

Chairman's Statement

Dear Stakeholder,

We believe that good governance contributes to the long term success of a company, creating trust and engagement between the company and its stakeholders. In this regard I am proud to state that your Bank was able to successfully meet the challenges in relation to all aspects of governance in 2014 as well.

This section of the Annual Report demonstrates the governance framework in place at Commercial Bank and how it ensures adherence to the requirements of the Banking Act Direction No. 11 of 2007 and amendments thereto, on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' issued by the Central Bank of Sri Lanka and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC).

As you are well aware, the Governance Structure of the Commercial Bank is aimed at satisfying the legitimate claims of all stakeholders and to fulfill the Bank's economic, social and environmental responsibilities in an exemplary and transparent manner. We are fully aware that exemplary governance is key to our long term success, enabling us to deliver sustainable shareholder value. We trust that good ethical behaviour and sound ethical culture are central to achieving above objectives. Hence, your Board has put in place systems and procedures that the right strategies and controls are in place in order to deliver value to all stakeholders in achieving the above goal.

At Commercial Bank we strive to align business practices with the best interests of all our stakeholders, and to maximise transparency through timely disclosure of information and maintain quality and accuracy in financial reporting.

Board diversity remains a key consideration for us and we continue to take a forward-looking approach to refreshing our Board composition. Your Board has a diverse mix of individuals with skills, experience in different industries, to maximise its effectiveness and enable us to respond appropriately to the greater demands currently being placed on Board members.

I take this opportunity to thank Mr. D.S. Weerakkody, former Chairman, who relinquished his duties as a Board Member in keeping with regulatory requirements and Mr. W.M.R.S. Dias, former Managing Director/CEO, who resigned from the Board with his retirement from the Bank after serving the Bank for over four decades. I wish to thank both of them for their enormous contribution and value added to the Board and the success of the Bank and wish them good luck. I am delighted to welcome Mr. S. Renganathan, Mr. H.J. Wilson and Mr. K.M.M. Siriwardana who joined the Board during the year. They bring significant business leadership, industrial, financial and accounting experience to the Board and complement our existing Board membership.

Whilst assuring you that we take every effort to continuously improve our Corporate Governance Philosophy, we hope that this brief message will be of value to you in assessing how the regulatory requirements and best practices are being put into action within your Bank. We welcome your valuable feedback to continue with our commitment to promote and practice good governance at the highest levels at Commercial Bank.

As the Chairman of the Bank, I wish to assure all our stakeholders that your Board of Directors is fully committed to raise the bar to realise the Bank's strategy through ethical behaviour and promoting good governance practices across all units of the Bank.

Yours Sincerely,



K.G.D.D. Dheerasinghe
Chairman

Colombo
January 23, 2015

Highlights of 2014

45th Annual General Meeting held on March 31, 2014.

Elections/Re-elections to the Board

- 1 Mr. D.S. Weerakkody, Chairman of the Bank, was re-elected to the Board as the Chairman upon his re-election as a Director. Mr. Weerakkody relinquished his duties w.e.f. July 28, 2014. Mr. Weerakkody was an Independent Non-Executive Director.
- 2 Mr. K.G.D.D. Dheerasinghe, Deputy Chairman of the Bank was appointed as the Chairman. Mr. K.G.D.D. Dheerasinghe is an Independent Non-Executive Director.
- 3 Mr. M.P. Jayawardena, a member of the Board since December 28, 2011 was re-elected to the Board and appointed as the Deputy Chairman upon his re-election as a Director.

Mr. Jayawardena is an Independent Non-Executive Director.
- 4 Mr. J. Durairatnam, the former Chief Operating Officer/ Executive Director of the Bank was appointed as the Managing Director/Chief Executive Officer.
- 5 Mr. R. Renganathan was appointed as a Executive Director to the Board upon his appointment as Chief Operating Officer of the Bank.
- 6 Mr. H.J. Wilson and Mr. K.M.M. Siriwardana were appointed to the Board as Non-Executive Directors, both of them are Independent Non-Executive Directors.

Key Areas of Focus and Major Developments to Strengthen the Governing Mechanism

- * Refining the self-assessment process of the Directors.
- * Maintain the Governance structure which comprises of a total independent Board of Directors.
- * Setting up of a new Board Sub-Committee by the Board for reviewing all related party transactions carried out by the Bank and its listed subsidiary to strengthen the governance procedures in by early adopting the Code of Best Practice on Related Party Transactions issued by the Securities and Exchange Commission (SEC) which is now a part of the Continuing Listing Requirements of the Colombo Stock Exchange (CSE).

Annual General Meeting 2014

The Bank's 45th Annual General Meeting (AGM) was held on March 31, 2014. At the AGM, 387 voting shareholders (345 in 2013) and 148 non-voting shareholders (130 in 2013) were present by person or by proxy.

The following Resolutions were passed at the 45th AGM:

- Approval of Annual Report of the Board of Directors on the affairs of the Company and Statement of Compliance and the Financial Statements for the year ended December 31, 2013 and the Report of the Auditors thereon.
- Approval of a Final Dividend of Rs. 4/- for 2013 (Satisfied by way of Rs. 2/- in cash and Rs. 2/- in shares).
- Re-appointment/re-election of two Directors in place of those vacating, retiring by rotation or otherwise.
- Appointment of Messrs KPMG, Chartered Accountants, as the External Auditor of the Bank for 2014 and authorisation of the Directors to approve their remuneration.
- Authorisation of the Board of Directors to determine donations for 2014.

Major External Steering Instruments on Governance

- Companies Act No. 07 of 2007.
- Banking Act No. 30 of 1988 and amendments thereto.
- Banking Act Direction No. 11 of 2007 of the Central Bank of Sri Lanka on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' and amendments thereto.
- Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka (a voluntary Code).
- Listing Rules of the Colombo Stock Exchange.
- Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 and amendments thereto.

Major Internal Steering Instruments on Governance

- Articles of Association of the Bank.
- Board of Directors' working procedure.
- Board approved policies on all major operational aspects.
- Policy for secrecy of information, credit and other internal manuals.
- Integrated risk management procedures.
- Processes for anti-money laundering.
- Processes for internal controls.
- Bank's Code of Ethics.
- Bank's whistleblowers charter.
- Internal Circulars on ethical/operational practices.
- Communication policy of the Bank.

Reference Web Links for Further Information

- Banking Act:
http://www.cbsl.gov.lk/pics_n_docs/09_lr_docs/acts/banking_act_7th_rev_latest.pdf
- Banking Act Direction No. 11 of 2007:
http://www.cbsl.gov.lk/pics_n_docs/09_lr_docs/directions/bsd/BSD_2013/bsd_LCB_up_to_30_Nov_2013.pdf
- Listing Rules of the Colombo Stock Exchange:
http://www.cse.lk/listing_rules.do
- Companies Act:
[http://www.drc.gov.lk/App/ComReg.nsf/200392d5acdb66c246256b76001be7d8/\\$FILE/Act%207%20of%202007%20\(English\).pdf](http://www.drc.gov.lk/App/ComReg.nsf/200392d5acdb66c246256b76001be7d8/$FILE/Act%207%20of%202007%20(English).pdf)
- Securities and Exchange Commission of Sri Lanka Act:
<http://www.sec.gov.lk/wp-content/uploads/SEC-Act-Revised-Edition-2009.pdf>

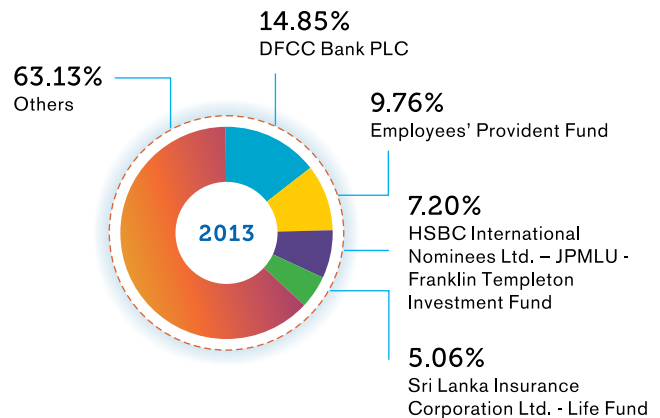
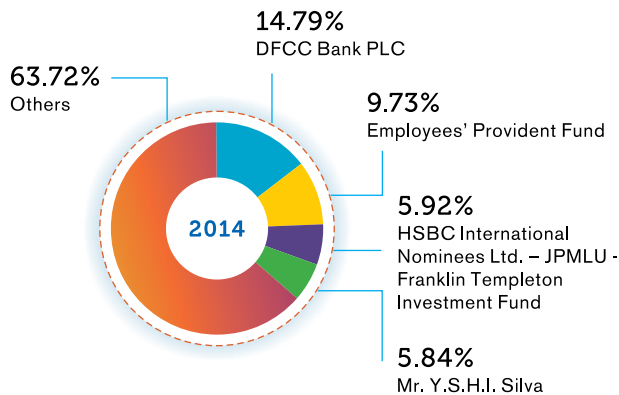
Ownership Structure

As per the share register at end of 2014, the Bank had a total of 8,374 voting shareholders (9,091 voting shareholders as at end 2013). DFCC Bank PLC continued to be the largest shareholder, with a stake of 14.79% of the Ordinary Voting Shares of the Bank (14.85% in 2013). The top 20 voting shareholders of the Bank accounted for 69.80% of the total shareholding of the Bank (68.83% in 2013). These statistics amply demonstrates the strong confidence these shareholders have placed in the Bank. Details of the ownership structure are found on Item 4 of the Section on 'Investor Relations Supplement' on pages 254 and 255 including the names of the Twenty Largest Shareholders (both voting and non-voting) of the Bank as at end 2014.

All voting shareholders have the right to exercise their votes to impact decisions at the Annual General Meeting of the Bank and the Extraordinary General Meetings are called upon when required.

The information on ownership structure is published in the Interim Financial Statements of the Bank as well, which is available on the Bank's website, <http://www.combank.net/newweb/interim-financials>

Ownership Structure



Statement of Compliance

Your Bank is committed to deliver exemplary corporate governance across all business units and its subsidiaries. Our aim is to provide insight into how we meet the spirit of corporate governance through adopting a discursive approach to our disclosures.

We are happy to inform you that the Bank is fully compliant with the requirements of the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for the Licensed Commercial Banks in Sri Lanka' and subsequent amendments thereto issued by the Central Bank of Sri Lanka. Refer the tables on pages 154 to 167 for the requirements of the 'Corporate Governance Principles' and the response of the Bank on its degree of compliance.

In addition, tables appearing on pages 168 to 180 demonstrate the Bank's adherence to the requirements of the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission (SEC) of Sri Lanka.

Further, the Board of Directors wish to confirm that they have met all requirements of the Companies Act No. 07 of 2007 and also wish to confirm to the best of their knowledge and belief and satisfied that all statutory payments due to the Government, other regulatory institutions and those payments related to employees, have been made on time. The full Statement of Directors' Responsibility is appearing on pages 206 and 207.

A diagram depicting the Governance Structure of the Bank is illustrated on page 146 of this Annual Report.

Summary of Compliance

The tables on the right depict the requirements of the Direction No. 11 of 2007 and amendments thereto of the Central Bank of Sri Lanka and the Governance Code issued jointly by the ICASL and the SEC of Sri Lanka.

Since the Bank is in compliance with the requirements of the aforesaid Direction of the Central Bank of Sri Lanka, the Colombo Stock Exchange exempted the Bank from complying with the requirements stipulated in Section 7.10 on 'Corporate Governance' of the Continuing Listing Requirements of the Colombo Stock Exchange issued in 2010.

Summary of Requirements as per the Direction of the Central Bank of Sri Lanka

	Code Ref.	Page/s
Responsibilities of the Board	3 (1)	154
The Board's Composition	3 (2)	157
Criteria to Assess the Fitness and Propriety of Directors	3 (3)	159
Management Functions Delegated by the Board	3 (4)	159
Chairman and Chief Executive Officer	3 (5)	159
Board Appointed Committees	3 (6)	160
Related Party Transactions	3 (7)	165
Disclosures	3 (8)	166
Transitional and Other General Provisions	3 (9)	167

Summary of Requirements as per the Joint Code of the CA Sri Lanka and the SEC

	Code Ref.	Page/s
Chairman and Chief Executive Officer	A.2.1 & A.5.7	169 & 171
Board Balance	A.5.1	170
Nomination Committee	A.7.1	171
Appointment of New Directors	A.7.3	172
Appraisal of Board Performance	A.9.3	173
Board-Related Disclosures	A.10.1	173
Disclosure of Remuneration	B.3 & B.3.1	175
Major and Material Transactions	C.3 & C.3.1	176
Audit Committee	D.3.4	178
Code of Business Conduct and Ethics	D.4.1 & D.4.2	179
Going Concern	D.1.5	177
Communication with Shareholders	C.2.2 - C.2.7	176
Members of Remuneration Committee	B.1.3	173
Directors' Report	D.1.2	177
Financial Statements	D.1.3	177
Related Party Transactions	D.1.7	177
Management Report	D.1.4	177
Corporate Governance Report	D.5.1	179
Audit Committee Report	D.3.3	178
Statement on Internal Control	D.1.3 & D.2.3	177 & 178
Sustainability Reporting	G.1.1 - G.1.7	180

This is not an exhaustive list and is provided purely for the convenience of the readers of this Report to assess the governance requirements applicable to the Bank arising from the aforesaid Direction/Code and the degree of compliance.

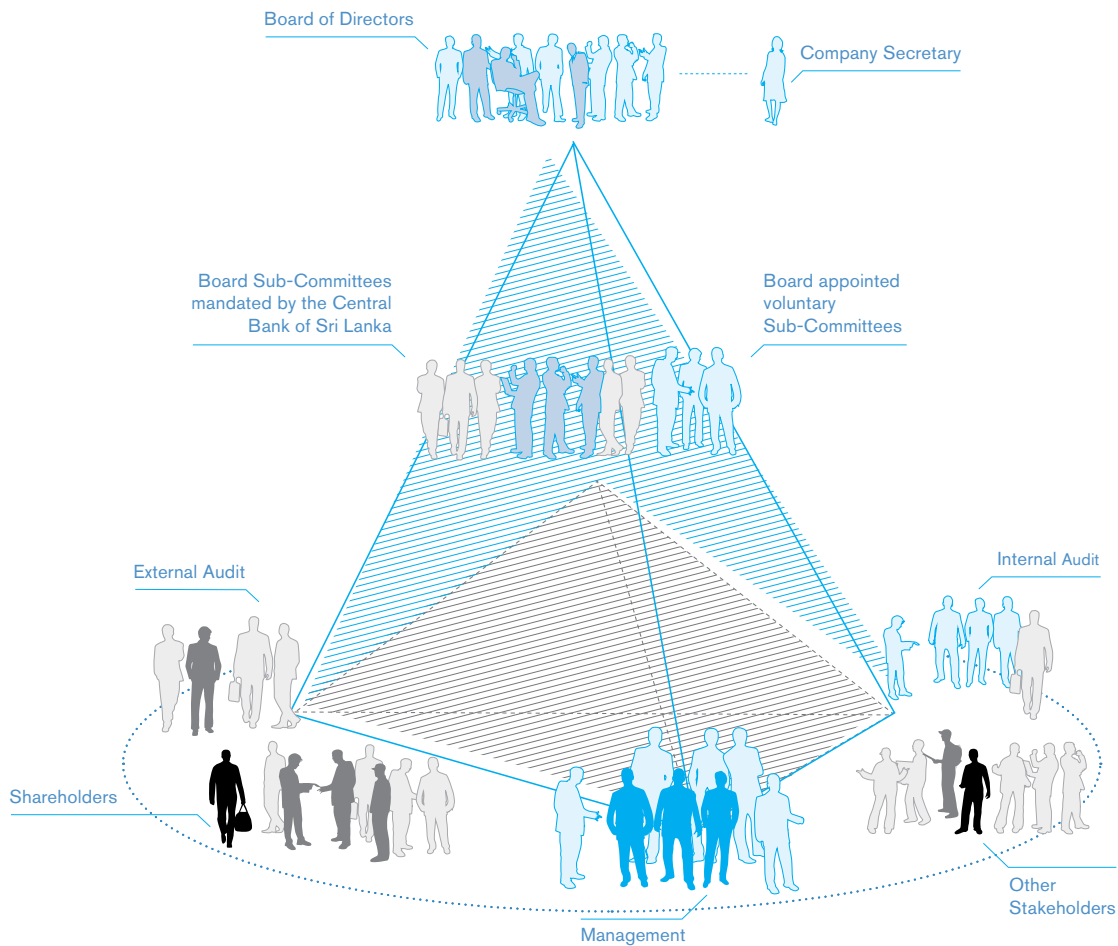
Corporate Governance

“Those seeking to strengthen Corporate Governance and enhance the Board’s oversight often look for (and recommend) ‘leading’ or ‘best’ practices - and with good reason; they suggest processes, policies and approaches that work”.

The Directors’ Prism: Building Better Boards - KPMG Audit Committee Institute

The governance practices of one organisation would not be appropriate for another as corporate cultures, financial reporting risks and governance needs would vary dramatically from one entity to another. The Board of Directors of any organisation is considered to sit at the pinnacle of the organisation structure with a close relationship with the management, Internal Auditors and External Auditors to meet the objectives expected by the stakeholders in a dynamic environment.

Constructing an ideal Board of Directors will depend primarily on the tone set at the top of any Governance Structure and the Board’s mission to continually improve and enhance the effectiveness of the Board. Accordingly, set-out below is the Governance Structure of the Bank within which the Board endeavours to construct an efficient and effective Governance Structure.



The Board of the Bank strives to add value in addition to achieving the basic compliance requirements and hence discharges its oversight responsibilities very effectively and efficiently to meet the objectives of all its stakeholders. The Board members possess a wide range of knowledge, skills and personal attributes which inculcates sound judgment, integrity and high ethical standards and more so the ability and willingness to challenge and probe into the day-to-day operational decisions of the Bank.

Further, to fulfill the governance responsibilities, the Board should also have clear lines of sight into management's decision-making and risk-management processes. In the Governance structure present at the Bank, the Board is able to establish clear lines of sight of the decisions made by the management and the risk exposures that may arise from same.

The Bank's Governance Structure also addresses the complexity inherent in governance due to multiple business units/products available in the Bank and ensures effective co-ordination is prevalent at all times. It also ensures balancing considerations regarding centralisation versus decentralisation and considering local business, customer, compliance, legal and other stakeholder needs.

The Board appointed Sub-Committees play a key role in assisting the Board in this regard.

Integrated Risk Management at Commercial Bank

Risk Governance and Policy framework enshrine integrity and effectiveness of the Risk Management structure of the Bank. A structured process for monitoring, identification, assessment, mitigation of key risks and proper communication across the Bank is in place. Periodic overview of risk measures and summary of emerging risk that require attention of the Board Integrated Risk Management Committee (BIRMC) is shared by the Risk Management Department. The Executive Integrated Risk Management Committee (EIRMC) is entrusted with the management of risk at Management level. The impact of changes in the environment on the strategy from risk perspective is under constant discussion and the relevant policies and limits are assured of getting linked inextricably to such strategic changes coming under management oversight. Risk matters are assured to be addressed appropriately and timely manner. The BIRMC undertakes self-evaluation on effectiveness of risk oversight process annually to determine adherence to its responsibilities.

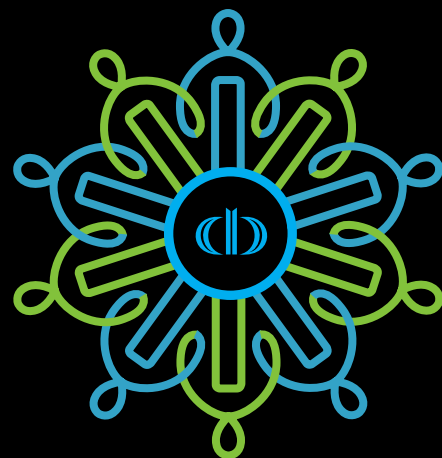
The Board of Directors of the Bank is primarily responsible for exercising oversight over the effective management of the overall Risk Profile of the Bank. The Board will be assisted in fulfilling the oversight obligation by the BIRMC which was appointed as per Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' under Section 46 (1) of the Banking Act No. 30 of 1988. The Integrated Risk Management System of

Single-minded

Commercial Bank works to one agenda...from Board Room to 'shop floor' everyone 'walks to a single drum', pursuing a common goal.

Such cohesion of intent and purpose distinguishes the Bank in an environment often volatile and uncertain.

The Bank has eight Board Sub-Committees, out of which four are voluntary. These ensure that the Board and the Management (representing the staff) are working in sync to achieve the set goals and targets.



Corporate Governance

the Bank steered by the aforesaid Board Sub-Committee with the assistance of the Integrated Risk Management Team ensures timely identification and management of significant risks including exposure to Credit, Market and Operational Risks.

A full report on the Bank’s Risk Management Mechanism is found in the Section on ‘Managing Risk at Commercial Bank’ on pages 218 to 245 of this Stewardship section. Report of the Board Integrated Risk Management Committee is given on pages 185 and 186.

Information Technology Governance

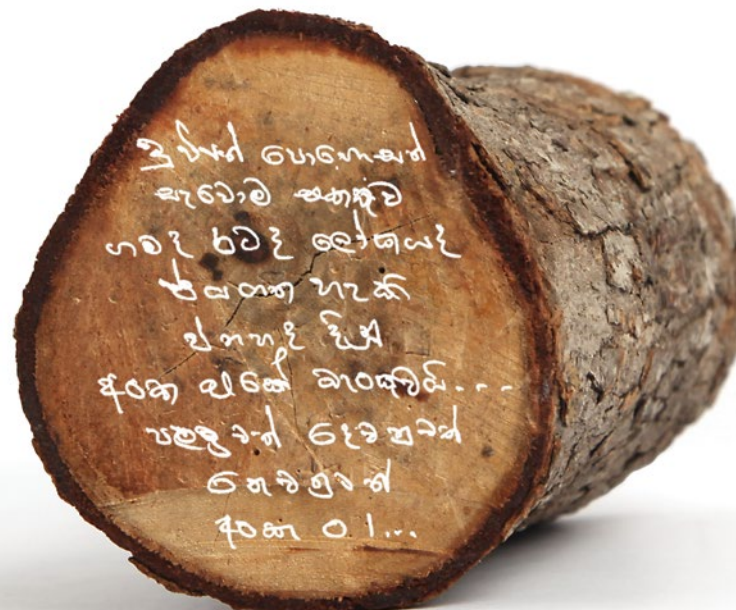
Information Technology has become the backbone for conducting the business of banking, with almost exclusive reliance on the use of Information and Communication Technology. Increasing complexity and inter-dependency of technology, demand the Bank to adopt effective IT Governance.

As such, proper alignment of technology with Bank business objectives is ensured by the Information Technology Governance Mechanism in place at the Bank. IT Governance which forms an integral part of the Bank’s Corporate Governance, deals primarily with optimising the linkage between Strategic Direction and Information Systems Management of the Bank. In this regard, having an organisation structure with well-defined roles for those responsible for information, business processes, applications, infrastructure, etc., ensures generation of value for our stakeholders while mitigating risks associated with incorrect deployment and use of Information Technology.

The Board Technology Committee took several measures to further strengthen IT Governance at the Bank, including responsibility for ensuring implementation of the Mechanism illustrated below.

The core objectives of the Bank’s Strategic Information Technology Governance that impact the diverse functional areas of the Bank are set out below:

Objective	IT Governance Mechanism
Compliance	Investing in and deploying Licensed Software with a view towards educating all stakeholders on Intellectual Property Laws as well as the risk posed to the Bank by malware.
Operations Efficiency	Streamlining of payments process so that integrity is maintained across value chain through near real-time processing where possible. Use of a world-renowned Enterprise Resource Planning System to assist Management Reporting.
Reliable Financial Reporting	Close integration of the different IT systems used by various units of the Bank. Use of a world-renowned Enterprise Resource Planning System for Financial Reporting.



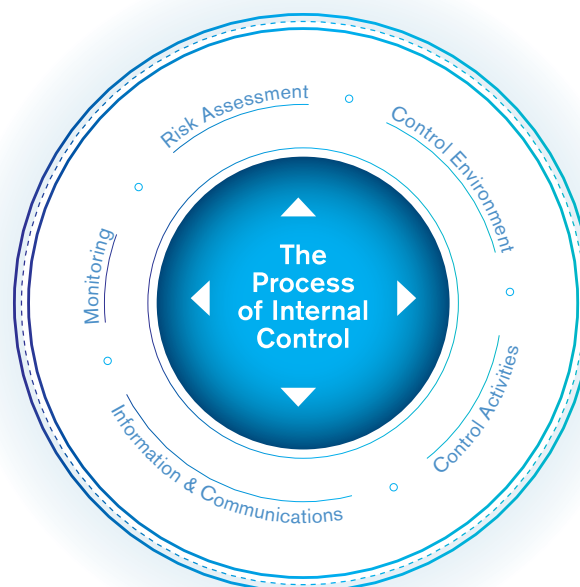
Objective	IT Governance Mechanism
Information Security Management	<p>Achieving ISO/IEC 27001:2013 certification in 2013, reaffirming our commitment to customer confidentiality.</p> <p>Ensuring that information security extends throughout the Bank and beyond as a means of proactive management of information security risks and controls.</p>
Prudent Capital Expenditure	<p>All major IT-related procurement is reviewed by an independent 3rd party Evaluation Committee.</p> <p>Final approval of IT capital expenditure is sought from the Board of Directors of the Bank based on value and recommendations of the Assistant General Manager - Services, the Chief Information Officer, the Chief Operating Officer and the Managing Director.</p>
Customer Convenience	<p>A constant drive for improvement and a commitment to high quality uninterrupted service levels to ensure systems availability translating to customer convenience at each of our delivery channels.</p> <p>Ensuring process efficiencies and disciplines through certification to increase the contribution to customer convenience.</p>
IT Risk Management	<p>Integrated Risk Management Department of the Bank identifies IT-related risks as a part of its continuous risk assessment procedures.</p> <p>Existing risk management processes are further strengthened and where appropriate new processes are designed to understand risks and implement controls to effectively manage them to mitigate the risk exposure.</p> <p>The IT experts of the Bank's External Auditors carryout a comprehensive health check on the operational aspects of the Bank's computer system prior to commencement of the year-end audit.</p>
'Green' IT	<p>Protecting the environment by reducing the carbon footprint through migration to e-Statements, Document Workflow and Soft Copy and Electronic Banking channels.</p> <p>Returning used IT equipment to recyclers certified by the Central Environmental Authority to dispose them as per international standards.</p>

The above objectives and strong IT governance structure in place at the Bank ensure that investments made by the Bank for IT infrastructure deliver quantifiable business return with the right balance between financial performance and IT enablement.

Internal Control Mechanism

The internal control framework of the Bank assists the management to deal with rapidly changing economic and competitive environments, shifting customer demands and priorities, and restructuring for future growth, ensuring achievement of goals and objectives. Internal controls promote efficiency, good governance and ethical behaviour, reduce the risk of asset loss, help to ensure the reliability of Financial Reporting and compliance with laws and regulations. Further, the management has a better ability to provide the Board of Directors with an overview of the management's pursuit of achieving the operational and financial objectives whilst operating within the confines of the relevant legal and regulatory requirements and reliable financial reporting.

The Internal Control process of the Bank, diagrammatically presented on the right depicts the process in place at the Bank which encompasses assessing the control environment on an on-going basis to ensure the existing control activities prevalent are evaluated regularly to mitigate current and perceived risks and communicating same to the Board. Further, monitoring the effectiveness of the controls in place, assessing and following up of the probable risks of breach or lapses on an on-going basis are also effective processes established at the Bank.



Corporate Governance

This process ensures effective communication within the Bank and contributes to ensuring that the right business decisions are made. The status of activities of the Bank's control system is followed up continuously through periodic reporting to the Management and to the Board Audit Committee.

The Bank's internal audit function is headed by the Assistant General Manager - Management Audit and is responsible for providing an independent, objective assurance and an oversight role over internal control mechanism, in order to systematically evaluate and recommend improvements for more effective internal control procedures, governance process, information system controls and risk management.

Observations/findings at internal audits are tabled at the meetings of the Board Audit Committee of the Bank for review and discussion in furtherance of the effectiveness of control mechanism.

As mandated by the Banking Act Direction No. 11 of 2007, the Board provides a report on the Bank's internal control mechanism which confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes is carried out in accordance with relevant accounting principles and regulatory requirements.

The Bank's External Auditors' Report also provide the Board with the evidence that enables it to conclude whether the Bank's Internal Control Mechanism is appropriately designed and is operating effectively.

The Report of the Board Audit Committee which sets out its terms of reference, objectives and function is given on pages 188 to 190.

Ethics and Integrity

The Bank pays close attention to the moral concerns in order to effect the correct ethical decisions on a day-to-day basis over and above observing the law. We believe that upholding an ethical culture in banking is of critical interest to the customers, employees, regulators, alike and to the Bank itself as a secured, reliable and efficient banking system is one of the pillars of economic stability of any country. Hence, nurturing and maintaining an ethical culture is of utmost importance for banks. Our core ethical values include honesty, integrity, fairness, responsible citizenship and accountability.

The Bank has compiled a 'Code of Conduct and Business Ethics', which encompasses the core values of the Bank, relating to lawful and ethical conduct in business. This Code applies to all employees and should be strictly adhered to at any given circumstances. Whilst the Board, the Chairman and the Managing Director have the ultimate responsibility, the day-to-day responsibility lies with the line management and irrespective of one's position in the Bank every staff member is personally responsible for ensuring that they act fully in accordance with the Bank's standards.

Enforcing a Corporate Code of Ethics requires understanding and active participation by everyone in the Bank since the Code spells out the expected standards of behaviour and sets the operating principles to be followed. This effort is strengthened regularly through:

- Consistent application of core values and principles of the code.
- Communicating the contents to all employees and even making the Code available to those outside the Bank.
- Introduction and making the Code available to all new recruits during induction programmes.
- Reiterating during management development programmes conducted for prospective and newly appointed managers.
- Promoting a culture among the senior staff to be vigilant for any symptoms of malpractices, by paying attention to the behaviour of their subordinates.
- Expecting the Managers to know his staff and customers well, to be vigilant to detect warning signals and serve as role models for compliance.
- A transparent system of fair reward and punishment.

We adopt the 'ETHICS PLUS Decision-Making Model' in addressing ethical issues, which helps us to reach a course of action or a sound decision in a structured and systematic way. We encourage our staff to report any malpractice and have made available the following channels for reporting:

- Escalation through line management.
- Direct reporting to Compliance Officer or referral to Managing Director and/or Chairman, if necessary.
- 'Speak out' - Grievance handling mechanism.
- Whistleblowers Charter.

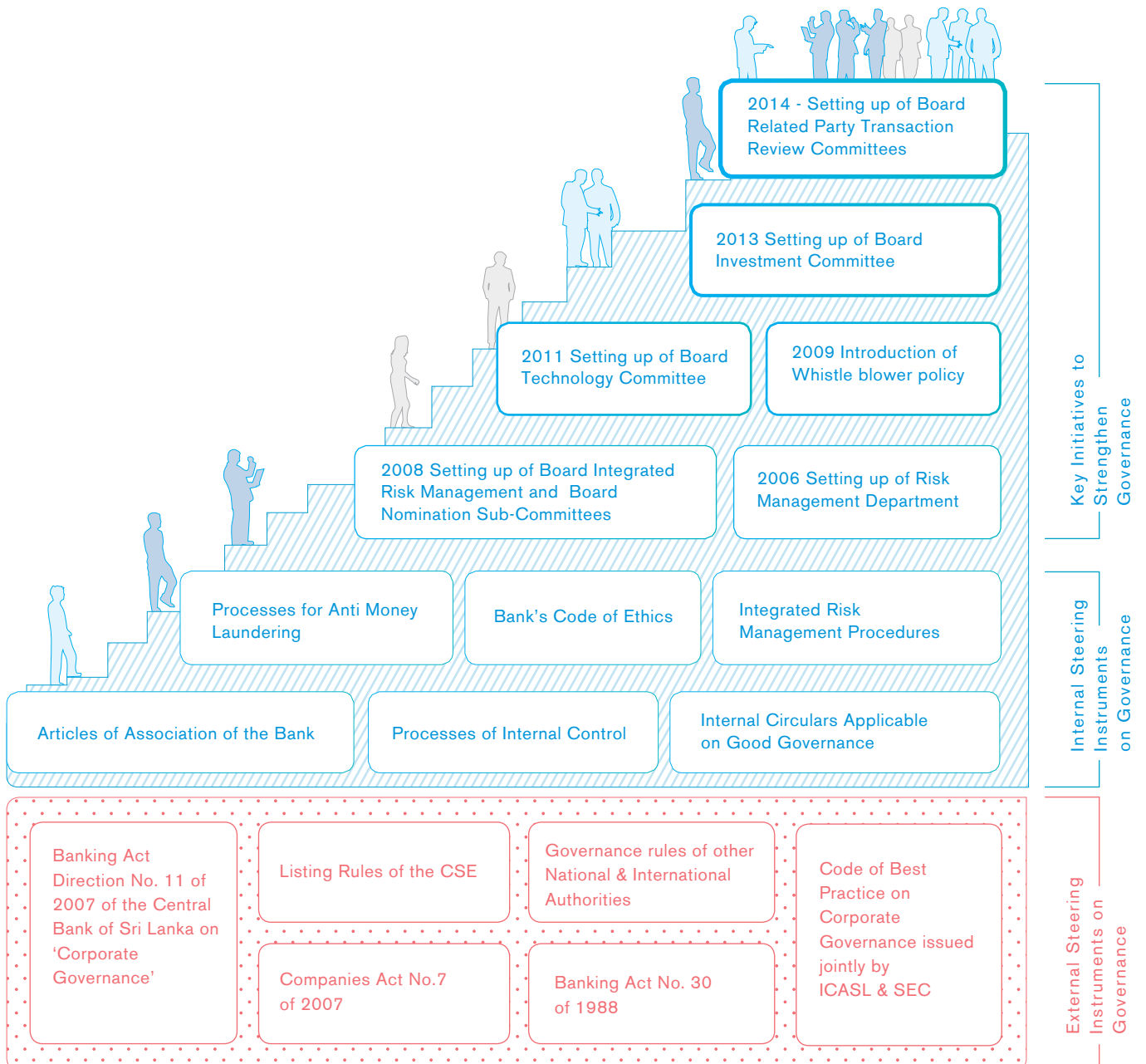
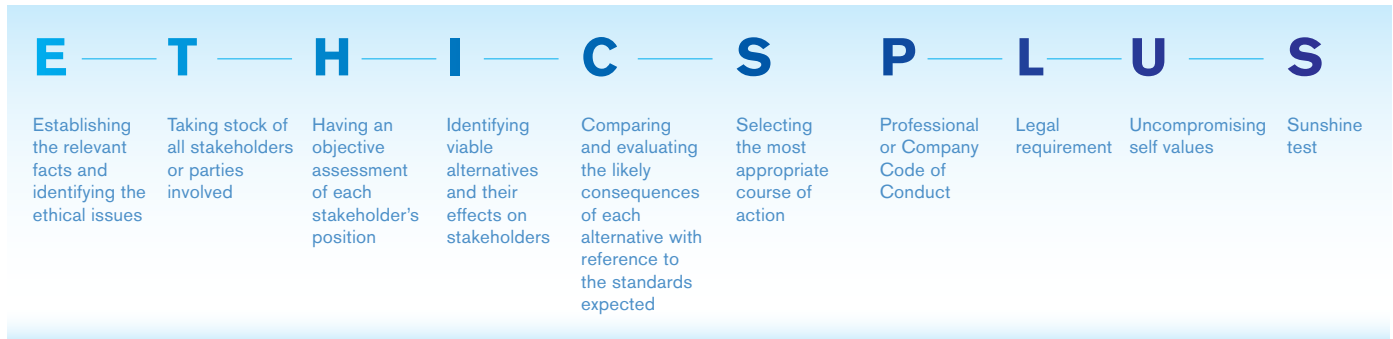
In all such reporting we assure total confidentiality pertaining to the reporter's anonymity and protection from any harassment. Complaints when received are dealt with quickly and follow up action taken as and when necessary, through disciplinary procedures. Where there are doubts to be cleared, the employees are encouraged to consult either the Head of the Department/Branch, Senior Officers or the Compliance Officer. In cases of suspected corruption, fraud or other forms of criminality, we take steps to report to the regulatory and/or relevant law enforcement authorities.

In a nutshell, our business ethics means, "Choosing the good over the bad, the right over the wrong, the fair over the unfair and the truth over the untruth". Also amongst the guiding principles of the Bank's Code of Ethics are strict compliance, confidentiality, avoidance of conflicts of interest, encouraging the reporting by the Officers of the Bank on illegal and unethical behaviour.

Refer the web link for Bank's Code of Ethics:

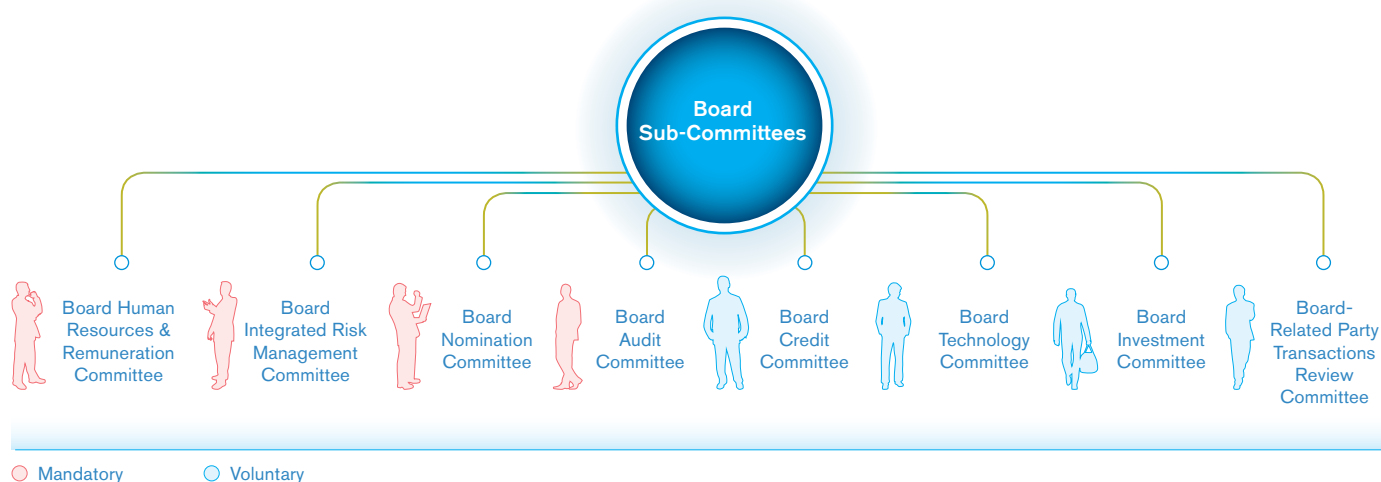
<http://www.combank.net/newweb/info/104>

Ethic PLUS Decision-Making Model



The Board and its Sub-Committees

The Bank has in place a number of mandatory and voluntary Board Sub-Committees to fulfill regulatory requirements, for better governance and to assist the Board. These Committees meet regularly to consider and discuss matters falling within respective Charters and their recommendations are duly communicated to the main Board. These Committees consist of permitted number of Executive and Non-Executive Directors as per the Banking Act Direction aforesaid and the Continuing Listing Requirements of the Colombo Stock Exchange as set out below:



Composition of Main Board and Board Sub-Committees as at December 31, 2014

Name of Committee	Executive Members	Non-Executive Members	Independent Members	Non-Independent Members	Gender		Age Group	
					Male	Female	Below 50 Years	Over 50 Years
Main Board	02	07	07	02	09	Nil	Nil	09
Board Human Resources and Remuneration Committee	01*	03	03	01	04	Nil	Nil	04
Board Integrated Risk Management Committee	02	05	05	02	07	Nil	Nil	07
Board Nomination Committee	01*	03	03	01	04	Nil	Nil	04
Board Audit Committee	02*	03	03	02	05	Nil	Nil	05
Board Credit Committee	02	01	01	02	03	Nil	Nil	03
Board Technology Committee	02	01	01	02	03	Nil	Nil	03
Board Investment Committee	02	02	02	02	04	Nil	Nil	04
Board-Related Party Transactions Review Committee	02	02	02	02	04	Nil	Nil	04

* Attended by invitation

Details of members of the Main Board and Board Sub-Committees as at December 31, 2014

Name of Committee Name of Director	Main Board		Board Human Resources and Remuneration Committee		Board Integrated Risk Management Committee		Board Nomination Committee		Board Audit Committee		Board Credit Committee		Board Technology Committee		Board Investment Committee		Board Related Party Transactions Review Committee	
	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA
Mr. D.S. Weerakkody	C*	29.07.2005	C*	30.12.2011				C*	30.12.2011									
Mr. K.G.D.D. Dheerasinghe	C*	20.12.2011	C*	30.12.2011	C**	30.12.2011	C*	30.12.2011			C	30.12.2011			C	13.03.2013	C	26.12.2014
Prof. U.P. Liyanage	M	14.12.2010	M	30.12.2011	M	01.04.2011	M	25.11.2011	M*	30.12.2011			C	30.12.2011				
Mr. W.M.R.S. Dias*	M	14.12.2010	B	14.12.2010	M	27.02.2009	B	14.12.2010	B	14.12.2010	M	20.04.2011			M	13.03.2013		
Mr. L. Hulugalle	M	30.03.2011			M	01.04.2011			M	27.05.2011								
Mr. M.P. Jayawardena	M	28.12.2011	M	29.08.2014	C**	30.12.2011	M	29.08.2014	M*	30.12.2011	M*	30.12.2011						
Mr. J. Durairatnam	M	28.04.2012	B	29.08.2014	M	28.04.2012	B	29.08.2014	B	28.04.2012	M	29.08.2014	M	18.06.2012	M	13.03.2013	M	26.12.2014
Mr. S. Swarnajothi	M	20.08.2012			M	24.08.2012			C	24.08.2012							M	26.12.2014
Mr. H.J. Wilson	M	03.07.2014													M	29.08.2014		
Mr. S. Renganathan	M	17.07.2014			B	29.08.2014			B	17.07.2014	M	25.11.2014	M	29.08.2014	B	29.08.2014	M	26.12.2014
Mr. K.M.M. Siriwardana	M	28.08.2014			M	29.08.2014			M	29.08.2014	M*	29.08.2014						

DOA - Date of Appointment Status - C - Chairman/ M - Member/ B - Participated by Invitation

Mr. D.S. Weerakkody - C* until July 28, 2014

Mr. K.G.D.D. Dheerasinghe - C* from August 29, 2014,
C** until August 28, 2014

Mr. W.M.R.S. Dias* - until July 16, 2014

Mr. M.P. Jayawardena - C** from August 29, 2014, M* until August 28, 2014

Mr. K.M.M. Siriwardana - M* until November 25, 2014

Prof. U.P. Liyanage - M* until October 31, 2014

Number of Meetings Held and Attendance

Name of Committee Name of Director	Main Board		Board Human Resources and Remuneration Committee		Board Integrated Risk Management Committee		Board Nomination Committee		Board Audit Committee		Board Credit Committee		Board Technology Committee		Board Investment Committee		Board Related Party Transactions Review Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Mr. D.S. Weerakkody	13	13	5	5			3	3										
Mr. K.G.D.D. Dheerasinghe	18	18	7	7	2	2	5	5			12	12			10	10	1	1
Prof. U.P. Liyanage	18	13	7	6	4	2	5	3	7	1			4	2				
Mr. W.M.R.S. Dias	12	12	4	4	2	1	2	2	6	6	6	6			5	5		
Mr. L. Hulugalle	18	17			4	3			8	5								
Mr. M.P. Jayawardena	18	17	4	3	4	3	2	2	7	7	8	8						
Mr. J. Durairatnam	18	18	4	4	4	3	2	2	8	7	4	4	4	3	10	10	1	1
Mr. S. Swarnajothi	18	17			4	2			8	7							1	1
Mr. S. Renganathan	6	6			2	2			2	2	1	0	2	2	5	4	1	1
Mr. H.J. Wilson	6	5													4	4		
Mr. K.M.M. Siriwardana	5	4			2	2			1	1	3	2						

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

1. Mr. K.D.N. Buddhipala - Chief Financial Officer
2. Mr. R. Rodrigo - Compliance Officer
3. Mr. K.D.N. Luxshman - Deputy General Manager - Management Audit/ Secretary (from January 01, 2014 - June 30, 2014)

4. Mr. S. Prabagar - Assistant General Manager - Management Audit/ Secretary (from July 01, 2014 - December 31, 2014)

5. Mr. S.C.U. Manatunga - Chief Risk Officer from January 01, 2014 - July 30, 2014

6. Mr. S.K.K. Hettihamu - Chief Manager - Integrated Risk Management (from October 01, 2014 - December 31, 2014)

7. Mr. S.M.A. Jayasinghe - Consultant - attended 7 out of 8 meetings

Note: Mr. K.M.M. Siriwardana ceased to hold office w.e.f. February 23, 2015

Bank's Compliance with Direction No. 11 of 2007, issued by the Central Bank of Sri Lanka on the subject 'Corporate Governance for Licensed Commercial Banks in Sri Lanka'

Annual Corporate Governance Report of Commercial Bank of Ceylon PLC ('the Bank') for the year ended December 31, 2014 is given below:

In terms of Section 46 (1) of the Banking Act No. 30 of 1988, subsequently amended, the Monetary Board has been empowered to issue Directions to Licensed Commercial Banks, regarding the manner in which the business of such banks is to be conducted, in order to ensure the soundness of the banking system. In the exercise of the powers conferred by the above Section, the Monetary Board has issued Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka'.

The aforesaid Direction consists of two distinct parts viz., Direction 2 and Direction 3. Direction 2 consists of eight principles, for explanatory purposes and/or clarification purposes only. Strict compliance is necessary for the rules that are set out in Direction 3. The Bank made every endeavour to comply with the rules of Corporate Governance as indicated in Direction 3 of the Corporate Governance Direction. Details of such compliance for the year 2014 are fully disclosed below against each requirement of Direction 3.

Relevant Section	Rule	Degree of Compliance
3 (1) - Responsibilities of the Board		
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 strategic objectives and corporate values;	Complied with. Approving, overseeing, and monitoring the execution of the strategic objectives, corporate values, overall business strategy and policies are handled directly by the Board. Board's views relating to the above are communicated throughout the Bank.
	(b) Approve Overall Business Strategy including Risk Policy and Risk Management procedures and mechanisms;	Complied with. Corporate Strategic Plan for the 5 year period of 2014-2018 was approved by the Board on February 17, 2014 after discussing related issues in detail with the Corporate Management. Corporate Plan has been aligned to the overall Risk Strategy of the Bank through the involvement of Independent Risk Management Committee. Risk appetite of the Bank emanated throughout the corporate strategy by way of capital allocation, adoption of risk matrix to measure the risk levels and governance and compliance embedded into Bank wide Risk Management Policy framework. Refer 'Board Integrated Risk Management Committee Report' on pages 185 and 186 Bank's Strategic Plan for 2015-2019 was approved on January 12, 2015 by the Board.
	(c) Identifying principal risks and implementation of Risk Management procedures;	Complied with. Identifying principal risks, approving overall risk policy and Risk Management procedures are carried out mainly through the Board Integrated Risk Management Committee which is reviewed annually. Refer 'Board Integrated Risk Management Committee Report' on pages 185 and 186.
	(d) Policy of communication with shareholders and borrowers;	Complied with. A Board approved Communication Policy is available and reviewed, as and when required. Annual General Meeting is also used to have an effective dialogue with the shareholders on matters which are relevant and of concern to the general membership.
	(e) Review Bank's Internal Control Systems and Management Information Systems;	Complied with. Adequacy and the integrity of the Bank's Internal Control Systems and Management Information Systems are reviewed by the Board Audit Committee. Board Audit Committee reports are submitted to the Board periodically for review.

Relevant Section	Rule	Degree of Compliance
	(f) Identify and designate Key Management Personnel;	<p>Complied with.</p> <p>For financial reporting purposes, the Bank has defined the Board of Directors as KMPs after assessing the definition provided in LKAS 24 on 'Related Party Disclosures'.</p> <p>For Corporate Governance reporting and monitoring purposes, the Bank has included selected members of the Corporate Management in addition to the Board of Directors as KMPs of the Bank.</p> <p>The definition of the KMP is reviewed as and when necessary.</p>
	(g) Define areas of authority and key responsibilities of the Board and Key Management Personnel;	<p>Complied with.</p> <p>Bank has a Board approved Formal Schedule which is the Board Charter for matters specifically reserved for Board, defining the areas of authority and key responsibilities of the Board of Directors. Areas of authority and key responsibilities for members of the Corporate Management are stated in the Job Descriptions of each member.</p>
	(h) Ensure appropriate oversight of the affairs of Key Management Personnel;	<p>Complied with.</p> <p>Affairs of the Bank are regularly discussed and monitored by the Directors at the Board level and by the Members of Corporate Management at Management level.</p>
	(i) Periodically assess the effectiveness of the Board of Directors' own Governance practices:	<p>Complied with.</p> <p>An evaluation form specifically designed to cover the related areas was completed by the Directors for the purpose of evaluating the effectiveness of Governance practices for 2014. Responses of Directors were discussed for necessary action at a Nomination Committee meeting and a subsequent Board meeting. Directors make declarations on areas of interests at the time of applying to the Bank's Board and subsequently as and when it is needed. Conflict of interest (if any) is managed based on this information.</p> <p>A quarterly report is sent to the Board on possible areas of conflict (if any).</p>
	(j) Ensure an appropriate succession plan for Key Management Personnel;	<p>Complied with.</p> <p>Succession plan is reviewed at regular intervals to ensure that the Bank has named successors for the Key Management Personnel in the Bank and has development plans to ensure their readiness.</p>
	(k) Meeting regularly with the Key Management Personnel;	<p>Complied with.</p> <p>The Members of the Corporate Management regularly make presentations and take part in discussions on their areas of responsibility and to monitor progress made towards achieving corporate objectives at Board meetings.</p>
	(l) Understand the regulatory environment;	<p>Complied with.</p>
	(m) Exercise due diligence in the hiring and oversight of External Auditors;	<p>Complied with.</p> <p>The Board has adopted a Policy of Rotation of Auditors, once in every 5 years, in keeping with the principles of Good Corporate Governance. At the end of the 5-year period, quotations are called from suitable Audit Firms, prior to the recommendation of new Auditors as per the Rotation Policy. In addition to this, External Auditors submit a statement annually confirming their independence as required by Section 163 (3) of the Companies Act No. 07 of 2007 in connection with external audit.</p>

Relevant Section	Rule	Degree of Compliance
3 (1) (ii)	Board shall appoint a Chairperson and CEO and define and approve responsibilities;	<p>Complied with.</p> <p>Positions of the Chairman and the Managing Director (MD)/Chief Executive Officer (CEO) are separated. Further, functions and responsibilities of the Chairman and the CEO are properly defined and approved in line with Direction 3 (5) of these Directions.</p> <p>Refer Direction 3 (5) on pages 159 and 160 of this Report for details.</p>
3 (1) (iii)	Board shall meet regularly at Board meetings with active participation in person by majority of the Directors;	<p>Complied with.</p> <p>Board meetings are held monthly, mainly to review the performance of the Bank and its Subsidiaries and other relevant matters referred to the Board by the Heads of respective divisions, while special Board meetings are convened whenever necessary. During 2014, the Board met 18 times. These meetings ensure that prompt action is taken to align the business processes to achieve the expectations of all stakeholders.</p> <p>Refer 'Number of Meetings Held and Attendance' on page 153.</p>
3 (1) (iv)	Arrangements to be in place for inclusion of matters and proposals by all Directors in the agenda;	<p>Complied with.</p> <p>All Board members are given an equal opportunity to include matters and proposals in the agenda, where such proposals relate to the promotion of business and the management of risks of the Bank.</p>
3 (1) (v)	Adequate Notice of Board meetings;	<p>Complied with.</p> <p>Monthly Board meetings are generally scheduled for the last Friday of the month and Notices are sent one week before the date of the meeting. For any other Special Board meeting, adequate Notice is given.</p>
3 (1) (vi)	Action taken for not attending Board meetings;	<p>All Directors have attended at least two-thirds of the meetings held during 2014.</p>
3 (1) (vii) and (viii)	Appointment and setting responsibilities of the Board Secretary who's advice and service should be accessible to all Directors;	<p>Complied with.</p> <p>An Attorney-at-Law functions as the Secretary of the Board and she has taken steps to duly comply with the requirements under the Banking Act No. 30 of 1988. She has also ensured that proper Board procedures are followed and that applicable rules and regulations are adhered to.</p> <p>All Board members have full access, to the assistance of the Company Secretary to ensure that proper Board procedures are followed and all applicable rules and regulations are complied with.</p>
3 (1) (ix) and (x)	Maintaining minutes of the Board meetings with sufficient detail;	<p>Complied with.</p> <p>The Company Secretary maintains the minutes of the Board meetings with sufficient details and the minutes are open for inspection by any Director. Draft minutes prepared by the Company Secretary are approved by the Chief Executive Officer and Chairman and then circulated among other Directors for their observations. Necessary amendments are made thereto based on the issues raised by such other Directors.</p>
3 (1) (xi)	Seeking Independent Professional Advice;	<p>Complied with.</p> <p>The Directors are permitted to seek independent professional advice at the Bank's expense. A Board approved procedure is in place in this connection.</p>

Relevant Section	Rule	Degree of Compliance
3 (1) (xii)	Avoid conflicts of interest due to other commitments to other organisations and related parties;	Complied with. Directors make declarations on areas of interests at the time of applying to the Bank Board and subsequently as and when it is needed. Conflict of interest (if any) is managed based on this information. A quarterly report is sent to the Board on possible areas of conflict (if any). Directors do not participate in making decisions on matters, in which they have an interest and avoid conflicts of interest with the activities of the Bank. Such Directors' presence is disregarded in counting the quorum for agenda of meetings at which such issues are considered.
3 (1) (xiii)	Formal schedule of matters to ensure proper direction and control of the Bank;	Complied with. The Board has put in place systems and controls to facilitate the effective discharge of Board functions. Pre-set agenda of meetings ensures the direction and control of the Bank is firmly under Board's control and authority.
3 (1) (xiv)	Inform Director Bank Supervision in a possible situation of Insolvency;	No such situations have arisen. The Bank has a Board approved procedure to take action in the event of such a possibility.
3 (1) (xv)	Ensure Bank is adequately capitalised at levels required by the Monetary Board;	Complied with. The Bank has duly complied with Capital Adequacy requirements and requirements under other prudential grounds throughout the year.
3 (1) (xvi)	Publish a Corporate Governance Report;	Complied with. This Report serves the said requirement.
3 (1) (xvii)	Adopt a Self-Assessment of Directors;	Complied with. The Bank has adopted a system of self-assessment, to be undertaken by each Director, annually. Each member of the Board carried out a self-assessment of his/her own effectiveness as an individual as well as the effectiveness of the Board as a whole. Further, each Director carries out an assessment of 'fitness and propriety' to serve as a Director.
3 (2) - The Board's Composition		
3 (2) (i)	Number of Directors not less than 7 or more than 13;	Complied with. During the year ended December 31, 2014 there were 9 Directors on the Board.
3 (2) (ii)	Total period of service of a Director shall not exceed 9 years;	Complied with. The period of service of all the Non-Executive Directors are within 9 years.
3 (2) (iii)	Appointment of Employee as a Directors;	Complied with. There are two Executive Directors namely the Managing Director and the Chief Operating Officer on the Board. Accordingly, the number of Executive Directors does not exceed one-third of the total number of Directors of the Board.

Relevant Section	Rule	Degree of Compliance
3 (2) (iv)	Board to consist of at least three Independent Non-Executive Directors or one-thirds of the total Directors; Independence determined under the rules set-out in the code;	Complied with. Independent Non-Executive Directors during the year under review were: Mr. D.S. Weerakkody (up to July 28, 2014) Mr. K.G.D.D. Dheerasinghe Mr. M.P. Jayawardena Prof. U.P. Liyanage Mr. L. Hulugalle Mr. S. Swarnajothi Mr. H.J. Wilson (from July 03, 2014) Mr. K.M.M. Siriwardana (from August 28, 2014)
3 (2) (v)	Appointment of Alternate Director;	No such situation has arisen.
3 (2) (vi)	Credibility, skills and experience of Non-Executive Directors	Complied with. The profiles of all Directors including Non-Executive Directors are found on pages 129 to 131 detailing their skills and experience.
3 (2) (vii)	Presence of Non-Executive Directors with necessary skill and experience in the Board;	Complied with. All Board meetings held during 2014 were duly constituted with the presence of all the Non-Executive Directors. Refer 'Number of Meetings Held and Attendance' on page 153.
3 (2) (viii)	Expressly indentify and provide details of Independent Non-Executive Directors;	Complied with. Refer Note 1 that appears on page 182. Profiles of the Non-Executive Directors are given on pages 129 to 131.
3 (2) (ix)	Formal and transparent procedure for the appointment of new Directors;	Complied with. New appointments to the Board and re-elections of Directors are based on the recommendations of the Board Nomination Committee. There is a procedure in place for the orderly succession of appointments to the Board. Appointment of the 3 Directors who joined the Board during the year, complied with the above procedure. Refer page 187 for the 'Board Nomination Committee Report'.
3 (2) (x)	Directors appointed to fill a casual vacancy to be subject to election at first AGM;	Complied with. All Directors appointed to the Board are subject to re-election by shareholders at the first Annual General Meeting after their appointment.
3 (2) (xi)	Proper procedure to be followed for Resignation/Removal of a Director;	Mr. W.M.R.S. Dias (retired w.e.f. July 16, 2014, upon reaching the age of retirement). Mr. D.S. Weerakkody relinquished his office as the Chairman on July 28, 2014 having served the Board for 9 years. No removal or resignation of Directors took place during the year. However, there is a procedure in place to deal with such situations.
3 (2) (xii)	Appointments to other Banks;	None of the present Directors of the Bank acts as a Director of another bank. Refer the Profiles of Directors on pages 129 to 131.

Relevant Section	Rule	Degree of Compliance
3 (3) - Criteria to Assess the Fitness and Propriety of Directors		
In addition to provisions of Section 42 of the Banking Act No. 30 of 1988, the criteria set out below shall apply to determine the fitness and propriety of a person who serves or wishes to serve as a Director of a Bank. Non-Compliance with any one of the criteria as set out herein shall disqualify a person to be appointed, elected or nominated as a Director or to continue as a Director.		
3 (3) (i)	Directors age shall not exceed 70 years of age;	All Directors are below 70 years of age.
3 (3) (ii)	Directors shall not hold of office in more than 20 companies;	No Director holds directorships of more than 20 companies/entities/institutions inclusive of Subsidiaries or Associate Companies of the Bank.
3 (4) - Management Functions Delegated by the Board		
3 (4) (i)	The Directors shall understand the delegation arrangements in place;	Complied with.
3 (4) (ii)	Extent of delegation to be within appropriate limits;	The Board is empowered by the Articles of Association to delegate to the MD/ CEO any of the powers vested with the Board, upon such terms and conditions and with such restrictions as the Board may think fit.
3 (4) (iii)	Review the delegation process;	Complied with. A delegation process is in place and the delegated powers are reviewed periodically to ensure that they remain relevant to the needs of the Bank.
3 (5) - The Chairman and Chief Executive Officer		
3 (5) (i)	Division of roles of the Chairman and Chief Executive Officer;	Complied with. There is a clear separation of duties between the roles of the Chairman and the CEO, thereby preventing unfettered powers for decision-making being vested with one person.
3 (5) (ii)	Chairman preferably be an Independent Director and if not designate a Senior Director;	Complied with. Chairman is an Independent Non-Executive Director.
3 (5) (iii)	Relationship between Chairman, CEO and other Directors;	Complied with. The Board is aware that there are no relationships whatsoever, including financial, business, family, any other material/relevant relationship between the Chairman and the CEO. Similarly, no relationships prevail among the other members of the Board. Refer Note 2 appearing on page 182 for further details.
3 (5) (iv) - (viii)	The Role of Chairman and CEO to be in line with the duties and responsibility set-out in this Directive;	Complied with. Board approved List of Functions and Responsibilities of Chairman include, 'Providing Leadership to the Board' as a responsibility of the Chairman. The Board's Annual Assessment Form includes an area to measure the 'Effectiveness of the Chairman in facilitating the effective discharge of Board functions'. All key and appropriate issues are discussed by the Board on a timely basis.

Relevant Section	Rule	Degree of Compliance
3 (5) (ix)	The Chairman, shall not engage in activities of direct supervision of Key Management Personnel or other executive duties;	Complied with. The Chairman does not directly get involved in the supervision of Key Management Personnel or any other executive duties.
3 (5) (x)	The Chairman shall ensure effective communication with shareholders and views of shareholders are communicated to the Board;	Complied with. At the Annual General Meeting the shareholders are given the opportunity to take up matters for which clarification is needed. These matters are adequately clarified by the Chairman and/or CEO and/or any other officer.
3 (5) (xi)	The Chief Executive Officer to function as the apex executive-in-charge of the day-to-day management of the Bank;	Complied with. The CEO is supported by the members of the Corporate Management to manage the day-to-day management of the Bank's operations and business.
3 (6) - Board Appointed Committees		
3 (6) (i)	Each Bank shall have at least four Board appointed Sub-Committees reporting to the Board;	Complied with. The following mandatory Board Sub-Committees have been appointed by the Board, which requires each such committee to report to the Board: 1. Board Human Resources and Remuneration Committee 2. Board Integrated Risk Management Committee 3. Board Nomination Committee 4. Board Audit Committee In addition, the Board has appointed the following Sub-Committees too: 1. Board Credit Committee 2. Board Technology Committee 3. Board Investment Committee 4. Board Related Party Transactions Review Committee Refer pages 183 to 193 for the Reports of the Board Sub-Committees.
3 (6) (ii)	The following rules shall apply in relation to the Audit Committee:	Refer Sections of Composition, Charter, Meetings and the Methodology of the Board Audit Committee Report on pages 188 to 190.
	(a) Chairman of the Audit Committee shall be an Independent Non-Executive Director with relevant experience;	Complied with. Chairman of the Committee Mr. S. Swarnajothi is an Independent Non-Executive Director. He is a Fellow of The Institute of Chartered Accountants of Sri Lanka and a Fellow of the Certified Management Accountants of Sri Lanka and also a member of the Institute of Certified Management Accountants of Australia. He holds a B.Sc. Degree in Management from the University of Sri Jayewardenepura and a M.Sc. in Project Management from the University of Moratuwa. He held office as Auditor General of Sri Lanka from January 2008 to August 2010. He currently functions as a member of the Tax Appeals Commission.
	(b) Composition of the Audit Committee;	Complied with. The Committee comprises of two other Independent Non-Executive Directors. Refer Audit Committee Report on pages 188 to 190.

Relevant Section	Rule	Degree of Compliance
	(c) Make recommendations on the appointment of the External Auditor, implementation of the Central Bank Guidelines, application of the relevant accounting standards and service period, audit fee and any resignation or dismissal of the Auditor;	<p>Complied with.</p> <p>Prior to the appointment of External Auditors for audit services, necessary action is taken to ensure compliance with applicable legal and statutory requirements.</p> <p>The evaluation is carried out by the Board Audit Committee in consultation with the Chief Financial Officer.</p>
	(d) Review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes;	<p>Complied with.</p> <p>The Board has adopted a policy of rotation of Auditors, once in every 5 years, in keeping with the principles of good Corporate Governance.</p>
	(e) Develop and implement a policy on the engagement of an External Auditor to provide non-audit services. Ensure that the provision by an External Auditor of non-audit services does not impair the External Auditor's independence or objectivity;	<p>Complied with.</p> <p>Following action is taken prior to the assignment of non-audit services to External Auditors by the Bank:</p> <p>(a) If the management is of the view that the independence is likely to be impaired with the assignment of any non-audit services to External Auditors, no assignment will be made to obtain such services.</p> <p>(b) Further, relevant information is obtained from External Auditors to ensure that their independence is not impaired, as a result of providing any non-audit services.</p> <p>(c) Assigning such non-audit services to External Auditors is discussed at Board Audit Committee meeting/s and required approval is obtained to that effect.</p>
	(f) Discuss with External Auditor nature and scope of auditor;	<p>Complied with.</p> <p>The Auditors make a presentation at the Board Audit Committee meeting with details of the proposed Audit Plan and the Scope, which includes the external audit scope, review of Directors' Statement of Internal Control and agreed upon procedures on Corporate Governance Code. Members of the Board Audit Committee obtain clarifications in respect of the contents of the presentation, if deemed necessary.</p>
	(g) Review of Financial Information of the Bank;	<p>Complied with.</p> <p>Quarterly Financial Statements as well as year end Financial Statements are circulated to all members of the Board Audit Committee.</p> <p>A detailed discussion takes place at the Board Audit Committee meeting regarding such Financial Statements. Once the members of the Board Audit Committee have obtained required clarifications in respect of all aspects included in the Financial Statements, such Financial Statements are recommended for approval by the Board of Directors.</p>
	(h) Discuss issues, problems and reservations arising from the interim and final audits with External Auditors;	<p>Complied with.</p> <p>External Auditor discussed the audit progress, issues noted during interim and year-end audits with the Board Audit Committee.</p> <p>The Committee met the External Auditors twice during the year without the presence of the Executive Directors and Corporate Management.</p>

Relevant Section	Rule	Degree of Compliance
	(i) Review the External Auditor's Management Letter and management's response thereto;	<p>Complied with.</p> <p>Upon receipt of the interim Management Letter and year-end Management Letters, Auditors are invited to make a presentation at a Board Audit Committee meeting to discuss significant findings which have arisen during the audit. Thereafter, the Board Audit Committee decides on remedial action to be taken in respect of such findings, if any, and relevant Heads of Departments are instructed to take such action.</p>
	(j) Review the adequacy of the scope, functions and resources of the Internal Audit Department;	<p>Complied with.</p> <p>The Annual Audit Plan prepared by the Internal Audit Department is submitted to the Board Audit Committee for approval. This plan covers the scope and resource requirement relating to the Audit Plan.</p> <p>The services of five audit firms have been obtained to assist the Internal Audit Department to carry out the audit function. Prior approval of the Board Audit Committee has been obtained in this regard.</p> <p>Internal Audit Department reports directly to the Assistant General Manager - Management Audit who will be reporting directly to the Board Audit Committee. Hence, it is independent. The audits are performed with impartiality, proficiency and due professional care.</p>
	(k) Consider the major findings of internal investigations and management's responses thereto;	<p>Complied with.</p> <p>Significant findings of investigations carried out by the Internal Audit Department along with the responses of the management are tabled and discussed at Board Audit Committee meetings.</p>
	(l) The Chief Financial Officer, the Chief Internal Auditor and External Auditors may attend meetings. Board Members and the Chief Executive Officer to attend meetings upon invitation. Committee to meet with the External Auditors without the Executive Directors being present	<p>Complied with.</p> <p>The immediate requirement of two meetings between the Board Audit Committee and External Auditors has been met. In addition, the Non-Executive Directors have been provided with an opportunity of discussing matters relating to audit on a private basis.</p>
	(m) Terms of reference of the Committee;	<p>Complied with.</p> <p>Refer 'Board Audit Committee Report' on pages 188 to 190.</p>
	(n) Regular Committee meetings	<p>Complied with.</p> <p>Refer 'Board Audit Committee Report' on pages 188 to 190.</p>
	(o) The Board shall disclose details of the activities, Number of Committee meetings held and details of attendance to Committee meetings;	<p>Complied with.</p> <p>Refer 'Board Audit Committee Report' on pages 188 to 190.</p>

Relevant Section	Rule	Degree of Compliance
	(p) Secretary of the Committee;	Complied with. The Secretary of the Committee records and maintains all minutes of the meetings.
	(q) Review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters;	Complied with. The Bank has a Whistleblowing Policy which has been reviewed and approved by the Board Audit Committee and the Board of Directors. Board's responsibility towards encouraging communication on any non-compliance and unethical practices were addressed in the Board Charter. A process is in place and proper arrangements are in effect to conduct fair and independent investigation and appropriate follow up action regarding any concerns raised by the employees of the Bank, in relation to possible inappropriate financial reporting, internal controls or other matters.
3 (6) (iii)	Human Resources and Remuneration Committee:	Mr. K.G.D.D. Dheerasinghe, Chairman of the Bank is the Chairman of the Human Resources and Remuneration Committee and has two other Independent, Non-Executive Directors as its members. Refer Sections of Composition, Charter, Meetings and the Methodology of the 'Board Human Resources and Remuneration Committee Report' on pages 183 and 184.
	The Committee shall determine the remuneration policy, set goals and targets to evaluate performance relating to the performance of Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank;	Complied with. The Bank has a formal process for annual performance evaluation for the CEO and Key Management Personnel. The performance evaluations for a particular year are formally approved before April in the subsequent year. The Committee met seven times during the year. Refer 'Board Human Resources and Remuneration Committee Report' on pages 183 and 184.
3 (6) (iv)	The Board Nomination Committee shall attend to the following: Implement a procedure to select/appoint new Directors, CEO and Key Management Personnel. Recommend (or not recommend) the re-election of current Directors and set the criteria for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions;	Complied with. The Board Nomination Committee is chaired by the Chairman of the Bank and the Committee comprises of two other Independent Non-Executive Directors. Refer Sections of Composition, Charter, Meetings and the Methodology of the 'Board Nomination Committee Report' on page 187.
	Ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office;	Complied with. The Board Nomination Committee ensures that all Directors are fit and proper persons to hold office as specified in the Direction. The Board Human Resources and Remuneration Sub-Committee ensures that Key Management Personnel are fit and proper persons to hold office as specified in the Direction.

Relevant Section	Rule	Degree of Compliance
	Consider and recommend additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel;	For Directors - Complied with. For Key Management Personnel - This activity is handled by the Board Human Resources and Remuneration Committee. The Bank has complied with the above requirement.
	Committee shall be chaired by an Independent Director. The CEO may be present at meetings by invitation;	Committee was chaired by an Independent Director. CEO was present at meetings by invitation.
3 (6) (v)	The following rules shall apply in relation to the Integrated Risk Management Committee:	Refer Sections of Composition, Charter, Meetings and the Methodology of the 'Board Integrated Risk Management Committee Report' on pages 185 and 186.
	The Committee to consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories;	Complied with. Members of the Board Integrated Risk Management Committee (BIRMC) are given below: Mr. M.P. Jayawardena - <i>Chairman</i> Prof. U.P. Liyanage Mr. L. Hulugalle Mr. S. Swarnajothi Mr. K.M.M. Siriwardana Mr. J. Durairatnam Mr. S.K.K. Hettihamu
	Assess all risks of the Bank, review adequacy and effectiveness of all management level committees;	Complied with. The Committee minutes evidence that all risk indicators such as key operational risk indicators, non-financial operating risk indicators, analysis of NPA ratio and default ratios, high risk sector advances/NPA segmentation by industry and risk grading, cross border and counterparty risk exposures have been reviewed on a monthly basis. Further, adequacy and effectiveness of all management level risk-related committees such as Executive Integrated Risk Management Committee, ALCO, Credit Policy Committee and Executive Committee on Monitoring NPAs are reviewed by the BIRMC annually.
	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 with. Actual exposure levels under each risk category are monitored against the tolerance levels when preparation of 'Risk Profile Dashboard' of the Bank which is circulated among members of the BIRMC on a monthly basis and discussed in detail at quarterly meetings. Recommendations/suggestions are also discussed if any risk indicator exceeds the tolerance limits and the progress of rectification of the position and implementation of the recommendations are being monitored closely.

Relevant Section	Rule	Degree of Compliance
	Meet at least quarterly to assess all aspects of risk management including updated business continuity plans;	<p>Complied with.</p> <p>The Committee meets quarterly to review risks associated with various business segments and takes appropriate decisions in managing risks across all the business units of the Bank. The BIRMC reviews risk management policies and procedures of the Bank including Business Continuity Plans and make appropriate recommendations to the Board of Directors. Further, BIRMC assess Key Risk Indicators relating to Credit, Market and Operational Risks on a monthly basis with a view to identify adverse trends in advance and take appropriate action to avoid the same.</p> <p>During the year Committee met 04 times.</p>
	Take appropriate actions against the officers responsible for failure to identify specific risks;	Committee refers such matters, if any, to the Human Resources Department for necessary action.
	Submit a Risk Assessment Report within a week of each meeting to the Board;	Complied with.
	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;	<p>Complied with.</p> <p>Compliance function is in place to assess the Bank's compliance with external and internal regulations. The Compliance Officer submits a Positive Assurance Certificate on Compliance with Mandatory Banking and Other Statutory Requirements on quarterly basis to the Board Audit Committee and the Board Integrated Risk Management Committee. Any significant matters are discussed in detail at the Committee meetings and instructions are issued to respective departments for remedial action.</p>
3 (7) - Related Party Transactions		
3 (7) (i) and (ii)	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;	<p>All members of the Board are required to make declaration of the positions held with related parties at the time of appointment and thereafter this is further reviewed annually. This information is provided to the Finance Division enabling them to capture relevant transactions.</p> <p>In the event of any change (during the year) the Directors are required to make a further declaration to the Company Secretary. The Bank is taking initiatives to further strengthen the monitoring mechanism.</p> <p>Directors refrain from participating at relevant sessions in which lending to related entities are discussed to avoid any kind of an influence.</p> <p>Transactions carried out with related parties as defined by LKAS 24 on 'Related Party Disclosures' in the normal course of business are disclosed in Note 60 to the Financial Statements on 'Related Party Disclosures' on pages 374 to 378.</p> <p>Directors' in contracts which do not fall into the definition of related party transactions as per LKAS 24 are reported separately in the Annual Report, outside the Financial Statements.</p> <p>A Board approved process is in place to ensure compliance with the requirement.</p> <p>As an effort to further strengthen the monitoring mechanism of related party transactions Board has formed the Related Party Transactions Review Sub-Committee during the year 2014. The declarations made by the Directors at Board meeting are provided to the Secretary of the Related Party Transactions Review Committee to monitor and capture required information.</p>

Corporate Governance

Relevant Section	Rule	Degree of Compliance
3 (7) (iii)	The Board shall ensure that transactions carried out with related parties as defined in Direction 3 (7) (i) of the code are of arm's length basis;	Board approved process is in place to ensure compliance with the requirements. In order to further strengthen the process, the Board Related Party Transactions Review Committee (BRPTRC) was formed towards the end of 2014 on a voluntary basis which comprise of the following members: Mr. K.G.D.D. Dheerasinghe (Chairman) Mr. S. Swarnajothi Mr. J. Durairatnam Mr. S. Renganathan
3 (7) (iv)	Accommodation by the Bank to a Director or a close relation of a Director, has to be sanctioned by not less than two-thirds of the Board voting in favour other than the Director concerned;	All accommodations to Directors and/or their close relatives are approved either at a Board meeting or through circulation of Board Papers. All accommodations to Directors and/or their close relatives are secured by security which is prescribed by the Monetary Board.
3 (7) (v)	Appointment of Director subsequent to approval of facilities to him/her;	No such situation has arisen during the year.
3 (7) (vi) and (vii)	Accommodation to employees, close relations or any concern in which the employee or close relation has a substantial interest;	Accommodation specified in this Direction was granted to employees only under 'Staff Benefit Schemes' of the Bank.
3 (8) - Disclosures		
3 (8) (i)	Financial reporting, statutory and regulatory reporting;	Complied with. Annual Audited Financial Statements and Interim Financial Statements of the Bank were prepared and published during 2014 in the newspapers (in Sinhala, Tamil and English) in accordance with the formats prescribed by the Supervisory and Regulatory Authorities and applicable accounting standards.
3 (8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report:	
	(a) A statement confirming that the Annual Audited Financial Statements has been prepared in accordance with accounting standards and regulatory requirements;	Complied with. Disclosures on the compliance with the applicable accounting standards and regulatory requirements in preparation of the Annual Audited Financial Statements have been made in the 'Statement of Directors' Responsibility', 'Managing Director's and Chief Financial Officer's Statement of Responsibility'. Refer page 211.
	(b) A Report by the Board confirming the Bank's internal control mechanism leading to financial reporting provides reasonable assurance on the reliability of financial reporting, and the published Financial Statements are prepared in accordance with accounting principles and regulatory requirements;	Complied with. Report by the Board on the effectiveness of the Bank's internal control mechanism to ensure that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, is given on 'Directors' Statement of Internal Control' on pages 208 and 209 that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements is given on pages 206 and 207 on 'Statement of Directors' Responsibility'. In addition, all Directors have signed the 'Annual Report of Board of Directors' found on pages 194 to 204, wherein all Directors have collectively taken the responsibility for the above requirement.

Relevant Section	Rule	Degree of Compliance																	
	(c) The External Auditor's certification on the effectiveness of the internal control mechanism;	Complied with. The Bank obtained an assurance report from the External Auditors on the effectiveness of the internal control mechanism referred to in Direction 3 (8) (ii) (b) above. Refer page 210.																	
	(d) Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank;	Complied with. Profiles of Directors are given on pages 129 to 131, transactions of the Directors with the Bank are given in the 'Directors' Interest in Contracts with the Bank' on page 212 and the total of fees/remuneration paid to the Directors by the Bank is given in Note 20 to the Financial Statements on page 309.																	
	(e) Total net accommodation granted to related parties and the percentage of such accommodation to the Bank's regulatory capital;	Complied with. Total net accommodations granted to each category of related parties are given in Note 60 to the Financial Statements on pages 374 to 378 The net accommodations granted to each category of related parties as a percentage of the Bank's regulatory capital are given below: Direct and indirect accommodation to related parties: <table border="1"> <thead> <tr> <th rowspan="2">Category of Related Party Transactions</th> <th colspan="2">% of the Regulatory Capital</th> </tr> <tr> <th>2014</th> <th>2013</th> </tr> </thead> <tbody> <tr> <td>Key Management Personnel & Close Family Members (*)</td> <td>0.02</td> <td>0.01</td> </tr> <tr> <td>Key Management Personnel & Close Family Members (**)</td> <td>0.16</td> <td>0.17</td> </tr> <tr> <td>Subsidiaries</td> <td>1.00</td> <td>0.03</td> </tr> <tr> <td>Associates</td> <td>0.00</td> <td>0.00</td> </tr> </tbody> </table> <p>(*) As defined in LKAS 24 on 'Related Party Disclosures' (for Financial Reporting) (**) Board and selected members of Corporate Management</p>	Category of Related Party Transactions	% of the Regulatory Capital		2014	2013	Key Management Personnel & Close Family Members (*)	0.02	0.01	Key Management Personnel & Close Family Members (**)	0.16	0.17	Subsidiaries	1.00	0.03	Associates	0.00	0.00
Category of Related Party Transactions	% of the Regulatory Capital																		
	2014	2013																	
Key Management Personnel & Close Family Members (*)	0.02	0.01																	
Key Management Personnel & Close Family Members (**)	0.16	0.17																	
Subsidiaries	1.00	0.03																	
Associates	0.00	0.00																	
	(f) The aggregate amount of remuneration paid by the Bank, transactions engaged by the Bank with its Key Management Personnel	Complied with. The aggregate values of remuneration paid and transactions with the Bank by Key Management Personnel as defined by LKAS 24 for financial reporting purposes are given in Note 60 to the Financial Statements on pages 374 to 378 Further, in addition to the above, total Deposits and repurchase agreements held and total Direct and Indirect facilities obtained as at December 31, 2014 by the Key Management Personnel (Board and selected members of Corporate Management) amounted to Rs. 142.1 Mn. and Rs. 113.9 Mn. respectively.																	
	(g) The External Auditor's Certification;	Complied with. The factual findings report has been issued by the External Auditors on the level of compliance with the requirements of these Directions. The findings presented in their report addressed to the Board did not identify any inconsistencies to those reported above.																	
	(h) A report on compliance and measures taken to rectify any material non-compliance;	Complied with. Refer 'Statement of Directors' Responsibility' on pages 206 and 207 for details of the compliance with prudential requirements, regulations, laws and internal controls.																	
	(i) A statement on the regulatory/supervisory concerns on lapses in the Bank's risk management, or non-compliance.	Not Applicable. There were no significant supervisory concerns on lapses in the Bank's risk management or non-compliance with this Direction that have been pointed out by the Director of Bank Supervision of Central Bank of Sri Lanka and requested by the Monetary Board to be disclosed to the public.																	
3 (9) - Transitional and Other General Provisions		The Bank has complied with this requirement.																	

Bank’s adherence with Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka (‘Code’).

‘The purpose of Corporate Governance is to facilitate effective, entrepreneurial and prudent management that can deliver long-term success of the company’ (UK Combined Code 2010). Hence, a good Corporate Governance Code needs to address the needs of both the Company (the Bank) and its shareholders. In this regard, it is pertinent to mention that the ‘Code of Best Practice on Corporate Governance’ issued jointly by The Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC) focuses adequately on fulfilling the aspirations of both parties mentioned above. The Bank has incorporated the requirements of amendments made to the said Code in September 2013.

We have categorised extent of adherence by the Bank to the requirements of the six fundamental principles laid down in the aforesaid Code, into two sections, purely for the convenience of our stakeholders. Hence, Section 1 and Section 2 and the governance structures in place are tabulated below:

Section 1 of the Code deals with the Company (the Bank) and it mainly covers the governance aspects in regard to Company Directors, their remuneration, relations with shareholders and accountability and audit. (Refer pages 168 and 179).

Section 2 of the Code deals with the Shareholders and discusses how a good corporate citizen discharges its responsibilities towards both Institutional Investors and other Investors. (Refer pages 179 and 180).

Section 1: The Company (The Bank)

Corporate Governance Principle	Reference to Code	Degree of Compliance
A. Directors		
A.1 The Board		
The Bank is headed by an effective Board of Directors with local and international experience (professionals/business leaders) drawn from different backgrounds <i>inter alia</i> banking, accounting, management, marketing and human resources. Their leadership skills, direction provided and controls put in place ensure the achievement of the objectives of the Bank set out in the Corporate Plan and the Budget, which aims to satisfy the expectations of all stakeholders. (Summary of the profiles of Directors are given on pages 129 to 131).		
Board Meetings	A.1.1	Complied with. During the year the Board met 18 times. Circulation of Board Papers to obtain Board's consent was minimised and these decisions were confirmed at the immediately succeeding Board meeting. Refer response to requirement 3 (1) (iii) and (iv) of the Banking Act Direction No. 11 of 2007 on page 156 for details. Refer 'Number of Meetings Held and Attendance' on page 153.
Role of the Board	A.1.2	Complied with. Refer response to requirement 3 (1) (ii) of the Banking Act Direction No. 11 of 2007 on page 156 for details. Refer 'Directors' Statement on Internal Control' that appears on pages 208 and 209 for details on compliance on above aspects.
Compliance with Laws and seeking Independent Professional Advice	A.1.3	Complied with. The Board collectively and Directors individually complied with the laws of the country as applicable to the Bank. Refer response to requirement 3 (1) (xi) of the Banking Act Direction No. 11 of 2007 on page 156 for further details. Refer pages 183 to 193 for Reports of all Board appointed Sub-Committees for further details.

Corporate Governance Principle	Reference to Code	Degree of Compliance
Access to advice and services of the Company Secretary	A.1.4	Complied with. Refer response to requirement 3 (1) (vii) to (ix) of the Banking Act Direction No. 11 of 2007 on page 156 for details on advice and services of Company Secretary. The removal of the Company Secretary is a matter to be considered by the Board as a whole.
Independent Judgment of Directors	A.1.5	Complied with. All Directors exercise independent judgment in decisions made by the Board on issues of strategy, performance, resource allocation and the conduct of business.
Dedicating Adequate Time and Effort by the Directors	A.1.6	Complied with. All Directors of the Bank dedicate adequate time and effort to fulfill their duties as Directors of the Bank (both before and after the Board meetings), to ensure that the duties and responsibilities owed to the Bank are satisfactorily discharged. In addition, Directors will function as members of one or more Sub-Committees of the Board (details of which are found on page 153) and ensure that they allocate adequate time for the fulfillment of their duties as members of such Board Sub-Committees. Refer 'Number of Meetings Held and Attendance' on page 153.
Training for New and Existing Directors	A.1.7	Complied with. Both new and existing Directors of the Bank are provided with guidelines on general aspects of directorships and industry specific matters. In this regard, the Directors have recognised the need for continuous training, expansion of knowledge and to take part in such professional development as and when they consider necessary which would assist them to carry out their duties as Directors. The training and development needs of Directors are reviewed periodically for this purpose.
<h3>A.2 Chairman and Chief Executive Officer (CEO)</h3> <p>There is a clear division of responsibilities between conducting the business of the Board and day-to-day operations of the Bank, in order to ensure a balance of power and authority. The Chairman is responsible for leading the Board and for its effectiveness. The CEO's role is primarily to conduct the business operations of the Bank with the help of the Corporate Management. Hence, the roles of the Chairman and CEO are clearly distinct from one another. The Chairman is also the ultimate point of contact for shareholders, particularly on matters related to Corporate Governance.</p>		
Separation of the Roles of Chairman and MD/CEO	A.2.1	Complied with. Refer response to requirement 3 (5) (i) of the Banking Act Direction No. 11 of 2007 on page 159 for details.
<h3>A.3 Chairman's Role</h3> <p>Chairman is responsible for providing leadership and effectively managing the Board while preserving the order and facilitating effective discharge of Board functions. The Chairman also takes timely action to preserve good Corporate Governance by the Board.</p>		
Role of the Chairman	A.3.1	Complied with. Refer response to requirement 3 (5) (i) to 3 (5) (x) of the Banking Act Direction No. 11 of 2007 on pages 159 and 160 for details.

Corporate Governance Principle	Reference to Code	Degree of Compliance
<p>A.4 Financial Acumen</p> <p>The Code requires that the Board comprises of members with sufficient financial acumen and knowledge to offer guidance on matters of finance. The Board of the Bank has met the above requirement as some of the Board members are Qualified Accountants having professional qualifications and are equipped with sufficient financial acumen and knowledge to offer guidance on matters of finance.</p>		
Financial Acumen and Knowledge	A.4	<p>Complied with.</p> <p>The Board comprises of members with academic and professional qualifications in Accounting, Business Finance, Management and Law and experience gained from both private and public enterprises.</p> <p>Refer pages 129 and 131 for the Profiles of the Directors.</p>
<p>A.5 Board Balance</p> <p>The Code requires that balance is maintained between the Executive and Non-Executive Directors (NEDs) so that no individual or a small group of individual Directors are able to dominate the Board's Decision-Making.</p>		
Presence of a Strong Team of NEDs	A.5.1	<p>Complied with.</p> <p>All Directors except CEO and COO are NEDs. Refer response to requirement 3 (2) (iv) of the Banking Act Direction No. 11 of 2007 on page 158 for details.</p>
Independence of NEDs	A.5.2 & A.5.3	<p>Complied with.</p> <p>All seven NEDs were Independent by the end of 2014 and this is well above the minimum prescribed by this Code, which is two NEDs or NEDs equivalent to one-third of the total number of NEDs, whichever is higher. All seven Directors were independent throughout the year and were independent of management and free of any business or other relationship that could impair their independence.</p>
Annual Declaration of NEDs	A.5.4	<p>Complied with.</p> <p>Every NED of the Bank has made written submissions as to their independence against the specified criteria set out by the Bank, which is in line with the requirements of Schedule J of the Code.</p>
Annual determination by the Board on the Independence of NEDs	A.5.5	<p>Complied with.</p> <p>The Board has determined the independence of Directors based on the declarations submitted by the NEDs, as to their independence, as a fair representation and will continue to evaluate their independence on this basis annually. No circumstances have arisen for the determination of independence by the Board, beyond the criteria set out in the Code. Independent Non-Executive Directors during the year under review were –</p> <p>Mr. D.S. Weerakkody - <i>relinquished office on July 28, 2014</i> Mr. K.G.D.D. Dheerasinghe Mr. M.P. Jayawardena Prof. U.P. Liyanage Mr. L. Hulugalle Mr. S. Swarnajothi Mr. H.J. Wilson Mr. K.M.M. Siriwardana</p>
Appointment of an Alternate Director	A.5.6	No such situation arose during the year under review.

Corporate Governance Principle	Reference to Code	Degree of Compliance
Requirement to appoint a 'Senior Non-Executive Director' and making himself available for confidential discussions	A.5.7 & A.5.8	There is no requirement to appoint a 'Senior Non-Executive Director' as the positions of the Chairman and the CEO are separated and the Chairman is an Independent Director.
Conducting meetings with NEDs only	A.5.9	Complied with. Chairman meets with the NEDs without the presence of Executive Directors, whenever necessary.
Recording in Board minutes of concerns which cannot be unanimously resolved	A.5.10	Concerns of the Directors which cannot be unanimously resolved by the Directors if any, are recorded in the minutes of Board meetings with adequate details by the Company Secretary. This would be approved by the Chairman and the other members of the Board. However, there were no such issues during the year.
A.6 Supply of Information		
The Code requires the Bank's management to submit timely information to the Board with sufficient information for making decisions, which would enable them to discharge their duties.		
Obligation of the management to provide appropriate and timely information to the Board	A.6.1	Complied with. The Bank ensures that the Directors receive adequate information in a timely manner. On urgent matters, every effort is made to provide information as early as possible. The Board Papers are prepared by the Heads of the respective banking departments and other divisions to provide adequate information to the Board enabling it to deliberate on all key issues concerning the Bank. Further, Directors are free to raise inquiries for additional information, whenever necessary. In addition, members of the Corporate Management make presentations on issues of importance. The Chairman ensures that all Directors are briefed adequately on issues arising at Board meetings.
Adequate Notice for Board Meetings	A.6.2	Complied with. Refer response to requirement 3 (1) (v) of the Banking Act Direction No. 11 of 2007 on page 156 for details.
A.7 Appointments to the Board		
The Code requires having a formal and transparent procedure in place for the appointment of new Directors to the Board.		
Presence of a Nomination Committee and annual assessment of composition of the Board	A.7.1 & A.7.2	Complied with. New appointments to the Board and Re-Elections of Directors are considered and recommended by the Nomination Committee and based on such recommendations, final decisions are made by the Board in a formal and transparent manner. Further, this Committee annually assesses the composition of the Board to ensure that the combined knowledge and experience of the Board matches the strategic demands faced by the Bank. Mr. D.S. Weerakkody served as the Chairman of the Nomination Committee up to July 28, 2014. Thereafter Mr. K.G.D.D. Dheerasinghe was appointed as the Chairman of the Committee. Refer page 187 for the 'Board Nomination Committee Report' for the terms of reference and the composition of members of this Committee.

Corporate Governance Principle	Reference to Code	Degree of Compliance
Disclosure of required details to Shareholders on new appointments to the Board	A.7.3	Complied with. When new Directors are appointed, a brief resumé of each such Director, including the nature of his or her expertise, the names of other companies in which the Director holds directorships, etc., are informed to the Central Bank of Sri Lanka (CBSL) and the Colombo Stock Exchange (CSE), in addition to disclosing this information subsequently in the Annual Report. Further, the required information is published in a few selected newspapers for the information of interested parties. Any changes in the details provided by the Directors are disseminated to the CSE without delay.
<p>A.8 Re-election</p> <p>The Code requires all Directors to submit themselves for re-election, on regular intervals and at least once in every three years.</p>		
Re-election of Non-Executive Directors including Chairman and Directors	A.8.1 & A.8.2	Complied with. Directors to retire at the Annual General Meeting (AGM): 1. (i) Directors to Retire by Rotation - In terms of Article 85 of the Articles of Association, 2 Directors are required to retire by rotation at each AGM. Article 86 provides that the Directors to retire by rotation at an AGM shall be those who, (being subject to retirement by rotation) have been longest in office, since their last election or appointment. (ii) The Directors who have been longest in office (subject to retirement by rotation): - Mr. L. Hulugalle at the AGM held in March 2012 - Mr. K.G.D.D. Dheerasinghe and Prof. U.P. Liyanage at the AGM held in March 2013. (iii) Accordingly, two Directors, out of the above three Directors are required to retire by rotation at the next AGM. (iv) It is stated in Article 86 that as between persons who became or were last Re-elected Directors on the same day, the Directors to retire shall (unless they otherwise agree among themselves) be determined by lot. Under the circumstances, Mr. L. Hulugalle and Prof. U.P. Liyanage offered themselves for re-election by rotation at the next AGM. The Board recommended the re-election of Mr. L. Hulugalle and Prof. U.P. Liyanage after considering the contents of the Affidavits and Declarations submitted by them and all other related issues, including the contribution made by them. 2. The following Directors were appointed to fill casual vacancies during the year under review: (i) Mr. H.J. Wilson (ii) Mr. S. Renganathan (iii) Mr. K.M.M. Siriwardana Refer brief resúmes of the aforementioned Directors on pages 129 and 131.
<p>A.9 Appraisal of Board Performance</p> <p>The Code requires the Board to appraise its own performance periodically to ensure that its responsibilities are satisfactorily discharged.</p>		
Annual appraisal of the Board's performance and the performance of its Sub-Committees	A.9.1 & A.9.2	Complied with. The performance of the Board is evaluated by the Nomination Committee and Board. A self-assessment was carried out by the Directors at the end of the year and the appraisal forms were first submitted to the Nomination Committee and then to the Board, in order to ensure that the Board functions effectively and efficiently and also to facilitate continuous improvement.

Corporate Governance Principle	Reference to Code	Degree of Compliance
Disclosure of Criteria used for the Performance Evaluation	A.9.3	Complied with. Refer 'Report of the Board Human Resources and Remuneration Committee' on pages 183 and 184 for details of the criteria considered for performance evaluation of the Board.
A.10 Disclosure of Information in respect of Directors The Code requires that details of the Directors be disclosed in the Annual Report for information of the Shareholders.		
Disclosure of information on Directors in the Annual Report	A.10.1	Complied with. The following details pertaining to each Director are disclosed as follows: (a) Brief profile with expertise and experience - pages 129 to 131. (b) Other business interests - page 212. (c) Remuneration - Note 20 on page 309. (d) Status of independence - Note 1 on page 182. Details of Board meetings and Board Committee meetings held during the year are indicated on page 153.
A.11 Appraisal of Chief Executive Officer (CEO) The Code requires the Board to assess the performance of the CEO at least annually to ascertain degree to which the CEO meets the pre-set Financial and Non-Financial targets.		
Setting annual targets and the appraisal of performance of the CEO	A.11.1 & A.11.2	Complied with. The Bank has a formal process for annual performance evaluation of the CEO. At the beginning of each financial year, the Board, supported by the Board Human Resources and Remuneration Committee discusses with the CEO and establish criteria to evaluate and assess the performance of the CEO. Assessment of performance of the CEO is carried out by the Board at the end of each year to ensure that pre-agreed targets have been achieved or if not whether there are acceptable reasons for not achieving them. The performance evaluation for particular year is formally approved before April in the subsequent year.
B Directors' Remuneration B.1 Remuneration Procedure The Code requires that the Bank should establish a formal and transparent procedure in place for developing an effective remuneration policy for both Executive and Non-Executive Directors where no Director is involved in deciding his/her own remuneration to avoid potential conflict of interest.		
Establishment of a Remuneration Committee	B.1.1	Complied with. Refer response to requirement 3 (6) (iii) of the Banking Act Direction No. 11 of 2007 on page 163 for details. Refer 'Board Human Resources and Remuneration Committee Report' for the Terms of Reference on pages 183 and 184.
Composition of the Committee	B.1.2 & B.1.3	Complied with. As prescribed in this Code, all members of the Board Human Resources and Remuneration Committee are Non-Executive Directors. Chairman of the Committee is appointed by the Board. The CEO attends meetings by invitation. Refer pages 183 and 184 of the 'Board Human Resources and Remuneration Committee Report' for details of the Chairman and the Members of the Board Human Resources and Remuneration Committee.

Corporate Governance Principle	Reference to Code	Degree of Compliance
Determination of the Remuneration of Non-Executive Directors	B.1.4	Complied with. Refer response to requirement 3 (6) (iii) of the Banking Act Direction No. 11 of 2007 on page 163 for details.
Ability to consult the Chairman and/or CEO and to seek professional advice by the Committee	B.1.5	Complied with. Each Committee has the authority to seek internal and external independent professional advice on remuneration of other Executive Directors and also on matters falling within its purview at the Bank's expense. Views of Chairmen of each Committee are obtained, in addition to the views of the CEO.
<h3>B.2 Level and make-up of Remuneration</h3> <p>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.</p> <p>The proportion of remuneration of Executive Directors is linked to corporate and individual performance.</p>		
Remuneration packages of Executive Directors	B.2.1	Complied with. The Board Human Resources and Remuneration Committee and the Main Board ensures that two Executive Directors namely, the Managing Director and the Chief Operating Officer who are on the Board are provided with a suitable remuneration package.
Competitiveness of levels of Remuneration	B.2.2	Complied with. The Board Human Resources and Remuneration Committee reviews information relating to executive pay from time to time to ensure same is on par with the market/industry rates as well as is aligned to the strategic objectives of the Bank.
Comparison of Remuneration with other Companies in the Group	B.2.3	Complied with. The Bank looks at market rates for the key positions in the Bank every three years by carrying out a market survey. The information of which is used for the annual revisions.
Designing the Performance based Remuneration of Executive Directors	B.2.4	Complied with. Objectives for two Executive Directors are set at the beginning of the year to align their interest with those of the Bank and the remuneration including the performance bonus is decided based upon the degree of achievement of such pre-set targets.
Executive Share Options	B.2.5	Complied with. Share options were offered to Executive Directors and Corporate/Senior Members of the management. The details of which are given in Notes 50.2 of the Financial Statements on page 362.
Designing the Performance-Related Remuneration of Executive Directors	B.2.6	Complied with. For details refer 'Board Human Resources and Remuneration Committee Report' on pages 183 and 184
Early Termination of Executive Directors	B.2.7 & B.2.8	Not applicable. Terminations of Executive Directors, (MD/CEO and Chief Operating Officer) are governed by their contracts of service/employment.

Corporate Governance Principle	Reference to Code	Degree of Compliance
Levels of Remuneration of Non-Executive Directors	B.2.9	Complied with. Non-Executive Directors of the Bank are paid a fee commensurate with their time and role in the Bank. They are not entitled to receive shares under the existing Employee Share Option Schemes of the Bank.
B.3 Disclosure of Remuneration		
The Code requires the Bank to disclose in its Annual Report the details of the remuneration of the Board and the Remuneration Policy.		
Disclosure of Remuneration	B.3.1	Complied with. Refer 'Board Human Resources and Remuneration Committee Report' on pages 183 and 184 for disclosures on the names of the Remuneration Committee members and the Remuneration Policy of the Bank. Also refer Note 20 to the Financial Statements on page 309 for the aggregate remuneration paid to Executive and Non-Executive Directors.
C Relations with Shareholders		
C.1 Constructive use of Annual General Meeting (AGM) and Conduct of General Meetings		
The Code requires the Board to use the AGM which is a major event in the Bank's calendar to communicate with shareholders and encourage their active participation. In this regard, all shareholders of the Bank receive the Notice of Meeting within the statutory due dates.		
Use of Proxy Votes	C.1.1	Complied with. The Bank has in place an effective mechanism to count all proxy votes to indicate to the Chairman the level of proxies lodged on each resolution and the number of votes for and against such resolution.
Separate Resolutions for substantially separate issues and adoption of Annual Report and Accounts	C.1.2	Complied with. Separate resolutions are proposed for all substantially separate issues to provide shareholders with the opportunity to deal with each significant matter separately. This mechanism promotes better stewardship while assuring the transparency in all activities of the Bank. Further, adoption of the Annual Report of the Board of Directors on the Affairs of the Company, Statement of Compliance and the Financial Statements together with the Report of the Auditors thereon are considered as a separate resolution.
Availability of Chairmen of Board Committees	C.1.3	Complied with. The Chairman of the Bank ensures that Chairmen of all Board appointed Sub-Committees namely, Audit, Human Resources and Remuneration, Nomination, Integrated Risk Management, Related Party Transactions Review, Credit, Investment and Technology are present at the AGM to answer the questions under their purview.
Adequate Notice of AGM to Shareholders together with the summary of the procedure	C.1.4 & C.1.5	Complied with. A Form of Proxy and a copy of the Annual Report are dispatched to each shareholder of the Bank together with the Notice of Meeting detailing the summary of procedure as per legal requirements giving 15 working days notice as per the Companies Act to shareholders, together with a summary of the procedures governing voting at General Meetings. This provides opportunity to all shareholders to attend the AGM irrespective of their voting status and obtain clarifications for the matters of interest to them.

Corporate Governance Principle	Reference to Code	Degree of Compliance
C.2 Communication with Shareholders		
The Board should Implement Effective Communication with Shareholders		
A channel to disseminate timely communication to the shareholders	C.2.1	Complied with. The primary modes of communication with shareholders are the Annual Report and AGM. Refer pages 75 to 78 on 'Stakeholder Engagement' in the Sustainability Report for a complete list of the communication channels available at the Bank to disseminate timely communication to shareholders.
Disclosure of the Policy and Methodology of communication and Implementation	C.2.2 & C.2.3	Complied with. Bank's Communication Policy which is available in the Intranet discloses the Policy and Methodology of Communication and Implementation.
Disclosure of the contact person of communication	C.2.4	Complied with. Contact persons for the different stakeholders at the Bank are specified in the Communication Policy of the Bank via the Company Secretary.
Process to make Directors aware of the issues and concerns of Shareholders and disclosing same	C.2.5	Complied with. All major issues and concerns of shareholders are recorded and referred to the Board of Directors with the views of the management.
Person of contact for shareholder matters	C.2.6	Complied with. Persons to contact in relation to shareholders is the Company Secretary and in the absence of her, the Managing Director.
Disclosure process for responding to shareholder matters	C.2.7	Complied with. Disclosure process of responding to shareholders are specified in the Communication Policy of the Bank.
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.		
Disclosures on proposed Major Transactions	C.3.1	There were no major transactions involving acquisition or disposal of greater than half of the net value of the Bank or its subsidiaries entered into by the Bank during the year. Transactions which materially affect the net assets base of the Bank are/will be disclosed in the Quarterly/Annual Financial Statements, if any.
D Accountability and Audit		
D.1 Financial Reporting		
The Code requires the Board of Directors to present a balanced and understandable assessment of the Bank's financial position, performance and prospects.		

Corporate Governance Principle	Reference to Code	Degree of Compliance
Board's responsibility for Statutory and Regulatory Reporting	D.1.1	<p>Complied with.</p> <p>The Board is well aware of its responsibility to present regulatory and statutory reporting in a balanced and understandable manner and a statement to this effect is given on pages 206 and 207 confirming this position.</p> <p>The Bank has strictly complied with the requirements of the Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 and amendments thereto, in the preparation of Interim and Annual Financial Statements, which are prepared and presented in conformity with Sri Lanka Accounting Standards. In addition, the Bank has also complied with the reporting requirements prescribed by the regulatory authorities such as CBSL, SEC, CSE.</p>
Declarations by Directors in the Directors' Report	D.1.2	<p>Complied with.</p> <p>The Directors have made all required declarations in the 'Annual Report of the Board of Directors'.</p> <p>Refer the 'Annual Report of the Board of Directors' on pages 194 to 204 for the required declarations.</p>
Statements by Directors and Auditors on Responsibility for Financial Reporting	D.1.3	<p>Complied with.</p> <p>The 'Statement of Directors' Responsibility' is given on pages 206 and 207.</p> <p>Refer 'Independent Auditors' Report' on page 266 for the reporting responsibility of Auditors.</p>
Management Discussion and Analysis	D.1.4	<p>Complied with.</p> <p>Refer 'Management Discussion and Analysis' on pages 15 to 68.</p>
Declaration by Board on the Going Concern of the Business	D.1.5	<p>Complied with.</p> <p>Refer item 25 of the 'Annual Report of the Board of Directors' on page 203 and the 'Statement of Directors' Responsibility' on pages 206 and 207 for the required declarations.</p>
Requirement to summon an Extraordinary General Meeting (EGM) to notify serious loss in Net Assets (capital)	D.1.6	<p>Likelihood of such occurrence is remote. However, should the situation arise, an EGM will be called for and shareholders will be notified.</p>
Disclosure of Related Party Transactions adequately and accurately	D.1.7	<p>Complied with.</p> <p>Refer response to requirement 3 (7) (i) of the Banking Act Direction No. 11 of 2007 on page 165 for details.</p>
D.2 Internal Control		
<p>The Code requires the Bank's Board to ensure a process of effective risk management and a sound system of internal controls, which safeguards the shareholders' investments and Bank's assets. Broadly, risk management and internal control is a process, affected by a Company's Board of Directors and management, designed to provide reasonable assurance regarding the achievement of Company's objectives.</p>		
Directors to conduct an annual review of the Risks faced by the Bank and the effectiveness of Internal Controls	D.2.1	<p>Complied with.</p> <p>The Bank obtained the External Auditors' Certification on the effectiveness of the internal control mechanism over financial reporting.</p>

Corporate Governance Principle	Reference to Code	Degree of Compliance
Need for an Internal Audit function for Companies with no such function	D.2.2	This is not applicable as the Bank already has its own in-house Internal Audit Department, which is responsible for internal audit function.
Audit Committee to carryout reviews of the process and effectiveness of risk management and Internal Controls and document to the Board	D 2.3	<p>Complied with.</p> <p>The Board Audit Committee of the Bank reviews internal control issues and risk management measures identified by the Internal Audit Division and evaluate the adequacy and effectiveness of the risk management and internal control systems.</p> <p>The minutes of the Board Audit Committee meetings are tabled at the meetings of the Board of Directors of the Bank on a periodic basis.</p> <p>Refer pages 208 and 209 for 'Directors' Statement on Internal Controls' for further details.</p>
<p>D.3 Audit Committee</p> <p>The Code requires the Board to have formal and transparent arrangements in selecting and applying the accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Bank's External Auditor.</p>		
Composition of the Committee	D.3.1	<p>Complied with.</p> <p>All members of the Board Audit Committee, including the Chairman are Non-Executive Directors and two of the members are Independent Directors.</p> <p>Details of the members, invitees and the Secretary of the Committee are found on pages 188 to 190 of the 'Board Audit Committee Report' under the heading 'Composition of the Committee'.</p>
Duties of the Committee	D.3.2	<p>Complied with.</p> <p>As stated in the Report of the Board Audit Committee of the Bank, it regularly reviews scope, results and effectiveness of the audit. It also ensures the balance among objectivity, independence and value for money of the services provided by the Bank's Auditors, with special attention to provision of non-audit services by the Auditors.</p>
Terms of Reference of the Committee	D.3.3	<p>Complied with.</p> <p>Terms of Reference of the Board Audit Committee are clearly defined in the Charter of the Audit Committee approved by the Board of Directors, which was last revised in 2014. 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 the matters pertaining to statutory and regulatory compliance in financial reporting, matters with regard to the External Auditors, Internal Audit and Risk Management procedures of the Bank.</p>
Disclosure of Names of the Members of the Committee	D.3.4	<p>Complied with.</p> <p>Names of the members of the Audit Committee are given on page 188 under the heading on 'The Composition of the Committee' and disclosure on the independence of the Auditors is found on pages 189 and 190 under the Section on 'External Audit' in the 'Board Audit Committee Report'.</p>
<p>D.4 Code of Business Conduct and Ethics</p> <p>The Code requires the Bank to adopt an Internal Code of Conduct and Ethics to be adhered to by all Directors and Key Management Personnel and must promptly disclose any waivers of the Code for Directors or others.</p>		

Corporate Governance Principle	Reference to Code	Degree of Compliance
Disclosures on presence of Code of Business Conduct and Ethics	D.4.1	Complied with, for Executive Directors and Key Management Personnel. The Bank has an internally developed Code of Conduct for its employees including Key Management Personnel and the two Executive Directors. This Code addresses conflicts of interest, bribery and corruption, entertainment and gifts, accurate accounting and record-keeping and corporate opportunities, confidentiality of information, fair dealing, protecting and proper use of the Company's assets, compliance with laws and regulations and encouraging the reporting of any illegal or unethical behaviour, etc. Details of the Banks' Code of Ethics, including Governing Principles are found on pages 150 and 151.
Affirmative Statement by the Chairman	D.4.2	Complied with. Refer the 'Letter from the Chairman' on pages 9 to 11 for required details.
D.5 Corporate Governance Disclosures Directors of the Bank disclose annually the Bank's adherence to the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and the Banking Act Direction No. 11 of 2007 of the Central Bank of Sri Lanka on Corporate Governance for Licensed Commercial Banks in Sri Lanka and subsequent amendments thereto, in the 'Corporate Governance Report'.		
Annual Corporate Governance Report in the Annual Report	D.5.1	Complied with. This Report from pages 142 to 182 serves this requirement.

Section 2: Shareholders

Corporate Governance Principle	Reference to Code	Degree of Compliance
E Institutional Investors E.1 Shareholder Voting The Code requires the institutional shareholders to make considered use of their votes and encourage to ensure that their voting intentions are translated into practice		
Communication with Shareholders	E.1.1	Complied with. In order to avoid conflicts of interest by nurturing mutual understanding, the Board carries out dialogues with its shareholders at general meetings. In this regard, the AGM of the Bank plays a critical role. Voting of the shareholders is crucial in carrying a resolution at the AGM. The Chairman, who plays the role of the agent, communicates the views and queries of the shareholders to the Board and the senior management, in order to ensure that the views are properly communicated to the Bank.
E.2 Evaluation of Governance Disclosures The Code requires the Bank to encourage institutional investors to give due weight to all relevant factors drawn to their attention.		
Due weight by Institutional Investors	E.2.1	Complied with. The Institutional Investors are at liberty to give due weight on matters relating to the Board structure and composition, when they consider resolutions relating to Board structure and composition.

Corporate Governance Principle	Reference to Code	Degree of Compliance
F Other Investors		
F.1 Investing/Divesting Decisions		
Seek Independent Advice	F.1.1	Complied with. Individual shareholders are at liberty to carry out adequate analysis or seek independent advice (not at the cost of the Bank) before making investing or divesting decisions.
F.2 Shareholder Voting		
Encourage Voting by Individual Investors	F.2.1	Complied with. Individual shareholders are encouraged to participate in general meetings of the Bank and exercise their voting rights. The Bank adequately communicates with all shareholders by ensuring that they are informed of this position by dispatching necessary Notices on time.
G Sustainability Reporting		
G.1 Principles of Sustainability Reporting		
The Code requires the Bank to adopt the following principles in Sustainability Reporting to ensure the maintenance of policies and procedures to develop a sustainable business environment and to make disclosures on sustainability.		
Principle 1 - Reporting of Economic Sustainability	G.1.1	Complied with. Refer pages 79 to 82 of the 'Sustainability Report' for this requirement.
Principle 2 - Reporting on the Environment	G.1.2	Complied with. Refer pages 111 and 112 of the 'Sustainability Report' for this requirement.
Principle 3 - Reporting on Labour Practices	G.1.3	Complied with. Refer pages 90 to 101 of the 'Sustainability Report' for this requirement.
Principle 4 - Reporting on Society	G.1.4	Complied with. Refer pages 101 to 110 of the 'Sustainability Report' for this requirement.
Principle 5 - Reporting on Product Responsibility	G.1.5	Complied with. Refer pages 84 to 89 of the 'Sustainability Report' for this requirement.
Principle 6 - Reporting on Stakeholder identification, engagement and effective communication	G.1.6	Complied with. Refer pages 75 to 78 of the 'Sustainability Report' for this requirement.
Principle 7 - Sustainable reporting to be formalised as part of the reporting process and to take place regularly	G.1.7	Complied with. The 'Sustainability Report' pages 69 to 126 serves this requirement.

Sustainability Governance and Compliance

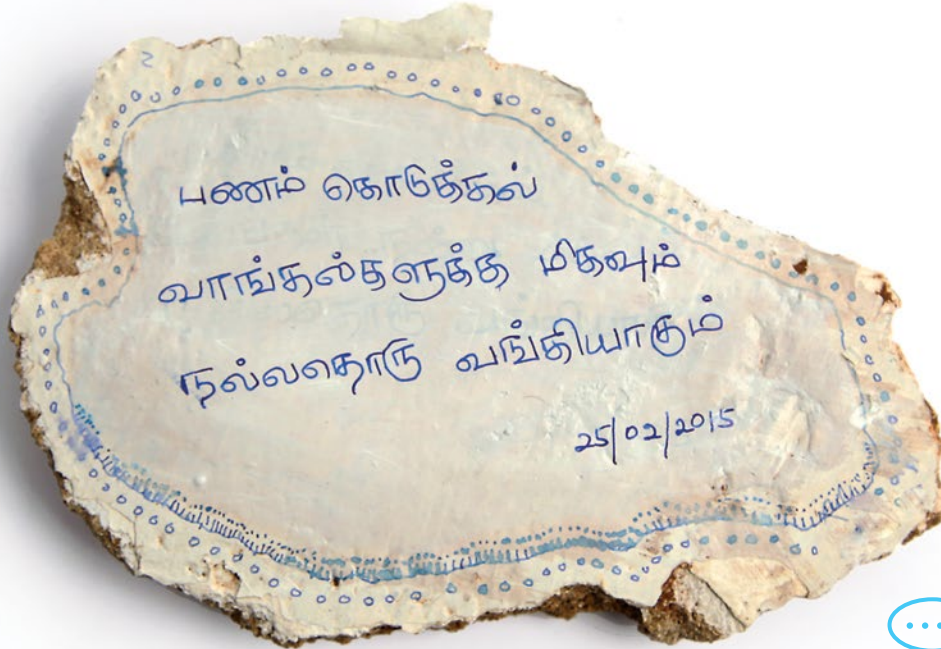
The Board of Directors of the Bank manages its economic, social and environmental impacts by delegating authority and responsibility through the relevant divisions, which directly engage with the specific stakeholders and by holding relevant divisional heads accountable for managing them. Moreover, the Board has mandated several committees such as Assets & Liability Committee, Management Committee, Credit Policy Committee, Human Resource Steering Committee, Procurement Committee, etc., to effectively manage different aspects with more focus on relevant topics of sustainability. These Committees comprise a cross section of members of the corporate management enabling the Committees to make sound judgements by evaluating associated risks.

As a responsible corporate citizen we demonstrate an equal commitment to conduct our business activities in a manner that sustains our license to operate. Operating in conformity with the national as well as international laws, regulations and treaties is a

norm with Commercial Bank and is a key aspect of our culture. Being recognised as the most respected entity and an employer of choice in Sri Lanka from time to time endorses our commitment to sustainable existence.

We take a step further and make an effort to engage with suppliers who display similar conformity and also ensure our customers who we provide financing to, also operate in compliance to applicable laws and regulations.

The process of managing the Bank's sustainability impacts is supported through the laid down policies, procedures and controls. The Board of Directors reviews the performance of key areas such as economic performance, compliance, risk management and audit regularly. The Integrated Risk Management Department, the Inspection Department and the Compliance Officer provide support and report regularly to the Board of Directors on the performance and compliance by the functional heads.



GRI-G4 Compliance Indicators

Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Nil
Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Nil
Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling.	Nil
Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communication, including advertising, promotions and sponsorships.	Nil
Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Nil
Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	Nil

Note 1

The following table lists out the composition of the Board, by category of Directors for the year ended December 31, 2014.

Name of the Director	Independence/ Non-Independence Status
Chairman Mr. D.S. Weerakkody (Non-Executive Director) relinquished the office on July 28, 2014	Independent
Mr. K.G.D.D. Dheerasinghe was appointed as the Chairman w.e.f. July 29, 2014	Independent
Executive Directors:	
Mr. W.M.R.S. Dias retired on July 16, 2014	
Mr. J. Durairatnam appointed to the Board on July 17, 2014	Executive and Non-Independent
Mr. S. Renganathan appointed to the Board on July 17, 2014	Executive and Non-Independent
Other Non-Executive Directors:	
Mr. M.P. Jayawardena was appointed as the Deputy Chairman on July 29, 2014	Independent
Prof. U.P. Liyanage	Independent
Mr. L. Hulugalle	Independent
Mr. S. Swarnajothi	Independent
Mr. H.J. Wilson appointed to the Board on July 03, 2014	Independent
Mr. K.M.M. Siriwardana (*) was appointed to the Board on August 28, 2014	Independent

* Mr. K.M.M. Siriwardana ceased to hold office w.e.f. February 23, 2015.

Note 2

Disclosure under Section 3 (5) (iii) of the Direction No. 11 of 2007 by the Board of Directors of Commercial Bank of Ceylon PLC.

1. Name of Chairman	Mr. K.G.D.D. Dheerasinghe
2. Name of Chief Executive Officer	Mr. J. Durairatnam
3. Any relationship including financial/business, family or other material/relevant relationship between the Chairman and the Chief Executive Officer	Nil
4. Any relationship including financial/business, family or other material/relevant relationship between members of the Board, including Chairman and Chief Executive Officer	Nil