Value LKR '000	Remuneration Paid	353,199	Accommodation	82,138	Deposits	231,894	Investments	7,000		
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(g)	A confirmation by the Board of Directors in its annual Corporate Governance Report that all findings of the 'Factual Findings Reports' of Auditors issued under 'Sri Lanka Related Services Practice Statement 4750' have been incorporated in the annual Corporate Governance Report	Complied by this report												
(h)	A Report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.	There were no material non-compliance to prudential requirements, regulations, laws and internal controls affecting the Bank.												
(i)	A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	There were no supervisory concerns on lapses in the Bank Risk Management System or non-compliance with this Direction, that have been pointed out by the Director of the Bank Supervision Department of the CBSL and requiring disclosure to the public.												

## Statement of Compliance – Code of Best Practices on Corporate Governance (the Code) issued jointly by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka

The Code is intended to provide a corporate governance framework that supports strong business ethics, sound policies and procedures and an effective monitoring system which is in line with international best practices. The Code is broadly divided into two areas, namely the Company and Shareholders.

### I. THE COMPANY

Key Principles are detailed under the following broad areas viz. Directors, Director's Remuneration, Relations with Shareholders, Accountability and Audit.

### II. SHAREHOLDERS

Key Principles are detailed under the following broad areas viz. Institutional Investors, Other Investors and Sustainability Reporting

The Bank's adherence with the Code is detailed below with explanatory comments as follows:

Corporate Governance Principle	Compliance Status
<b>A. 1 THE BOARD</b> – As at 31 December 2016 the Board comprised of 10 Directors, all of whom, including the Chairman, functioned in a Non-Executive capacity. The members of the Board consists of professionals in the fields of banking, finance, insurance, management, IT and law and possess the skills, experience and leadership required to direct, lead and control the Bank . The Chief Executive Officer (CEO) being appointed on 1 January 2017 is the only Executive Director. The Board has appointed several Subcommittees to assist in the discharge of their collective responsibilities. The Bank is mindful of the need to maintain an appropriate mix of skills and experience in the Board through a regular review of it's composition in ensuring that the skill representation is in alignment with current and future needs of the Bank. Additionally, individual Directors are encouraged to seek expert opinion and/or professional advice on matters where they may not have full knowledge or expertise.	
A.1.1 Board meetings	Complied.  The Board usually meets on monthly intervals, but meets more frequently whenever it is necessary. The Board met eighteen(18) times during the year which included six special meetings. Scheduled Board and Board Subcommittee meetings are arranged at the beginning of each calendar year. Attendance at Board and Subcommittee meetings are provided on pages 217 and 219 of this Report.
A 1.2 Role of the Board – provide entrepreneurial leadership of the Bank within a framework of prudent and effective controls. Risks to be assessed and managed. Formulation and implementation of a sound business strategy;	The Board is responsible to Stakeholders for creating and delivering sustainable Shareholder value through the management of the Bank and the Group's businesses. It determines the strategic Objectives and Policies of the Bank and Group to deliver such long-term value, providing overall strategic direction within a framework of rewards, incentives and controls. Please refer Section 3 (1) (i) (b) of the CBSL table on page 222 of this report which details the Bank's business Strategy and the prudent and effective risk management framework.
<ul style="list-style-type: none"> <li>The (CEO) and management team possess the skills, experience and knowledge to implement the strategy;</li> </ul>	Complied.  The Human Resources and Remuneration Committee (HRRC) and the Nominations Committee (NC) ensures that the CEO and Key Management Personnel (KMP) have the required skills, experience and knowledge to implement strategy.  The CEO and The Leadership Team consist of senior professionals with an average experience of 27 years in the banking industry.  The profiles of the Leadership Team are available on the Bank's Website and on pages 204 to 206 of this Annual Report.
<ul style="list-style-type: none"> <li>The adoption of an effective CEO and KMP succession strategy;</li> </ul>	In view of the changes that have taken place during the year 2016 , the Board will review and update the Succession Plan of the Bank by 30 June 2017.
<ul style="list-style-type: none"> <li>An effective system to secure integrity of information, internal controls, business continuity and risk management;</li> </ul>	Complied.  There is in place an adequate system of internal controls. Policies relating to securing information, business continuity and risk management have been approved by the Board. These policies have been reviewed by either the Integrated Risk Management Committee (IRMC) or Board Audit Committee (BAC). Our Business Continuity Plan Disaster Recovery Drill was rehearsed twice during the year. Refer Director's Statement on Internal Control (pages 276 and 277) BAC report (pages 269 to 271) and IRMC (pages 267 to 268) report for more details.

Corporate Governance Principle	Compliance Status
<ul style="list-style-type: none"> <li>• Compliance with laws, regulations and ethical standards;</li> </ul>	<p>Complied.</p> <p>There is significant emphasis across the Bank to ensure compliance with applicable laws and regulations.</p> <p>There is a separate Compliance Department which reports directly to the IRMC of the Board.</p> <p>There is a bottom-up procedure in place to provide the Compliance Officer with a comprehensive sign off at the end of each quarter on the status of compliance with laws and regulations impacting the Bank.</p>
	<p>In order to monitor compliance the Compliance Department carries out compliance testing, reviews the Bank's products and the accuracy of regulatory returns based on the annual programme approved by the IRMC to determine the Banks' compliance with laws and regulations and ethical standards.</p> <p>The Compliance Officer submits a status report to the IRMC setting out the laws and regulations complied and any breaches that have occurred at the end of each quarter. This report is shared with the Board.</p>
<ul style="list-style-type: none"> <li>• All Stakeholder interests are considered in corporate decisions</li> </ul>	<p>Complied.</p> <p>The Board of Directors considers the views/impact on all Stakeholders of the Bank when decisions are made at Board meetings.</p>
<ul style="list-style-type: none"> <li>• Recognising sustainable business development in Corporate Strategy, decisions and activities;</li> </ul>	<p>Complied.</p> <p>Sustainable business development is one of the key areas of focus considered by the Board when taking decisions. Please refer to the Bank's "Corporate Responsibility Report" on pages 101 to 112 for more details.</p>
<ul style="list-style-type: none"> <li>• Board approved accounting and compliance with financial regulations;</li> </ul>	<p>Complied.</p> <p>BAC and the Board review accounting policies annually to ensure that the Financial Reporting Model of the Bank is in line with such policies, financial regulations evolving international and local accounting standards and industry best practices.</p> <p>The Board ensures that the Financial Statements of the Bank are prepared in accordance with the approved Accounting Policies.</p>
<ul style="list-style-type: none"> <li>• Fulfilling such other Board functions as are vital, given the scale, nature and complexity of the business concerned</li> </ul>	<p>Complied.</p> <p>The Board makes every endeavour to fulfil its stewardship obligations on behalf of all Stakeholders. The Board is committed to fulfilling their functions in line with laws, regulations and good governance practices adopted by the Bank.</p>
A.1.3 The Board collectively and the Directors individually need to act in accordance with laws of the country relevant to the Bank. A procedure for Directors to obtain independent professional advice where necessary, at the Bank's expense	<p>Complied.</p> <p>There is significant emphasis across the Bank to ensure compliance with applicable laws and regulations.</p> <p>In order to preserve the independence of the Board and to strengthen the decision-making, the Board seeks independent professional advice when deemed necessary. The Board approved internal Code of Corporate Governance contains the procedure to be followed when a Director or the Board wishes to obtain independent professional advice on any matter.</p>
A.1.4 All Directors of the Board to have access to the advise and services of the Company Secretary	<p>Complied.</p> <p>The Company Secretary advises the Board and ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed.</p> <p>All Directors have access to the Company Secretary and she possesses the required qualifications as set out in the Companies Act and the Banking Act. For the year 2016 the Company Secretary has provided assistance to the Directors when requested.</p>
A.1.5 All Directors to bring independent judgment to matters submitted to the Board for its decision	<p>Complied.</p> <p>All Directors bring their independent judgment to matters discussed at Board meetings. Details of Directors deliberation are contained in the minutes maintained by the Company Secretary.</p>

Corporate Governance Principle	Compliance Status
A.1.6 Every Director to dedicate adequate time and effort to matters of the Board	<p>Complied.</p> <p>Every member of the Board has dedicated adequate time and effort for the affairs of the Bank by attending Board meetings, Board Subcommittee meetings and by making decisions via circular resolutions. In addition, the Board members have meetings and discussions with management when required.</p> <p>Board Papers are circulated to the Board at least seven days prior to each Board meeting. Any request for additional information is made to the Company Secretary. The relevant member of staff is informed by the Company Secretary and the requisite information is forwarded. All matters that require follow up are discussed at the immediately succeeding Board meeting under 'Matters Arising'. Business Heads regularly update the Board on the status and development in their respective fields.</p> <p>The CEO on a regular basis updates the Board on business changes, operational risks and controls relevant to the Bank.</p>
A.1.7 Training for new and existing Directors	<p>Complied.</p> <p>The Board policy on Directors' training is to provide adequate opportunities for continuous development, subject to requirement and relevance for each Director.</p> <p>There were several knowledge sharing initiatives to inform the Board on the latest trends and issues facing the Bank, the Industry and the economy in general.</p> <p>The Chairman is responsible for ensuring that the Directors continually update their skills, knowledge and awareness of the Bank's Policies and Procedures as required to fulfil their roles both on the Board and on Subcommittees appointed by the Board.</p> <p>The Bank provides the necessary resources for training of Directors.</p> <p>New Directors are provided with a comprehensive induction pack on appointment to the Board.</p>
<p><b>Principle A.2 CHAIRMAN AND CEO</b> – There is a clear division of responsibilities between the Chairman and the CEO thereby ensuring a balance of power and authority, such that no one individual has unfettered powers of decision.</p>	
A.2.1 Divisions of responsibilities between the Chairman and CEO	<p>Complied.</p> <p>The posts of Chairman and CEO of the Bank are held by two separate persons and there is a clear division of responsibilities between them thereby maintaining the balance of power between the two roles.</p>
<p><b>Principle A.3 CHAIRMAN</b> – The Chairman is responsible for leading the Board and for its effectiveness. In practice, this means taking responsibility for the Board's composition, appraisal and development, ensuring that the Board focuses on its key tasks and supporting the CEO in managing the day-to-day running of the Bank. The Chairman is also the ultimate point of contact for Shareholders, particularly on corporate governance issues.</p>	
A.3.1 Preserving order and facilitating the effective discharge of Board functions and conducting Board proceedings in a proper manner	<p>Complied.</p> <p>The Board approved internal Code of Corporate Governance formally details the role of the Chairman. The Chairman ensures that the affairs of the Board are conducted in an effective manner. He encourages Directors to share their views on matters discussed and ensures the participation of both Executive and Non-Executive Directors and maintains a balance of power between Executive and Non-Executive Directors. The Chairman ensured that all Board proceedings were conducted in a proper manner and the agenda for each meeting was developed in consultation with the CEO and the Company Secretary.</p>
<p><b>Principle A.4 FINANCIAL ACUMEN</b> – The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.</p>	
A.4.1. Financial Acumen and knowledge	<p>Complied.</p> <p>6 of the 10 Directors of the Board as at 31 December 2016 have a finance background and as such there is sufficient financial acumen and knowledge on the Board.</p>
<p><b>Principle A.5: BOARD BALANCE</b> – It is preferable for the Board to have a balance of Executive and Non-Executive Directors so that no individual or small group of individuals can dominate the Board's decision-making.</p>	
A.5.1 Non-Executive Directors – The Board should include at least two Non-Executive Directors or such number of Non-Executive Directors equivalent to one-third of total number of Directors, whichever is higher	<p>Complied.</p> <p>All 10 Directors on the Board as at 31 December 2016 were Non-Executive Directors. The CEO who was appointed on 1 January 2017 is the only Executive Director currently.</p>

Corporate Governance Principle	Compliance Status
<p>A.5.2 - A.5.5 Independent Non-Executive Directors – Two or one third of Non-Executive Directors appointed to the Board of Directors whichever is higher should be 'independent'. Criteria for Independence is defined in the Code</p>	<p>Complied.</p> <p>Annual declarations of independence or non-independence have been obtained from the Directors for 2016.</p> <p>Based on the annual declarations, there are ten Non-Executive Directors on the Board as at 31 December 2016. Of them eight are Independent Non-Executive Directors in terms of the criteria set out in this Code.</p> <p>The details of Non-Executive Directors are detailed in page 217 of this report. Accordingly, the number of Independent Non-Executive Directors exceeds one-third of the total number of Directors on the Board.</p>
<p>A.5.6 Alternate Directors – Executives of the Bank shall not be appointed as Alternate Directors of Non-Executive Directors of the Bank</p> <p>Any alternate of an Independent Director should also meet the criteria of independence</p> <p>The minimum number of Independent Directors should be complied with</p>	<p>Complied.</p> <p>No formal Alternate Directors have been appointed. Directors appoint Alternate Directors within the rules and Articles of the Bank and the Banking Act as and when required for a particular meeting. An Alternate Director of an Independent Director is also independent.</p>
<p>A.5.7 - A.5.8 The Appointment of a Senior Independent Director (SID) – A SID is required to be appointed where CEO and Chairman are one and the same person.</p> <p>Such a SID should make himself available for discussions with other Directors</p>	<p>Complied.</p> <p>The CEO and Chairman are not one and the same person. As such there is no requirement to appoint a Senior Independent Director(SID).</p>
<p>A.5.9 Chairman to meet only with Non-Executive Directors as necessary and atleast once each year</p>	<p>Complied.</p> <p>The Chairman discusses matters relevant to the Board with only Non-Executive Directors as and when the need arises.</p>
<p>A.5.10 Recording of a dissenting view – Any dissenting view to be minuted where a matter is not resolved unanimously</p>	<p>Complied.</p> <p>Dissenting views are recorded in the Board minutes in detail.</p>
<p><b>Principle A.6 SUPPLY OF INFORMATION</b> – The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties</p>	
<p>A.6.1 – A.6.2 The Board to be provided appropriate and timely information by management. agenda, Board papers and minutes of previous meetings to be circulated seven days in advance of a meeting</p>	<p>Complied.</p> <p>The management provides comprehensive information including both quantitative and qualitative information for the monthly Board meetings generally seven days prior to Board meetings.</p> <p>Members of The Leadership Team make presentations to Directors on important issues relating to financial performance, strategy, risk management, investment proposals, systems and procedures, where necessary.</p> <p>The Directors also have access to management to obtain further information or clarify on any concerns they may have.</p> <p>As described above, they also have the right to seek independent professional advice at the Bank's expense.</p>
<p><b>Principle A.7 APPOINTMENTS TO THE BOARD</b> – There should be a formal and transparent procedure for the appointment of new Directors to the Board.</p>	
<p>A.7.1 and A.7.2 A Nominations Committee to be established to make recommendations on new appointments</p>	<p>Complied.</p> <p>The Board has established a Nominations Committee to make recommendations on new appointments to the Board. There is in place a Board approved Policy and Process for appointments of Directors to the Board.</p> <p>Please refer pages 264 and 265 for the report of the Nominations Committee.</p>
<p>A.7.3 Disclosure to Shareholders on new appointments to the Board</p>	<p>Complied.</p> <p>Disclosures are made to Shareholders in terms of the Listing Rules issued by the Colombo Stock Exchange (CSE).</p>

Corporate Governance Principle	Compliance Status
<p><b>Principle A.8 RE-ELECTION</b> – All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.</p>	
A.8.1 Non-Executive Directors should be appointed for specified terms and re-election should not be automatic.	<p>Complied.</p> <p>Directors to retire at the Annual General Meeting (AGM) :</p>
A.8.2.Re-election of Non-Executive Directors	<p>As per the Articles of Association of the Bank, one-third (1/3) of the Directors (except the CEO, any Director appointed to fill a casual vacancy and any Nominee Director of the Ministry of Finance) should retire at each AGM and be subject to re-election. Such Directors who retire are those who held office for the longest time period since the re-election/ re-appointment. In accordance with this provision, A K Pathirage and W A I Sugathadasa retires and have offered themselves for re-election by the Shareholders at the AGM.</p> <p><b>Re-appointment of Directors appointed to fill casual vacancies during the year under review:</b> The following Directors who were appointed to fill casual vacancies in the Board during the financial year 2016 shall retire and offer themselves for re-appointment at the AGM. (i) A W Atukorala (ii) N S Welikala</p> <p>Prior to recommending the above re-election/re-appointment of Directors the Nominations Committee considered the fitness and propriety of each Director and made recommendations for re-election.</p>
<p><b>Principle A.9 APPRAISAL OF BOARD PERFORMANCE</b> – Boards should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.</p>	
A.9 The Board should annually appraise itself on its performance and that of its Subcommittees	<p>Complied.</p> <p>The Board carried out its self-evaluation process in respect of the year 2016. The process is led by the Chairman. All Directors are required to complete a detailed questionnaire. The broad areas covered and the processes adopted are detailed on page 220 of this report</p> <p>All Subcommittees too carried out a self-evaluation process in 2016 to determine the effectiveness of their performance in 2016 and to identify areas for improvement.</p>
<p><b>Principle A.10 DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS</b> – Shareholders should be kept advised of relevant details in respect of Directors.</p>	
A.10.1 Shareholders to be advised of relevant details in respect of Directors	<p>Complied.</p> <p>Please refer pages 194 to 203 for Directors Profiles</p> <p>Details of Directorship held by each Director are found on pages 194 to 203. under the Director's Report</p> <p>Attendance of Directors at Board meetings is given on page 217 of this report</p> <p>Attendance of Directors at Subcommittee meetings are detailed on page 219 of this report.</p>
<p><b>Principle A.11 APPRAISAL OF CHIEF EXECUTIVE OFFICER (CEO)</b> – The Board should be required, at least annually, to assess the performance of the CEO.</p>	
A. 11.1-A.11.2 Setting Annual Targets and the appraisal of performance of the CEO	<p>The Board discussed and set financial and non-financial targets to be achieved by the CEO during the year in line with reference to the short, medium and long-term objectives of the Bank.</p>
<p><b>B. DIRECTORS REMUNERATION</b></p>	
<p><b>Principle B.1 Remuneration Procedure</b> – The Code requires that the Bank establish a formal and transparent procedure for developing policy on both Executive and Non-Executive Directors remuneration.</p>	
B1.1 Establishment of a Remuneration Committee	<p>Complied.</p> <p>The Board has established a Human Resources and Remuneration Committee (HRRC) to develop policy and determine remuneration for the Directors and KMPs. No Director is involved in deciding his/her own remuneration.</p>
B1.2 – B1.3 Composition of the Committee	<p>Complied.</p> <p>The HRRC consists exclusively of Non-Executive Directors. The Chairperson of the HRRC is Mrs. W A I Sugathadasa an Independent Non-Executive Director. Please refer page 261 for the report of the HRRC for more details on the activities carried out by the HRRC for the year 2016.</p>

Corporate Governance Principle	Compliance Status
B1.4 Determination of remuneration for Non-Executive Directors	<p>Complied.</p> <p>There is in place a Board approved Remuneration Policy for Directors and KMPs. Non- Executive Directors are remunerated in line with market practices and approvals obtained from the Shareholders at the AGM.</p>
B1.5 Ability to consult the Chairman and/ or CEO and to seek professional advice by the Subcommittee	<p>Complied</p> <p>The HRRC has access to professional advice from within and external consultants. During the year, the HRRC reviewed the information provided by the Bank's Human Resources Department to determine market and industry trends with regard to remuneration and perquisites for its Senior Management team.</p>
<b>Principle B.2 Level and Make-up of Remuneration</b> – The Bank ensures that the remuneration of Executive and Non-Executive Directors is at a satisfactory level to attract and retain the services of Directors.	
B.2.1 Remuneration for Executive Directors	<p>Complied.</p> <p>The Executive Director is an ex-officio Director on account of being the CEO of the Bank and as such the CEO is not paid any additional remuneration or benefits by virtue of him being an Executive Director. The CEO's remuneration is linked to the Bank's performance as well as his individual performance. The Executive Director does not participate in the HRRC when matters pertaining to his remuneration are discussed.</p>
B.2.2 Positioning the Bank's remuneration levels relative to other companies in the industry	<p>Complied.</p> <p>The HRRC reviews information relating to remuneration and perquisites of CEO and Senior Management of the Bank and due care is taken to ensure that remuneration is commensurate with industry standards and both the Bank's and individual performance. Regular salary surveys are carried out and the HRRC is informed of the results of the survey.</p>
B.2.3 Comparison of Remuneration levels with other Companies in the Group	<p>Not Applicable.</p> <p>Size and scale of the Bank are not comparable with Group Companies.</p>
B.2.4 Performance related elements of remuneration for Executive Directors	<p>Complied.</p> <p>The Goals and Targets of the CEO are set at the beginning of the year and cascaded to the rest of the Bank. Executive remuneration and performance bonuses are decided based on achievement of the Goals and Targets agreed upon.</p>
B.2.5. Employee Share Options	<p>Complied.</p> <p>An Employee Share Scheme was determined in 2016. However, it is yet to be implemented. Share options of schemes already approved were exercised by eligible Employees at the Exercise Price determined in terms of such approved schemes and in line with the Listing Rules of the CSE. Details are given in the Annual Report on page 140 and Note 43 to the Financial Statements on page 352.</p>
B.2.6. Designing schemes of performance related remuneration	<p>Complied.</p> <p>The HRRC takes into consideration the provisions detailed in Schedule E when determining the remuneration of the CEO and Senior Management of the Bank. Please refer pages 261 and 262 for the report of the HRRC for more details.</p>
B.2.7 - B.2.8 Early termination of Executive Director	<p>Termination of service of the Executive Director was in accordance with his contract of service.</p>
B.2.9 Levels of Remuneration of Non-Executive Directors	<p>Complied.</p> <p>Non-Executive Directors are remunerated in line with market practices. They are not entitled to receive shares under the existing Share Option Scheme of the Bank.</p>
<b>Principle B.3 DISCLOSURE OF REMUNERATION</b> – The Code requires that the Bank's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.	
B.3.1 Disclosure of Remuneration	<p>Complied.</p> <p>Please refer page 251 of the Annual Report for Director's Remuneration.</p> <p>Also refer Note 12 on pages 309 and 310 of the Financial Statements for aggregate remuneration paid to Executive and Non-Executive Directors.</p>



Corporate Governance Principle	Compliance Status
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### C. RELATIONS WITH SHAREHOLDERS

**Principle C.1 Constructive use of Shareholder Meetings** – The Code requires constructive use of the AGM and conduct of general meetings to communicate with Shareholders

C.1.1 Use of Proxy Votes

Complied.

The Bank has in place an effective mechanism to record all proxy votes to indicate to the Chairman the level of proxies lodged on each resolution and the number of votes for and against each resolution. As a matter of practice, Proxy Votes together with the votes of Shareholders present at the AGM are considered for each resolution and duly recorded in the minutes.

C.1.2 Separate Resolutions to be obtained for substantially separate issues and adoption of Annual Report and Accounts

Complied.

Separate Resolutions are obtained for substantially separate issue to provide Shareholders with an opportunity to deal with each significant matter separately. The Annual Report of the Board of Directors and accounts is laid before the Shareholders of the Bank for their consideration as a separate item on the agenda at the AGM.

C.1.3 Chairpersons of all Board Subcommittee to be available to respond to questions of any Shareholder at AGM

The Chairman of the Board functions as the Chairman of the Nominations Committee, Strategic Issues Committee and the Related Party Transactions Review Committee. He ensures that the Chairpersons of the other Board Subcommittees are present at the AGM to answer all queries that may be raised. The Chairpersons of the Board Subcommittees were present at the AGM held on 30 March 2016. No queries were raised by Shareholders to the Chairpersons of the Subcommittees.

C.1.4 C.1.5 Adequate notice of all meetings to Shareholders together with the summary of the procedure to be adopted by Shareholders

Complied.

The notice of meeting and related documents are circulated to the Shareholders 15 working days prior to the AGM.

Summary of the procedures governing voting at the AGM is provided in the Proxy Form, which is circulated to Shareholders together with the notice of meeting 15 working days prior to the AGM.

The Board encourages all Shareholders to attend and actively participate in the AGM. The Shareholders may raise any queries they have with the Directors.

**Principle C.2 Communication with Shareholders** – The Code requires that Board should implement effective communication with Shareholders.

C.2.1 Communication channel to reach Shareholders

Complied.

The Bank has many channels to reach all Shareholders of the Bank in order to disseminate timely information. Please refer pages 128 to 150 on 'Investor Relations' for more details on communication with our Shareholders.

C.2.2 C.2.3 Disclosure on communication channel to reach Shareholders and Communication Policy and methodology

Complied.

There is in place a Board approved Disclosure Policy and Communications Policy that deals with communications with Shareholders. Please refer write up on 'Investor Relations' provided on pages 128 to 150 for details of the Policy and Methodology adopted for communication.

C.2.4.- C2.7 The Bank to disclose to Shareholders the contact person for communication with Shareholders.

Complied.

Shareholder correspondence on major issues are handled by the Chairman who will communicate to the Board of Directors as and when necessary.

Details of the contact personnel are provided in the 'Investor Relations' section on page 150 of this Report. In addition, Shareholders are encouraged to provide their feedback to the Chairman and/or the Company Secretary. The Bank's website 'Investor Relations' page also carries contact details of the Company Secretary and a dedicated e-mail for investor relations.

**Principle C.3. MAJOR AND MATERIAL TRANSACTIONS** – The Code requires the Directors to disclose to Shareholders all proposed material transactions which would materially alter the net asset position of the Bank and Group if entered into

C.3. 1 Disclosure of Major and Material Transactions

Not Applicable.

During 2016 there were no major transactions as defined by Section 185 of the Companies Act No. 07 of 2007 which materially affected the Bank's net asset base.

Further all material transactions will be disclosed in the quarterly / annual Financial Statements as well as the disclosure made to the CSE.

Corporate Governance Principle	Compliance Status																
<b>D. ACCOUNTABILITY AND AUDIT</b>																	
<b>Principle D.1 FINANCIAL REPORTING</b> – The Board is required to present a balanced and understandable assessment of the Bank's financial position, performance and prospects.																	
D.1.1. The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators, as well as to information required to be presented by statutory requirements	<p>Complied.</p> <p>The Board is aware of its responsibility to present regulatory and statutory reports in a balanced and understandable manner. A statement to this effect is provided on 274 of this report.</p> <p>The Interim Accounts and Annual Financial Statements were published on a timely basis in 2016. Regulatory reports were filed by the Bank on or before the due dates in 2016. Price sensitive information is disclosed to the CSE on a timely basis and in accordance with the Board approved Disclosure Policy.</p> <p>The Bank makes every effort to provide a detailed and transparent analysis of strategies, performance and future strategies to support investors in making an informed decision.</p> <p>In addition to the information provided in the reports mentioned above, a summary of the Interim Accounts and a section on 'Financial Capital' is provided in the Annual Report. Please refer pages 42 to 50 and 147 to 149 of this Report.</p>																
D.1.2. Declarations by the Directors' in the Directors' Report	<p>Complied.</p> <p>Declarations by the Directors as required by the Code of Best Practice on Corporate Governance are provided on page 212 of this Report.</p>																
D.1.3. Responsibilities of the Board for preparation of Financial Statements and reporting responsibilities of Auditors	<p>Complied.</p> <p>The Statement of Directors' Responsibility, Statement on Internal Controls and Report of the Auditors are provided on pages 276 and 277 and 279 respectively in the Annual Report.</p>																
D.1.4 Inclusion of a 'Management Discussion and Analysis' report in the Annual Report	<p>Complied.</p> <p>The Annual Report contains a 'Management Discussion and Analysis' report The required information in the Management Discussion and Analysis is provided in this Annual Report as follows:</p> <table border="1"> <thead> <tr> <th>Information Required</th> <th>Pages</th> </tr> </thead> <tbody> <tr> <td>Industry structure and developments</td> <td>20-24</td> </tr> <tr> <td>Opportunities and threats, risks and concerns</td> <td>20-24</td> </tr> <tr> <td>Internal control systems and their adequacy</td> <td>276-277</td> </tr> <tr> <td>Social and environmental protection activities carried out by the Bank</td> <td>101-112</td> </tr> <tr> <td>Financial performance</td> <td>42-50</td> </tr> <tr> <td>Material developments in human resources / industrial relations</td> <td>91-100</td> </tr> <tr> <td>Prospects for the future</td> <td>42-112</td> </tr> </tbody> </table>	Information Required	Pages	Industry structure and developments	20-24	Opportunities and threats, risks and concerns	20-24	Internal control systems and their adequacy	276-277	Social and environmental protection activities carried out by the Bank	101-112	Financial performance	42-50	Material developments in human resources / industrial relations	91-100	Prospects for the future	42-112
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D.1.5 The Directors should report that the business is a going concern, with supporting assumptions or qualifications as necessary.	<p>Complied.</p> <p>This information is provided in the 'Annual Report of the Board of Directors on the affairs of the Bank' on page 249 to 260.</p>																
D.1.6 Requirement to summon an Extraordinary General Meeting(EGM) to notify serious loss in Net Assets	<p>This situation has not arisen.</p>																
D.1.7 Disclosure of Related Party Transactions	<p>Complied.</p> <p>A detailed Board approved documented process is available and has been circulated to all Employees through the NDB Cloud for compliance.</p> <p>Accordingly,</p> <ul style="list-style-type: none"> <li>– A record on related party and related party transactions is maintained by the Bank to capture information to comply with the respective related party disclosure requirements imposed by SEC / Accounting Standards / Auditing Standards and similar regulations.</li> <li>– The Company Secretary keeps a record of related party transactions and makes necessary disclosures accordingly;</li> </ul> <p><i>Please refer Section 3 (7) (i) – 3 (7) (vii) of the CBSL table on pages 234 to 236 for more details on the process adopted.</i></p>																

Corporate Governance Principle	Compliance Status
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**Principle D.2 INTERNAL CONTROL** – The Code required the Bank to have a process of risk management and a sound system of internal control to safeguard Shareholders' investments and the Bank's assets.

D.2.1 Directors to conduct an annual review of Internal Controls through the Board Audit Committee(BAC)

Complied.

The Board's Statement on the effectiveness of Bank's Internal Control Mechanism as reviewed by the BAC is presented under the caption "Directors' Statement on Internal Control" in this Annual Report on pages 276 and 277.

The Board also reviewed the External Auditor's Assurance Report in this regard, pursuant to the independent audit conducted by them in accordance with Sri Lanka Standards on Assurance Engagement SLSAE 3050-Assurance Report for Banks on Directors' Statement on Internal Control as given in the Annual Report on page 279.

D.2.2 The Bank should have an Internal Audit Function

Complied.

Bank has a fully-fledged Internal Audit Department which reports to the BAC.

D.2.3 The Board should require the Board Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls.

Complied.

The BAC reviewed the internal controls and procedures at eight meetings held during 2016.

The minutes of the BAC meetings are tabled at the meetings of the Board.

The Internal Audit Department carries out regular reviews on the internal control system including internal control over financial reporting. The BAC reviews and evaluates the effectiveness of the internal control system including the internal controls over financial reporting. The IRMC reviews processes relating to the risk management framework of the Bank. The BAC Report and the IRMC Report are detailed on pages 269 to 271 and 267 to 268 of this Annual Report.

D.2.4 The Schedule K to this document contains guidance on the responsibilities of Directors in maintaining a sound system of internal control and the contents of the Statement of Internal Control

Complied.

Please refer pages 269 to 271 for the BAC Report and refer pages 276 to 277 for Directors Statement of Compliance on Internal Controls in relation to compliance with this requirement.

**Principle D.3. AUDIT COMMITTEE** – Board to establish formal and transparent arrangements for selecting and applying accounting policies, financial reporting and internal control principles

D.3.1 Composition of Board Audit Committee

Complied.

All members of the BAC including the Chairman are Non-Executive Directors.

Please refer page 269 for the BAC Report which details the composition of the BAC.

D.3.2 The duties of the Audit Committee

Complied.

As stated in the Report of the BAC on pages 269 to 271 of the Annual Report, the BAC regularly reviews the scope, results and effectiveness of the audits carried out. It also ensures the balance amongst objectivity, independence and value for money of the services provided by the Bank's External Auditors, with special attention to provision of non-audit services by the External Auditors.

Corporate Governance Principle	Compliance Status
D.3.3 Terms of Reference of the Audit Committee.	<p>Complied.</p> <p>Terms of Reference of the BAC is clearly defined in the Charter of the Board Audit Committee approved by the Board of Directors, which was last revised and updated in June 2016. This clearly explains the purpose of the Committee, its duties and responsibilities together with the scope and functions of the Committee. The Committee mainly deals with matters pertaining to statutory and regulatory compliance in financial reporting and matters with regard to the External Auditors and Internal Audit.</p>
D.3.4 Disclosures regarding Audit Committee.	<p>Complied.</p> <p>Please refer page 269 for the BAC Report.</p>
<p><b>Principle D.4 CODE OF BUSINESS CONDUCT AND ETHICS</b> – The Code requires the Bank to adopt a Code of Business Conduct and Ethics for Directors and KMPs and to promptly disclose any waivers of the Code for Directors or others.</p>	
D4.1 Code of Conduct to be developed for Directors and Senior Management	<p>Complied.</p> <p>The Bank has in place a Board approved internal Code of Corporate Governance applicable to the Board and KMPs setting out best practices relating to their business conduct and ethics. In addition the Board approved Compliance Policy and Code of Conduct ensures that the Bank stays ahead of the best practices related to business conduct and ethics.</p> <p>Please refer page 220 of the Corporate Governance Report on this aspect.</p>
D.4.2 Affirmative declaration by Chairman of compliance with Code of Business Conduct and Ethics	<p>There have been no violations of the internal Code of Corporate Governance during 2016 by any of the Directors or any member of The Leadership Team.</p>
<p><b>Principle D.5 CORPORATE GOVERNANCE DISCLOSURES</b> – Disclose the extent to which the Bank adheres to established principles and practices of good corporate governance</p>	
D.5.1. Disclosure of Corporate Governance	<p>Complied.</p> <p>The Bank's Corporate Governance practices are in accordance with the Banking Act Direction No. 11 of 2007 (as amended) issued by CBSL, the Code of Best Practice on Corporate Governance jointly issued by the (ICASL) and SEC as well as the Corporate Governance Rules for Listed Companies issued by the CSE. The requirement is met with the presentation of this Corporate Governance Report from pages 212 to 279 of the Annual Report.</p>
<p><b>Section 2: SHAREHOLDERS</b></p>	
<p><b>E. INSTITUTIONAL INVESTORS</b></p>	
<p><b>Principle E.1 SHAREHOLDER VOTING</b> – Institutional Shareholders have a responsibility to make considered use of their votes and should be encouraged to ensure their voting intentions are translated into practice.</p>	
E.1.1 Regular and structured dialogue with Shareholders	<p>Complied.</p> <p>All Shareholders are encouraged to participate at General Meetings and cast their votes. The AGM is used as an effective channel to create a dialogue between the Shareholders and the Board of Directors. Also The Chairman and CEO have regular structured meetings with institutional Shareholders. Board members are briefed about the matters discussed at such meetings.</p>
<p><b>Principle E.2 EVALUATING THE GOVERNANCE DISCLOSURE</b> – When evaluating the Bank's governance arrangements, particularly those relating to Board structure and composition, institutional investors should be encouraged to give due weight to all relevant factors drawn to their attention.</p>	
E.2 Evaluating the corporate governance initiatives of the Bank	<p>Complied.</p> <p>Institutional investors are encouraged to give due weight to all relevant factors in Board structure and composition.</p>

Corporate Governance Principle	Compliance Status
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## F. OTHER INVESTORS

### Principle F.1 INVESTING / DIVESTING DECISIONS

F.1.1 Individual Shareholders, investing directly in shares of the Bank should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions.

Complied.

The Annual Report contains sufficient information for a potential investor to carry out his/her own analysis. The following reports aim to provide a balanced overall assessment of the Bank's activities, performance and prospects.

- Chairman's Message on pages 10 and 11
- CEO's Review on pages 13 to 15
- Management Discussion and Analysis on pages 40 to 112
- Annual Financial Statements on pages 287 to 400

Further, Interim Financial Statements provided each quarter, provide sufficient information to enable the Retail Investors to make informed judgments regarding the performance of the Bank.

Additionally, there is a separate part of the Bank's website dedicated to Investor Relations which provides this information online to all Investors/Shareholders.

### Principle F.2 SHAREHOLDER VOTING

F.2 Encourage voting by individual shareholders

Complied.

Individual shareholders are encouraged to participate at the General Meetings of the Bank and exercise their voting rights.

## G. SUSTAINABILITY REPORTING

**Principle G.1 Principles of Sustainability Reporting:** The principle of economic sustainability governance recognizes how organizations take responsibility for impacts of their strategies, decisions and activities on economic performance and corporate citizenship in their sphere of influence (including geographic) and how this is integrated throughout the organization.

G.1.1 Reporting of Economic sustainability

Complied.

Please refer pages 43 to 50 for details

G.1.2 Reporting on the Environment

Complied.

Please refer pages 111 and 112 for details

G.1.3 Reporting on the Labour Practice

Complied.

Please refer pages 92 to 100 for details

G.1.4 Reporting on society

Complied.

Please refer page 109 for details

G.1.5 Reporting on Product Responsibility

Complied.

Please refer pages 102 to 108 for details

G.1.6 Reporting on Stakeholder identification, engagement and effective communication

Complied.

Please refer pages 27 to 33 for details

G.1.7 Sustainable reporting and disclosure reporting to be formalized as part of the Bank's reporting processes and take place on a regular basis

Complied.

Please refer page 4 for details