

Corporate Governance

Chairman's statement

I am pleased to introduce the Bank's Corporate Governance Report on behalf of our Board. The Corporate Governance Report provides an insight into how the Board operated and the key issues considered during the year.

The Board sets the example for employees of the Bank by implementing the highest standards of business ethics and corporate governance.

As I said last year, high standards of corporate governance continue to be a key priority for the Board. Corporate governance practices of the Bank are in accordance with the Board approved Corporate Governance Charter of the Bank.

The Bank's corporate governance framework is well-structured and is supported by a strong focus on integrity, transparency, and clear and timely communication.

We continually review the framework within which we operate and the processes implemented to ensure that they reflect the complexities of our business and meet the needs of our stakeholders.

I confirm to the best of my knowledge that there were no material violations of any of the provisions of the Directions of the Central Bank of Sri Lanka, other applicable laws and regulations, Codes of Conduct and other related policies and procedures of the Bank.



C R Jansz

Chairman

18 February 2019

Governance framework of the Bank

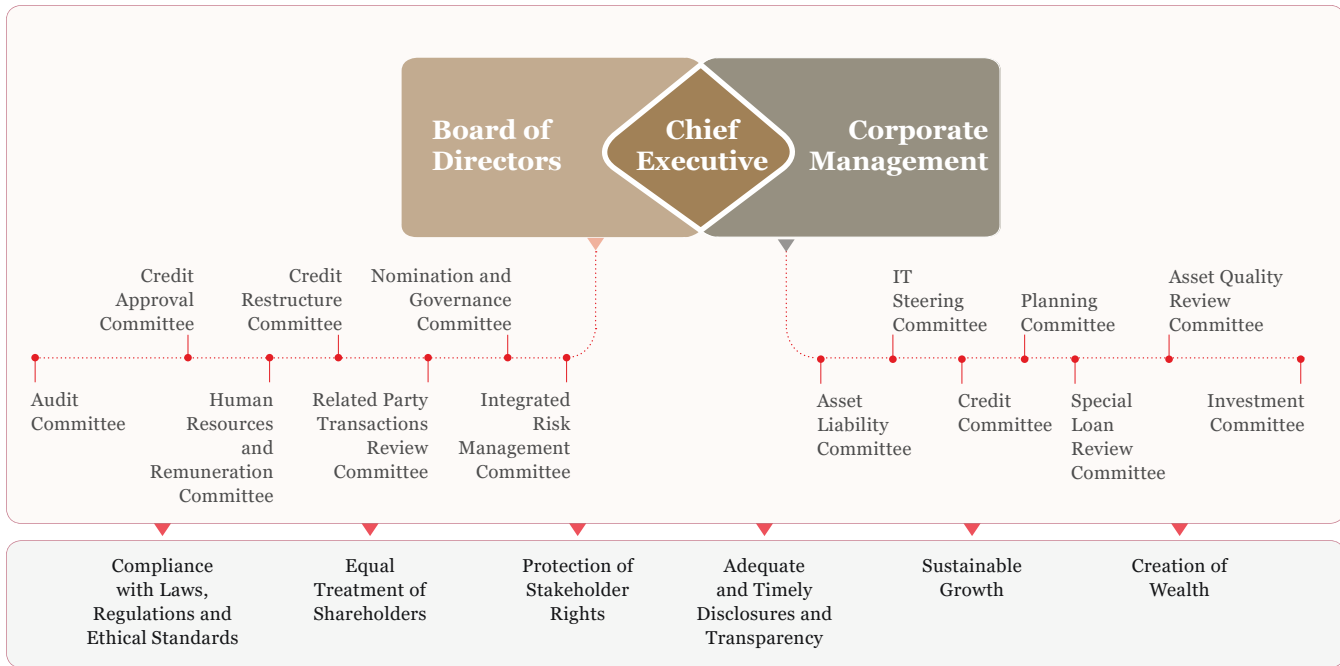
Good corporate governance is a mechanism that harmonises the interests of a wide range of stakeholders of an institution, while contributing to sustainable growth by attracting outside sources of capital. The Bank practices high standards of corporate governance based on the OECD principles of good governance.

OECD principles of good governance are based on the following six guidelines:

- Promoting transparency, being consistent with laws, and clearly articulating division of responsibilities
- Protecting and facilitating the exercise of shareholder rights and ensuring equitable treatment of all shareholders

- Exercising due diligence and responsibility in capital market operations
- Recognising the rights of stakeholders and encouraging cooperation between stakeholders in creating wealth and sustainability
- Timely and accurate disclosure on all material matters regarding the Bank including financial situation, performance, ownership, and governance
- Ensuring the strategic guidance of the Bank, effective monitoring of management of the Board, and the Board's accountability to the Bank and its shareholders

DFCC Bank’s goals of good corporate governance



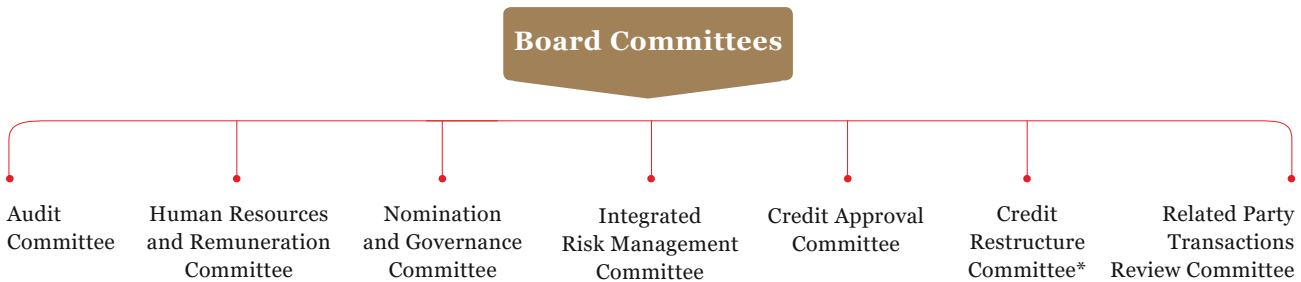
Conduct and ethical framework

The Code of Conduct for Directors adopted by the Bank which the Directors are expected to abide by, encompasses the following:

- Compliance with laws, rules and regulations
- Avoidance of conflicts of interest
- Maintenance of confidentiality of information
- Fair dealing with stakeholders
- Protection of the Bank’s assets

Employee behaviour is governed by a separate Code of Conduct including other policies and procedures such as the Disciplinary Code, Statement Prohibiting Insider Trading, Whistleblowing Policy, Anti-Money Laundering Policy, Compliance Policy, Disclosure Policy etc.

Permanent Board Committees as at 31 December 2018



* The Credit Restructure Committee approves papers by circulation.

Attendance of Directors at meetings

Name of Director	Main Board	Audit Committee	Human Resources and Remuneration Committee	Nomination and Governance Committee	Integrated Risk Management Committee	Credit Approval Committee	Related Party Transactions Review Committee
Total Number of meetings	14	12	7	9	4	13	18
K P Cooray	11/14		7/7	7/9		12/13	15/18
T Dharmarajah	13/14	10/12			4/4		16/18
J Durairatnam	6/6					4/4	
Ms L K A H Fernando	13/14	12/12			4/4		
P M B Fernando	14/14	12/12		9/9		13/13	14 /15
C R Jansz	14/14		7/7	9/9		13/13	17/18
N K G K Nemmawatta	8/9						
Ms V J Senaratne	12/14				4/4		
L H A L Silva	14/14				4/4		16/18
Ms S R Thambiyah	14/14		5/7				

Attended/Eligible to attend

Shareholder rights

The basic rights of shareholders include – (a) the ability to transfer shares freely, (b) to have access to financial and other relevant information about the entity on a regular and timely basis, (c) the ability to effectively participate in shareholder meetings, (d) appoint Directors and Auditors, and (e) equitable treatment relating to the type of shares owned.

The shares of the Bank are freely transferable through the Colombo Stock Exchange but subject to limitations stated in the Articles of Association of the Bank and the Banking Act.

The Board approved Corporate Communications Policy ensures that information relating to the financial performance and the progress of the Bank is made available to shareholders through timely disclosures made to the Colombo Stock Exchange (CSE). The Annual Report contains a comprehensive review of performance as well as other information of relevance to the other stakeholders apart from reporting on the financial condition of the Bank and the Group. All important information is given publicity through the press and electronic media and posted on the Bank's website.

The Bank has procedures to promptly disseminate price sensitive information and trading in shares by the Directors to the CSE as required by the Listing Rules. In instances where this is not possible, the Chief Financial Officer advises closed periods for trading in the Bank's

shares by employees and Directors. The Board has formally adopted a Statement of Policy Prohibiting Insider Trading. As a general rule, the period after the end of each quarter up until two market days after the financial information is released, is treated as closed periods. Procedures are in place to detect any violations.

During the year under review, the Bank has shared a reasonable portion of its profit with shareholders in the form of a dividend while retaining the balance to support its growth and development.

All shareholders of the Bank are treated equally on the basis of one vote per ordinary share. The Bank has not issued any non-voting ordinary shares or preference shares.

Annual General Meeting

The Annual General Meeting of the Bank is normally held within a period of one year from the date of the previous meeting after giving adequate notice to shareholders as required by the Articles of Association. The Annual Report and Notice of Meeting are sent to all shareholders in order to enable effective shareholder participation at the meeting. Shareholders have the opportunity to obtain the Annual Report as an electronic or printed document. Extraordinary General Meetings are held to obtain shareholder approval on matters that require such approval.

Annual Corporate Governance Report for the year ended 31 December 2018 published in terms of Section 3 (1) (xvi) of the Banking Act Direction No. 11 of 2007

Rule	Governance principle	Compliance	Remarks
3.1 Responsibilities of the Board			
3.1 (i)	Safety and soundness of the Bank		
	The Board has strengthened the safety and soundness of the Bank through the implementation of the following:		
	(a) Strategic objectives and corporate values	Compliant	The Bank sets its strategic objectives and goals through the Annual Business Plan which is approved by the Board. These goals and the corporate values approved by the Board are communicated to the business units and other staff. The corporate values are posted on the internal web and all employees are guided by these values.
	(b) Overall business strategy	Compliant	The Bank's strategic plan for the medium term was approved by the Board in January 2018. The Board engages in the strategic planning and control of the Bank by overseeing the formulation of business objectives and targets, assessing risks by engaging qualified and experienced personnel, delegating them with the authority for conducting operational activities and monitoring the performance through a formal reporting process. A separate item has been included in the agenda at every Board meeting under the heading "Strategic Discussion" to take up any matter of strategic importance to the Bank. Directors are encouraged to identify and communicate any matter they consider to be of strategic importance.
	(c) Principal risks	Compliant	The identification of principal risks, approving of overall risk policy and risk appetite is carried out through the Board Integrated Risk Management Committee and reviewed annually.
	(d) Communication with stakeholders	Compliant	The Board approved Corporate Communications Policy ensures that information is made available to shareholders and other stakeholders through timely disclosures made to the Colombo Stock Exchange (CSE), by publicity through the press and electronic media and posts on the Bank's website. The Bank has an internally developed Code of Conduct for its employees which is posted on the internal web and is accessible by all employees. The Bank has also adopted a separate Code of Conduct for the Directors. During the year, the Code was reviewed and expanded, further bringing it in sync with modern trends.
	(e) Bank's internal control and management information systems	Compliant	The Audit Committee assists the Board in reviewing and evaluating the integrity, adequacy, and effectiveness of the internal control system including management information systems and controls over financial reporting of the Bank. The internal audit carries out periodic reviews to ensure that the internal control systems are functioning as appropriate. The Report by the Board of Directors on internal control over financial reporting is given on page 123 The Independent Assurance Report by the External Auditor on the Directors Statement on Internal Control is given on page 126.

Rule	Governance principle	Compliance	Remarks
	(f) Key Management Personnel (KMP)	Compliant	The Board has identified and designated its Key Management Personnel.
	(g) Authority and responsibility	Compliant	Areas of authority and key responsibilities of Directors have been set out in the Corporate Governance Charter which has been adopted by the Board. During the year the Charter was reviewed and updated. The Board has also identified matters specifically reserved for the Board. The duties and responsibilities of other KMPs are formally documented in their job descriptions. Delegation of authority levels for KMPs has also been clearly specified in Board approved circulars.
	(h) Oversight of the affairs of the Bank by KMPs	Compliant	<p>Oversight is exercised through Board committees, reporting to the Board as appropriate. Policies and decisions of the Board requiring appropriate follow up are communicated by the Board Secretary to the relevant KMPs.</p> <p>Minutes of relevant management committee meetings headed by the Chief Executive Officer (CEO) are submitted to the Board for information. KMPs are called upon to clarify matters and make presentations on matters within their purview at the monthly Board meetings.</p>
	(i) Board's own governance practices	Compliant	<p>An annual self-assessment is carried out on a structured format where the Directors submit their individual responses direct to the Board Secretary. The responses are collated by the Board Secretary and submitted to the Board. The effectiveness of the Board's own governance practices are reviewed by the Board and areas for improvement are discussed for necessary action.</p> <p>During this year too, in addition to the assessments carried out by the individual members, the Nomination and Governance Committee, based on a separate checklist, carried out an evaluation of the Board and the results were shared with the other members of the Board and an opportunity was provided to them to comment on the findings of the Committee.</p>
	(j) Succession plan for KMPs	Compliant	<p>The Bank has in place a succession plan for Senior Management which is reviewed annually by the Nomination and Governance Committee and approved by the Board.</p> <p>The Committee which was formed comprising a member of the Audit Committee, CEO and Head of HR to improve the process of succession planning met during the year and reviewed the progress on the development initiatives that have been put in place.</p>
	(k) Regular meetings with KMPs to monitor progress	Compliant	<p>Meetings are attended by relevant executives when required. Additional information sought by Directors on papers submitted to the Board is clarified by the respective officers. The Board has free access to Senior Management.</p> <p>The business initiative Board committees established to drive key business areas relating to SME business, and media and branding, continued to function during the year and the members of these committees met KMPs on a regular basis to review the status of implementation of identified strategies.</p> <p>During the year, the Board held quarterly review meetings in order to monitor progress against the business plan. These meetings provided an opportunity for the Board members to interact with the Senior Management to clarify reasons for variations against the budget and to suggest corrective action.</p>

Rule	Governance principle	Compliance	Remarks
	(l) Regulatory environment	Compliant	<p>The Board Secretary provides all regulatory information required to the Board members.</p> <p>The CEO briefs the Board on specific issues. Senior Management maintains continuous dialogue with the Regulator to ensure an effective relationship.</p>
	(m) Due diligence in hiring and oversight of External Auditor	Compliant	<p>The primary responsibility for making recommendations on the appointment of the External Auditor rests with the Audit Committee.</p> <p>A formal policy approved by the Board on engagement of External Auditor to perform non-audit services is in place.</p>
3.1 (ii)	Appointment and segregation of the roles of the Chairman and CEO	Compliant	The Board elects the Chairman and appoints the CEO. While the Chairman provides leadership to the direction, oversight, and control process exercised by the Board, the CEO is responsible for management of the Bank.
3.1 (iii)	Board meetings	Compliant	The Board held 14 Board meetings during the year. The Directors actively participated in the Board's decision-making process as evident from the Board minutes. Seeking approval of the Board by circulation was done only in exceptional circumstances due to urgency.
3.1 (iv)	The Board to ensure that arrangements are in place for Directors to include items and proposals in the agenda of Board meetings	Compliant	Whenever the Directors suggest topics for consideration at the Board meetings, they are included in the agenda under "open discussion" which is an integral part of every Board meeting and other supporting data, reports, documents etc. relevant for the subject matter are circulated among the Directors for information.
3.1 (v)	Notice of Board meetings – At least seven days notice of regular meetings and reasonable notice of other meetings to be given	Compliant	Dates for the regular monthly Board meetings are agreed by the Directors at the start of each year and any changes to dates of scheduled meetings are decided well in advance. The Board Circulars and other documents pertaining to meetings are made available well in advance to enable the Directors to participate in deliberations.
3.1 (vi)	Attendance at Board meetings	Compliant	All Directors attended more than two-thirds of Board meetings and no Director was absent for three or more consecutive meetings. Attendance details are given on page 96.
3.1 (vii)	Duties and qualifications of the Company Secretary	Compliant	<p>The Company Secretary possesses the qualifications specified in Section 43 of the Banking Act.</p> <p>The Company Secretary while performing the secretariat services to the Board and shareholders' meetings, is responsible to the Board in ensuring that Board procedures and applicable rules and regulations are followed.</p> <p>All new Directors are provided with the necessary documentation on Directors' responsibilities and specific banking-related directions/policies that are required to perform their function effectively.</p>
3.1 (viii)	The Directors' access to the Company Secretary	Compliant	All Directors have access to the advice and services of the Company Secretary directly.
3.1 (ix)	The Company Secretary's duty to maintain minutes of Board meetings and ensure the Directors' access to them	Compliant	The Company Secretary compiles the minutes of the Board meetings which are subject to approval of the Board and signed by the Chairman and the Secretary. Copies of minutes are provided and Directors have access to the original minute at all reasonable times.

Rule	Governance principle	Compliance	Remarks
3.1 (x)	The form and contents of the minutes of Board meetings	Compliant	The Board minutes are drawn with reference to Board Circulars with sufficient details to indicate the decisions made by the Board of Directors. The information used in making such decisions, the reasons and rationale of making them and each Director's contribution, if considered material, is included in the minutes.
3.1 (xi)	Independent professional advice on request for Directors to perform their duties	Compliant	The Board has put in place a procedure where the Directors can obtain independent professional advice, at the Bank's expense, to perform their duties.
3.1 (xii)	The Directors' avoidance of conflicts of interest	Compliant	The Companies Act No. 07 of 2007 requires Directors who are directly or indirectly interested in contracts or a proposed contract with the Bank to declare the nature of such interest. The Directors have declared their interests in contracts involving the Bank and have not participated in the decision-making.
3.1 (xiii)	Schedule of matters reserved for the decisions of the Board	Compliant	Schedule of matters reserved for the Board have been decided on.
3.1 (xiv)	Reporting insolvency to the Director of Bank Supervision	Compliant	Solvency is a matter constantly monitored by the Treasury Department, Integrated Risk Management Committee and the Board of Directors. During the year under review, the Bank remained solvent and no event has or is likely to occur that would make the Bank not able to meet its obligations.
3.1 (xv)	Adequacy of capital	Compliant	The Bank is capitalised well above the minimum levels required by the Monetary Board in terms of the capital adequacy and minimum required capital.
3.1 (xvi)	Corporate Governance Report	Compliant	The annual Corporate Governance Report forms an integral part of the Directors Report of the Bank's Annual Report.
3.1 (xvii)	Self-assessment of the Board of Directors	Compliant	The Board has a structured scheme of self-assessment which is carried out annually. The performance of the respective committees is also evaluated by the other members who are not members of the respective committees in order to ensure that they function effectively. The findings are discussed at the Board meetings and action is taken on areas identified for improvement. The performance assessment criteria of the CEO is given in 3.5 (xi).
3.2 Composition of the Board			
3.2 (i)	Number of Directors	Compliant	The Board of Directors comprised ten Directors at the end of the year under review.
3.2 (ii)	Period of service of a Director	Compliant	No Director has held the position of a Director of the Bank for more than nine years.
3.2 (iii)	Number of Executive Directors	Compliant	The CEO is the only Executive Director on the Board.
3.2 (iv)	Number of Independent Directors	Compliant	There were seven Independent Directors at the end of the year under review. During the year, the Board adopted a format of a declaration to be obtained annually from Non-Executive Directors so that each Director shall independently confirm their status against specific criteria applicable to the ascertainment of independence. As such, all Non-Executive Directors have submitted their declaration in compliance with the Board decision.

Rule	Governance principle	Compliance	Remarks
3.2 (v)	Alternate Directors to represent Independent Directors	Compliant	Persons who are appointed as Alternate Directors to existing Independent Directors of the Board are subject to the same criteria applicable to such Directors. During the year, Independent Directors did not appoint any Alternates.
3.2 (vi)	The skills, experience, and track records of Non-Executive Directors	Compliant	Non-Executive Directors who held office had professional backgrounds, strong track records, and high level managerial experience in banking, business, industry, law, finance, or auditing.
3.2 (vii)	Number of Non-Executive Directors required to form a quorum of Board meetings	Compliant	The Bank has been compliant with this rule at all times as monitored by the Company Secretary.
3.2 (viii)	Disclosure of details of Directors	Compliant	The names and the composition of the Directors by category are disclosed in the Annual Report of the Board of Directors.
3.2 (ix)	Appointments of new Directors	Compliant	Appointments of new Directors are formally evaluated by the Nomination and Governance Committee and recommended to the Board of Directors for approval.
3.2 (x)	Appointment of a Director to fill a casual vacancy	Compliant	The Articles of Association of the Bank provide that the Directors appointed by the Board of Directors hold office until the following AGM at which they have to be elected by the shareholders.
3.2 (xi)	Resignation or removal of a Director	Compliant	The details of cessation of a Director from office during the year under review is given in the Directors' Report. None of the Directors resigned or were removed during the year under review.
3.2 (xii)	Appointment of a Director or an employee to another bank	Compliant	No Director or employee of the Bank is a Director of another bank.
3.3 Fitness and propriety of Directors			
3.3 (i)	Maximum age of Directors	Compliant	All Directors who reached the age of 70 have relinquished office.
3.3 (ii)	Holding of Director's position in more than 20 companies in all	Compliant	All Directors comply with this requirement.
3.4 Management functions delegated by the Board			
3.4 (i)	Delegation arrangements	Compliant	The Board of Directors has delegated authority to the Management subject to specific criteria, limitations, safeguards and monitoring mechanisms.
3.4 (ii)	Extent of delegation	Compliant	The delegation of authority made by the Board is designed to facilitate efficient management of the affairs of the Bank and to aid the oversight role exercised by the Board. It is not of an extent to hinder the ability of the Board to discharge its functions. The Board retains the authority to expand, curtail, limit, or revoke such delegated authority.
3.4 (iii)	Review of delegation process	Compliant	The delegation process is subject to periodic review by the Board in order to ensure that necessary amendments are approved to meet the requirements of the Bank. Material decisions made under delegated authority are reported to the Board for information.

Rule	Governance principle	Compliance	Remarks
3.5 The Chairman and Chief Executive Officer			
3.5 (i)	Separation of the roles of the Chairman and CEO	Compliant	The Chairman and the CEO are two separate individuals.
3.5 (ii)	The Chairman to be a Non-Executive Director	Compliant	The Chairman is a Non-Executive Director. The Board appointed an Independent Director as the Senior Director as disclosed in the Annual Report. The Board has approved Terms of Reference for the Senior Director.
3.5 (iii)	Disclosure of relationship between the Chairman, CEO, and other Directors	Compliant	No relationships exist between the Chairman, the CEO, and the other Directors according to the declarations made by them except being Directors of subsidiaries, and the Chairman and one other Director being on the Board of two companies outside the Group.
3.5 (iv)	Role of the Chairman	Compliant	The Chairman provides leadership to the Board and ensures that the Board discharges its responsibilities effectively. The Chairman encourages members to actively participate and to raise their independent judgement on all key and appropriate issues in a timely manner.
3.5 (v)	Agenda of Board meetings	Compliant	The agenda of each Board meeting is drawn by the Company Secretary under the direction of CEO and Chairman, and any matters relevant to the policies and operations of the Bank proposed by other Directors are included in the agenda upon approval by the Chairman.
3.5 (vi)	Providing information to the Directors	Compliant	The Chairman ensures that all Directors are properly briefed on issues which arise at the Board meetings and ensures that they receive adequate information in a timely manner.
3.5 (vii)	The Board to act in the best interest of the Bank	Compliant	The Chairman encourages exercise of independent judgement by the Directors on matters under consideration by the Board in order that the best interests of the Bank can be assured.
3.5 (viii)	Effective contribution of Non-Executive Directors	Compliant	The Chairman facilitates contributions by the Non-Executive Directors in making decisions.
3.5 (ix)	The Chairman not to engage in executive functions	Compliant	The Chairman is Non-Executive and does not supervise any management personnel of the Bank directly.
3.5 (x)	Communication with shareholders	Compliant	The Chairman has assigned the CEO to maintain a dialogue with institutional investors and to bring any matters of concern to the notice of the Board. During the year, CEO participated in an international forum which attracted a large number of participants including institutional and high net worth investors and fund managers. He also had one-on-one meetings with potential investors and briefed the Board on the discussions held as appropriate. The Communications Policy approved by the Board includes a provision for communication with shareholders.
3.5 (xi)	CEO to be in charge of the management of operations and business	Compliant	The CEO is the Head of the Management team and is in charge of day-to-day management of the Bank's operations and business. At the beginning of each year, the Board discusses the business plan with the CEO and Senior Management, and agrees on the medium and short-term financial and non-financial targets to be achieved and action plans to be implemented by the Bank. Progress is monitored on an ongoing basis and the assessment of the performance of the Bank is carried out by the Board at the end of each year based on the initiatives laid down in the business plan.

Rule	Governance principle	Compliance	Remarks
3.6 Board appointed committees			
3.6 (i)	Four Board appointed committees	Compliant	The Board has appointed the four committees required by the direction. The reports on their duties, performance and roles are published in the Annual Report.
3.6 (ii)	Board Audit Committee		Please refer page 114.
	(a) Chairman of the Committee	Compliant	During the year under review, the Audit Committee was chaired by an Independent Non-Executive Director who is a qualified Chartered Accountant.
	(b) Composition of the members	Compliant	All members of the Committee are Non-Executive Directors.
	(c) External Auditor	Compliant	The Audit Committee assists the Board in implementing a transparent process in the engagement and remuneration of the External Auditor and assists in the general oversight of financial reporting, internal controls and compliance with laws, regulations, and Codes of Conduct. The Committee ensures that the engagement of the audit partner does not exceed five years.
	(d) Independence and effectiveness of the audit process	Compliant	The Committee reviewed the statement issued by the External Auditor pursuant to Section 163 (3) of the Companies Act No. 07 of 2007. The Committee discussed with the External Auditors, the nature and scope of the audit, and the effectiveness of the audit process in respect of the financial year 2018.
	(e) Non-audit services	Compliant	A formal policy approved by the Board on engagement of the External Auditor to perform non-audit services is in place.
	(f) Nature and scope of external audit	Compliant	The Committee met with the External Auditor to discuss and finalise the scope of the audit to ensure that it is in compliance with guidelines issued by the Central Bank of Sri Lanka.
	(g) Review of financial information of Bank	Compliant	The Committee reviewed all quarterly unaudited interim Financial Statements and the Financial Statements for the year ended 31 December 2018.
	(h) Meetings with External Auditor	Compliant	The Committee met with the External Auditor on four occasions and at three of those meetings without the presence of the Management.
	(i) Review of Management Letter	Compliant	The Committee considered the Management Letter issued by the External Auditor for the year ended 31 December 2017 and the Management responses thereto.
	(j) Internal audit function	Compliant	The Committee reviews the adequacy of the internal audit function to ensure that it is in conformity with the Audit Committee Charter. The annual audit plan is approved by the Committee. The plan covers the scope and resource requirement. The annual performance appraisal of the Head of Internal Audit and the Senior Staff members are reviewed by the Committee. The internal audit function is independent of the activities it audits and the findings are reported directly to the Audit Committee.
	(k) Internal Audit findings	Compliant	The Committee reviewed the Internal Audit Reports and considered the findings, recommendations and corrective action.

Rule	Governance principle	Compliance	Remarks
	(l) Attendance of non-audit committee members	Compliant	Vice President – Internal Audit attends all Committee meetings. CEO, Deputy CEO, CFO, other Heads of units, and the External Auditors attend meetings on invitation. During the year, the Committee met with the External Auditor on three occasions without the presence of the Executive Director.
	(m) Terms of Reference	Compliant	The Committee is guided by the Audit Committee Charter.
	(n) Meetings	Compliant	During the financial year ended 31 December 2018, 12 meetings were held. Attendance of Committee members is given in the table on page 96.
	(o) Audit Committee activities	Compliant	Please refer Committee Report on page 114.
	(p) Secretary	Compliant	Vice President – Internal Audit serves as the Secretary of the Committee.
	(q) Process of raising issues in confidence	Compliant	The Board has adopted a Whistleblowing Policy to encourage employees to communicate legitimate concerns on any illegal or unethical practices. Arrangements are in place to ensure that all employees are duly informed of the effective use of this process.
3.6 (iii)	Board Human Resources and Remuneration Committee		Please refer page 117.
	(a) Remuneration Policy	Compliant	A formal Remuneration Policy approved by the Board is in place.
	(b) Goals and targets for KMPs	Compliant	The business plan which is approved by the Board encompasses the annual goals and targets of the CEO and other KMPs.
	(c) Review of performance of KMPs	Compliant	The Committee annually reviews the performance against the set targets of the CEO and other KMPs, and the remuneration levels of the CEO and other KMPs, while ensuring appropriate compensation levels are maintained in order to retain and motivate staff.
	(d) CEO's presence	Compliant	The CEO attends meetings and participates in deliberations except when matters relating to him are discussed. He also functions as the Secretary to the Committee.
3.6 (iv)	Board Nomination and Governance Committee		Please refer page 118.
	(a) Appointment of new Directors and KMPs	Compliant	During the year, the Committee considered and recommended to the Board, the appointment of two new Directors and candidates to fill key management positions. The Committee has documented the procedure to select/appoint Directors and other KMPs.
	(b) Re-election of Directors	Compliant	During the year, the Committee considered and recommended to the Board, the re-election of the Directors retiring under Articles 44 and 46 (ii) while ensuring that they are fit and proper persons to hold such office.
	(c) Criteria relating to appointment of KMPs	Compliant	The Committee evaluates the qualifications, experience and key attributes required for eligibility for appointment of KMPs. The Committee has reviewed and incorporated necessary changes to job descriptions of the respective KMPs.

Rule	Governance principle	Compliance	Remarks
	(d) Fit and proper test	Compliant	The fitness and propriety of KMPs are monitored by the Committee.
	(e) Succession planning	Compliant	The Committee evaluates the need for additional/new expertise to the Board and succession for retiring KMPs.
	(f) Composition	Compliant	The Committee consists of three Non-Executive Directors and is chaired by an Independent Director.
3.6 (v)	Board Integrated Risk Management Committee (BIRMC)		Please refer page 119.
	(a) Composition	Compliant	Please refer page 119.
	(b) Assessment of risk	Compliant	The Committee has put in place a Board approved risk framework. The risk exposures of the Bank are assessed on a monthly basis through Key Risk Indicators. The risk assessment of subsidiaries, joint venture, and the associate is reviewed quarterly.
	(c) Review of Adequacy of Management Committees	Compliant	The Committee assesses the effectiveness of all Management Committees.
	(d) Controlling risks within prudent limits	Compliant	The Committee assesses possible risks, reviews, and takes appropriate action to mitigate such risks.
	(e) Frequency of meetings	Compliant	The Committee met on a quarterly basis.
	(f) Corrective action on any management failure to identify risks	Compliant	Action is taken by the Committee with regard to any officer responsible for failure to identify specific risks, and appropriate corrective action is taken to remedy such situations.
	(g) Submission of Risk Assessment Reports to the Board	Compliant	The Board is kept informed of Committee proceedings by submitting the BIRMC minutes to the Board. The required approvals are obtained through specific submissions to the Board.
	(h) Compliance function	Compliant	The compliance function is headed by a dedicated officer identified as a KMP in terms of the Corporate Governance Direction. The Compliance Officer reports to the BIRMC. The Committee oversees the function and reviews the quarterly reports on compliance.

3.7 Related party transactions

3.7 (i) to (iii)	Avoidance of conflicts of interest and favourable treatment in transactions with related parties	Compliant	<p>The Bank has adhered to the law as specified in the Banking Act and the Directions issued thereunder with regard to transactions with related parties. The Board ensures that no related party benefits from any favourable treatment except as indicated in 3.7 (vi).</p> <p>A Related Party Transactions Review Committee has been established by the Board. The Committee Report is on page 122. The Board has also adopted a Policy on Related Party Transactions.</p> <p>The Bank has put in place a mechanism to obtain, on a quarterly basis, a confirmation from all Key Management Personnel on a structured format to assist in the process of collating related party transactions.</p>
3.7 (iv)	Accommodation granted to Directors or their close relations	Compliant	The Bank complies with the law as specified in the Banking Act and the Directions issued thereunder in granting accommodation to the Directors and/or their close relations.

Rule	Governance principle	Compliance	Remarks
3.7 (v)	Accommodation granted to Directors prior to appointment	Compliant	The provisions of the Banking Act will be followed if such situations arise and public will be informed if not compliant by the specified date as he/she will cease to hold office. This situation did not arise during the year.
3.7 (vi)	Avoidance of favourable treatment in granting accommodation to employees, close relations of employees and/or entities in which any employee or close relation of such employee hold substantial interest	Compliant	The accommodation granted to employees, close relations of employees and/or entities in which any employee or close relation of such employee holds substantial interest are subject to normal commercial terms applicable to such transactions and secured by security approved by the Monetary Board except in the case of accommodation under approved schemes, uniformly applicable to all or specific categories of employees.
3.7 (vii)	Not to remit part of accommodation or interest without prior approval of Monetary Board	Compliant	No such situation has arisen.

Disclosure on Corporate Governance made in Terms of Section 3 (8) of the Banking Act Direction No. 11 of 2007 of the Central Bank of Sri Lanka

(i) The Board shall ensure that:

The 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 such statements are published in the newspapers in an abridged form in Sinhala, Tamil, and English.

Complied with.

(ii) The Board shall ensure that the following minimum disclosures are made in the Annual Report:

- | | | |
|-----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|
| (a) | A statement to the effect that the annual audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures. | Complied with. Please refer the Statement of Directors' Responsibility on page 129. |
| (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 with. Please refer to the Directors' Statement of Internal Control on page 123. |
| (c) | The External Auditors' Certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after 31 December 2008. | Complied with. Please refer Assurance Report of the External Auditor on page 126. |

(d)	Details of Directors, including names, fitness and propriety, transactions with the Bank and the total fees/remuneration paid by the Bank.	Complied with. Please refer to pages 14, 15 and 110 and Note 56.7 to the Financial Statements.														
(e)	Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital	<p>Complied with.</p> <table border="1" data-bbox="808 308 1438 537"> <thead> <tr> <th rowspan="2">Category of related party</th> <th colspan="2">31 December 2018</th> </tr> <tr> <th>LKR 000</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>Key Management Personnel and Close Family Members</td> <td>49,537</td> <td>0.10</td> </tr> <tr> <td>Total net accommodation</td> <td>49,537</td> <td>0.10</td> </tr> <tr> <td>Regulatory capital – solo basis</td> <td>47,203,364</td> <td></td> </tr> </tbody> </table> <p>The total net accommodation was 0.10% of the Bank's regulatory capital on solo basis. Maximum limit determined by Directors is 25% of the Bank's regulatory capital on solo basis.</p>	Category of related party	31 December 2018		LKR 000	%	Key Management Personnel and Close Family Members	49,537	0.10	Total net accommodation	49,537	0.10	Regulatory capital – solo basis	47,203,364	
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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.	<p>Complied with. The aggregate value of compensation and transactions with the Bank by Key Management Personnel as defined by LKAS 24 for financial reporting purposes are given in Note 56.7 to the Financial Statements.</p> <p>Further, in addition to the above, compensation, total deposits and investments made and accommodation obtained as at 31 December 2018 by the other Key Management Personnel (officers performing executive functions referred to in Banking Act Determination No. 3 of 2010) amounted to LKR 110.28 Mn, LKR 180.21 Mn and LKR 24.07 Mn respectively.</p>														
(g)	All findings of the "Factual Findings Report" of the External Auditor to be incorporated in this Report.	Complied with.														
(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-compliance.	Complied with. See Annual Report of the Board of Directors on the Affairs of 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.	The Monetary Board has not directed any disclosure to be made.														

Independent assurance

The External Auditors have performed procedures set out in Sri Lanka Related Services Practice Statement 4750 (SLRSPS 4750) issued by The Institute of Chartered Accountants of Sri Lanka, to meet the compliance requirement of the Corporate Governance Direction. Their findings presented in their Report addressed to the Board are consistent with the matters disclosed above and did not identify any inconsistencies to those reported above by the Board.