

# Corporate Governance

Good corporate governance is a mechanism that harmonises the interests of a wide range of stakeholders of an institution, while contributing to sustainable growth by attracting outside sources of capital. The corporate governance practices of DFCC Bank PLC (Bank) are in accordance with the Board approved Corporate Governance Charter of the Bank. During the year, the Governance Charter of the Bank was reviewed and revised as required. The Board also formally adopted a Code of Conduct for Directors.

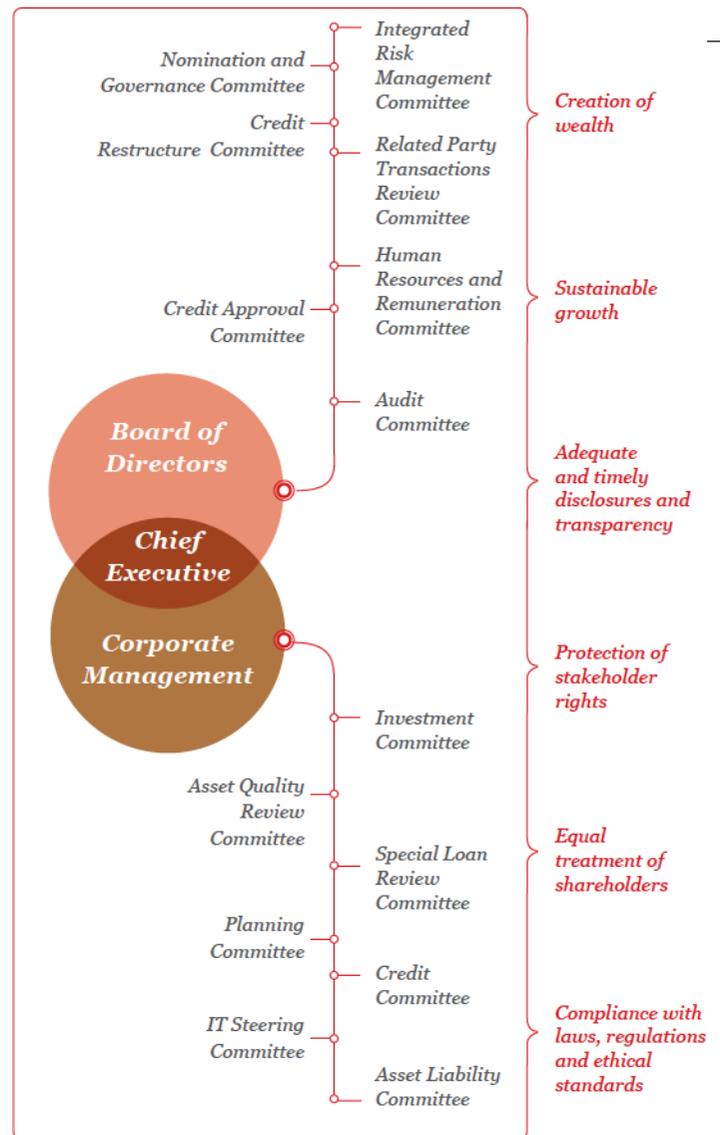
The Bank practices high standards of corporate governance based on the OECD principles of good governance. OECD principles of good governance are based on the following six guidelines:

- Promoting transparency, being consistent with laws and clearly articulating division of responsibilities
- Protecting and facilitating the exercise of shareholder rights and ensuring equitable treatment of all shareholders
- Exercising due diligence and responsibility in capital market operations
- Recognising the rights of stakeholders and encouraging co-operation between stakeholders in creating wealth and sustainability
- Timely and accurate disclosure on all material matters regarding the Bank including financial situation, performance, ownership and governance
- Ensuring the strategic guidance of the Bank, effective monitoring of management of the Board, and the Board's accountability to the Bank and the shareholders

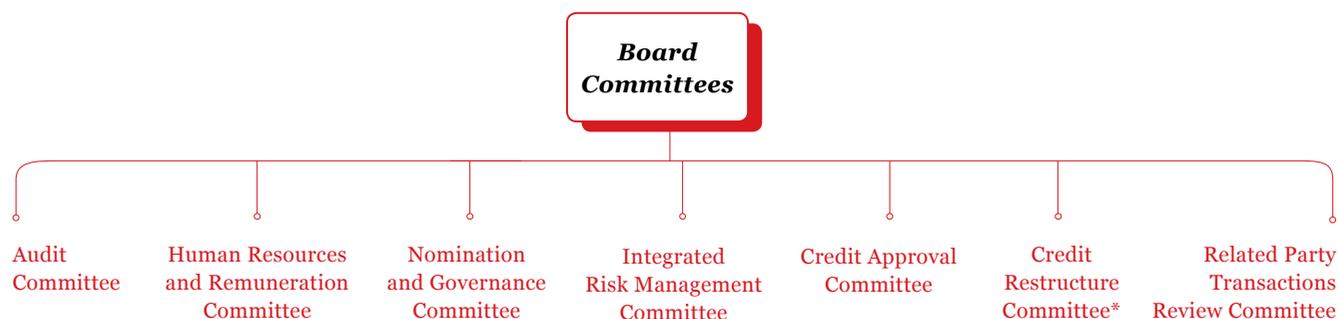
During the year, Terms of Reference of the Board Nomination Committee was enhanced and the Committee was renamed as the Nomination and Governance Committee.

The key corporate governance practices of the Bank are given in this Report with specific disclosures relating to the status of compliance with the mandatory requirements of Direction No. 11 of 2007 of the Central Bank of Sri Lanka (as amended). In view of the application of these mandatory regulatory provisions and disclosures that are required to be made, the Colombo Stock Exchange has exempted licensed banks from the application of Section 7.10 of the Listing Rules of the Colombo Stock Exchange relating to corporate governance.

## Our Goals of Good Corporate Governance



## Permanent Board Committees as at 31 December 2016



\*The Credit Restructure Committee approves papers by circulation.

### Attendance of Directors at Meetings

Name of Director	Main Board	Audit Committee	Human Resources and Remuneration Committee	Nomination and Governance Committee	Integrated Risk Management Committee	Credit Approval Committee	Related Party Transactions Review Committee
Total No. of Meetings	13	14	5	5	4	12	9
H A Ariyaratne	3/3				1/1		
K D N R Asoka	12/13	11/14			2/2		
A W Atukorala	8/8		4/4	1/1		6/7	
K P Cooray	12/13			5/5		11/12	8/9
T Dharmarajah	13/13	14/14				12/12	9/9
A R Fernando	13/13				4/4		8/9
P M B Fernando	13/13	14/14		5/5	4/4		
A N Fonseka	7/7				2/2		
C R Jansz	13/13		5/5	5/5	2/2	12/12	9/9
Ms V J Senaratne	13/13		5/5				
L H A L Silva	12/13						
Ms S R Thambiayah	12/13		1/1				
L N de S Wijeyeratne	13/13	11/14			4/4		

## Shareholder Rights

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

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

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

The Bank has procedures to promptly disseminate price sensitive information and trading in shares by the Directors to the CSE as required by the Listing Rules. In instances where this is not possible, the Head of Compliance/Chief Financial Officer advises closed periods for trading in Bank's shares by employees and Directors. During the year, the Board formally adopted a Statement of Policy Prohibiting Insider Trading. As a general rule, the period after the end of each quarter up until two market days after the financial information is released, is treated as closed periods. Procedures are in place to detect any violations.

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

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

### **Annual General Meeting**

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

## **Annual Corporate Governance Report for the Year-ended 31 December 2016 published in terms of Section 3 (1) (xvi) of the Banking Act Direction No. 11 of 2007**

Rule	Governance Principle	Compliance	Remarks
<b>3.1 Responsibilities of the Board</b>			
3.1 (i)	Safety and soundness of the Bank		
	The Board has strengthened the safety and soundness of the Bank through the implementation of the following:		
(a)	Strategic objectives and corporate values	Compliant	The Bank sets its strategic objectives and goals through the Annual Business Plan which is approved by the Board. These goals and the corporate values approved by the Board are communicated to the business units and other staff. The corporate values are posted on the internal web and all employees are guided by these values.
(b)	Overall business strategy	Compliant	The Bank's strategic plan for the medium term was approved by the Board in February 2016.  The Board engages in the strategic planning and control of the Bank by overseeing the formulation of business objectives and targets, assessing risks by engaging qualified and experienced personnel, delegating them with the authority for conducting operational activities and monitoring the performance through a formal reporting process.
(c)	Principal risks	Compliant	The identification of principal risks, approving of overall risk policy and risk appetite is carried out through the Board Integrated Risk Management Committee and reviewed annually.
(d)	Communication with stakeholders	Compliant	The Board approved Corporate Communications Policy ensures that information is made available to shareholders and other stakeholders through timely disclosures made to the Colombo Stock Exchange (CSE), by publicity through the press and electronic media and posts on the Bank's website. The Bank has an internally developed code of conduct for its employees which is posted on the internal web and is accessible by all employees.

Rule	Governance Principle	Compliance	Remarks
	(e) Bank's internal control and management information systems	Compliant	The Audit Committee assists the Board in reviewing and evaluating the effectiveness of the internal control system including the controls over financial reporting of the Bank. The Internal Audit carries out periodic reviews to ensure that the internal control systems are functioning as appropriate. The Report by the Board of Directors on internal control over financial reporting is given on page 122. The Independent Assurance Report by the External Auditor on the Directors Statement on Internal Control is given on page 124.
	(f) Key Management Personnel (KMP)	Compliant	The Board has identified and designated its Key Management Personnel.
	(g) Authority and responsibility	Compliant	Areas of authority and key responsibilities of Directors have been set out in the Corporate Governance Charter which has been adopted by the Board. The Board has also identified matters specifically reserved for the Board. The duties and responsibilities of other KMPs are formally documented in their job descriptions. Delegation of authority levels for KMPs have also been clearly specified in Board approved circulars.
	(h) Oversight of the affairs of the Bank by KMPs	Compliant	Oversight is exercised through Board Committees, reporting to the Board as appropriate. Policies and decisions of the Board requiring appropriate follow up are communicated by the Board Secretary to the relevant KMPs.  Minutes of relevant management committee meetings headed by CEO are submitted to the Board for information. KMPs are called upon to clarify matters and make presentations on matters within their purview at the monthly Board meetings.
	(i) Board's own governance practices	Compliant	An annual self-assessment is carried out on a structured format where the Directors submit their individual responses direct to the Company Secretary. The responses are collated by the Company Secretary and submitted to the Board. The effectiveness of the Board's own governance practices are reviewed by the Board and areas for improvement are discussed for necessary action.
	(j) Succession plan for KMPs	Compliant	The Bank has in place a succession plan for senior management which is reviewed annually by the Nomination and Governance Committee and approved by the Board.
	(k) Regular meetings with KMPs to monitor progress	Compliant	Meetings are attended by relevant executives when required. Additional information sought by Directors on papers submitted to the Board is clarified by the respective officers. The Board has free access to senior management.  During the year, a few business initiative Board Committees were formed in order to drive key business areas relating to CASA, lending, SME business, investments and media & branding, where the members of the Board met KMPs on a regular basis to discuss the status of implementation of identified strategies.
	(l) Regulatory environment	Compliant	The Board Secretary provides all regulatory information required to the Board members.  The Chief Executive Officer (CEO) briefs the Board on specific issues. Senior management maintains continuous dialogue with the Regulator to ensure an effective relationship.
	(m) Due diligence in hiring and oversight of External Auditor	Compliant	The primary responsibility for making recommendations on the appointment of the External Auditor rests with the Audit Committee.  A formal policy approved by the Board on engagement of External Auditor to perform non-audit services is in place.
3.1 (ii)	Appointment and segregation of the roles of the Chairman and CEO	Compliant	The Board elects the Chairman and appoints the CEO. While the Chairman provides leadership to the direction, oversight and control process exercised by the Board, the CEO is responsible for management of the Bank.
3.1 (iii)	Board meetings	Compliant	The Board held 13 Board meetings during the year. The Directors actively participated in the Board's decision-making process as evident from the Board minutes. Seeking approval of the Board by disseminating of circulars was done only in exceptional circumstances due to urgency.

Rule	Governance Principle	Compliance	Remarks
3.1 (iv)	The Board to ensure that arrangements are in place for Directors to include items and proposals in the agenda of Board meetings	Compliant	Whenever the Directors suggest topics for consideration at the Board meetings, they are included in the agenda under 'open discussion' which is an integral part of every Board meeting and other supporting data, reports, documents etc. relevant for the subject matter are circulated among the Directors for information.
3.1 (v)	Notice of Board meetings – At least seven days notice of regular meetings and reasonable notice of other meetings to be given	Compliant	Dates for the regular monthly Board meetings are agreed by the Directors at the start of each year and any changes to dates of scheduled meetings are decided well in advance. The Board Circulars and other documents pertaining to meetings are made available well in advance to enable the Directors to participate in deliberations.
3.1 (vi)	Attendance at Board meetings	Compliant	All Directors attended more than two-thirds of Board meetings and no Director was absent for three or more consecutive meetings. Attendance details are given on page 98.
3.1 (vii)	Duties and qualifications of the Company Secretary	Compliant	The Company Secretary possesses the qualifications specified in Section 43 of the Banking Act.  The Company Secretary while performing the secretariat services to the Board and shareholders' meetings, is responsible to the Board in ensuring that Board procedures and applicable rules and regulations are followed.  All new Directors are provided with the necessary documentation on Directors' responsibilities and specific banking-related directions/policies that are required to perform their function effectively.
3.1 (viii)	The Directors' access to the Company Secretary	Compliant	All Directors have access to the advice and services of the Company Secretary directly.
3.1 (ix)	The Company Secretary's duty to maintain minutes of Board meetings and ensure the Directors' access to them	Compliant	The Company Secretary compiles the minutes of the Board meetings which are subject to approval of the Board and signed by the Chairman and the Secretary. Copies of minutes are provided and Directors have access to the original minutes at all reasonable times.
3.1 (x)	The form and contents of the minutes of Board meetings	Compliant	The Board minutes are drawn with reference to Board Circulars with sufficient details to indicate the decisions made by the Board of Directors. The information used in making such decisions, the reasons and rationale of making them and each Director's contribution, if considered material, is included in the minutes.
3.1 (xi)	Independent professional advice on request for Directors to perform their duties	Compliant	The Board has put in place a procedure where the Directors can obtain independent professional advice, at the Bank's expense, to perform their duties.
3.1 (xii)	The Directors' avoidance of conflict of interest	Compliant	The Companies Act No. 07 of 2007 require Directors who are directly or indirectly interested in contracts or a proposed contract with the Bank to declare the nature of such interest. The Directors have declared their interests in contracts involving the Bank and have not participated in the decision-making.
3.1 (xiii)	Schedule of matters reserved for the decisions of the Board	Compliant	Schedule of matters reserved for the Board have been decided on.
3.1 (xiv)	Reporting insolvency to the Director of Bank Supervision	Compliant	Solvency is a matter constantly monitored by the Treasury Department, Integrated Risk Management Committee and the Board of Directors. During the year under review, the Bank remained solvent and no event has or is likely to occur that would make the Bank not able to meet its obligations.
3.1 (xv)	Adequacy of capital	Compliant	The Bank is capitalised well above the minimum levels required by the Monetary Board in terms of the capital adequacy and minimum required capital.
3.1 (xvi)	Corporate Governance Report	Compliant	The annual Corporate Governance Report forms an integral part of the Directors Report of the Bank's Annual Report.

Rule	Governance Principle	Compliance	Remarks
3.1 (xvii)	Self-assessment of the Board of Directors	Compliant	The Board has a structured scheme of self-assessment which is carried out annually. The performances of the respective committees are also evaluated by the other members who are not members of the respective committees in order to ensure that they function effectively. The findings are discussed at the Board meetings and action is taken on areas identified for improvement.  The performance assessment criteria of the CEO is given in 3.5 (xi).
<b>3.2 Composition of the Board</b>			
3.2 (i)	Number of Directors	Compliant	The Board of Directors comprised eleven Directors at the end of the year under review.
3.2 (ii)	Period of service of a Director	Compliant	No Director has held the position of a Director of the Bank for more than nine years.
3.2 (iii)	Number of Executive Directors	Compliant	The CEO and the Deputy CEO are the only Executive Directors of the Board.
3.2 (iv)	Number of Independent Directors	Compliant	There were six Independent Directors at the end of the year under review.
3.2 (v)	Alternate Directors to represent Independent Directors	Compliant	Persons who are appointed as Alternate Directors to existing Independent Directors of the Board are subject to the same criteria applicable to such Directors.  During the year, Independent Directors did not appoint any Alternates.
3.2 (vi)	The skills, experience and track records of Non-Executive Directors	Compliant	Non-Executive Directors who held office had professional backgrounds, strong track records and high level managerial experience in banking, business, industry, law, or auditing.
3.2 (vii)	Number of Non-Executive Directors required to form a quorum of Board meetings	Compliant	The Bank has been compliant with this rule at all times as monitored by the Company Secretary.
3.2 (viii)	Disclosure of details of Directors	Compliant	The names and the composition of the Directors by category are disclosed in the Annual Report of the Board of Directors.
3.2 (ix)	Appointments of new Directors	Compliant	Appointments of new Directors are formally evaluated by the Nomination and Governance Committee and recommended to the Board of Directors for approval.
3.2 (x)	Appointment of a Director to fill a casual vacancy	Compliant	The Articles of Association of the Bank provide that the Directors appointed by the Board of Directors hold office until the following AGM at which they have to be elected by the shareholders.
3.2 (xi)	Resignation or removal of a Director	Compliant	The details of retirement/resignation of Directors from office during the year under review are given in the Directors Report. No Director was removed during the year under review.  There were no matters that needed to be brought to the attention of the shareholders as a consequence of the resignation of A N Fonseka and A W Atukorala since each of them resigned due to their personal wish.
3.2 (xii)	Appointment of a Director or an employee to another bank	Compliant	No Director or employee of the Bank is a Director of another bank.
<b>3.3 Fitness and Propriety of Directors</b>			
3.3 (i)	Maximum age of Directors	Compliant	All Directors who reached the age of 70 have relinquished office.
3.3 (ii)	Holding of Director's position in more than 20 companies in all	Compliant	All Directors comply with this requirement.

Rule	Governance Principle	Compliance	Remarks
<b>3.4 Management Functions Delegated by the Board</b>			
3.4 (i)	Delegation arrangements	Compliant	The Board of Directors has delegated authority to the management subject to specific criteria, limitations, safeguards and monitoring mechanisms.
3.4 (ii)	Extent of delegation	Compliant	The delegation of authority made by the Board is designed to facilitate efficient management of the affairs of the Bank and to aid the oversight role exercised by the Board. It is not of an extent to hinder the ability of the Board to discharge its functions. The Board retains the authority to expand, curtail, limit or revoke such delegated authority.
3.4 (iii)	Review of delegation process	Compliant	The delegation process is subject to periodic review by the Board in order to ensure that necessary amendments are approved to meet the requirements of the Bank. Material decisions made under delegated authority are reported to the Board for information.
<b>3.5 The Chairman and Chief Executive Officer</b>			
3.5 (i)	Separation of the roles of the Chairman and CEO	Compliant	The Chairman and the CEO are two separate individuals.
3.5 (ii)	The Chairman to be a Non-Executive Director	Compliant	The Chairman is a Non-Executive Director. The Board appointed an Independent Director as the Senior Director as disclosed in the Annual Report. The Board has approved Terms of Reference for the Senior Director.
3.5 (iii)	Disclosure of relationship between the Chairman, CEO and other Directors	Compliant	No relationships exist between the Chairman, CEO and the other Directors according to the declarations made by them except being Directors of subsidiaries, and the Chairman and one other Director being on the Board of two companies outside the Group.
3.5 (iv)	Role of the Chairman	Compliant	The Chairman provides leadership to the Board and ensures that the Board discharges its responsibilities effectively. The Chairman encourages members to actively participate and to raise their independent judgment on all key and appropriate issues in a timely manner.
3.5 (v)	Agenda of Board meetings	Compliant	The agenda of each Board meeting is drawn by the Company Secretary under the direction of CEO and Chairman and any matters relevant to the policies and operations of the Bank proposed by other Directors are included in the Agenda upon approval by the Chairman.
3.5 (vi)	Providing information to the Directors	Compliant	The Chairman ensures that all Directors are properly briefed on issues which arise at the Board meetings and ensures that they receive adequate information in a timely manner.
3.5 (vii)	The Board to act in the best interest of the Bank	Compliant	The Chairman encourages exercise of independent judgment by the Directors on matters under consideration by the Board in order that the best interests of the Bank can be assured.
3.5 (viii)	Effective contribution of Non-Executive Directors	Compliant	The Chairman facilitates contributions by the Non-Executive Directors in making decisions.
3.5 (ix)	The Chairman not to engage in executive functions	Compliant	The Chairman is Non-Executive and does not supervise any management personnel of the Bank directly.
3.5 (x)	Communication with shareholders	Compliant	The Chairman has assigned the CEO/Deputy CEO to maintain a dialogue with institutional investors and to bring any matters of concern to the notice of the Board. The Communications Policy approved by the Board includes a provision for communication with shareholders.
3.5 (xi)	CEO to be in charge of the management of operations and business	Compliant	The CEO is the Head of the management team and is in charge of day-to-day management of the Bank's operations and business.  At the beginning of each year, the Board discusses the business plan with the CEO and senior management, and agrees on the medium and short-term financial and non-financial targets to be achieved and action plans to be implemented by the Bank. Progress is monitored on an ongoing basis and the assessment of the performance of the Bank is carried out by the Board at the end of each year based on the initiatives laid down in the business plan.

Rule	Governance Principle	Compliance	Remarks
<b>3.6 Board Appointed Committees</b>			
3.6 (i)	Four Board appointed committees	Compliant	The Board has appointed the four committees required by the Direction. The reports on their duties, performance and roles are published in the Annual Report.
3.6 (ii)	Board Audit Committee		Please refer page 113.
(a)	Chairman of the Committee	Compliant	During the year under review, the Audit Committee was chaired by an Independent Non-Executive Director who is a qualified Chartered Accountant.
(b)	Composition of the members	Compliant	All members of the Committee are Non-Executive Directors.
(c)	External Auditor	Compliant	The Audit Committee assists the Board in implementing a transparent process in the engagement and remuneration of the External Auditor and assists in the general oversight of financial reporting, internal controls and compliance with laws, regulations and codes of conduct. The Committee ensures that the engagement of the audit partner does not exceed five years.
(d)	Independence and effectiveness of the audit process	Compliant	The Committee reviewed the statement issued by the External Auditor pursuant to Section 163 (3) of the Companies Act No. 07 of 2007.
(e)	Non-audit services	Compliant	A formal policy approved by the Board on Engagement of the External Auditor to perform non-audit services is in place.
(f)	Nature and Scope of external audit	Compliant	The Committee met with the External Auditor to discuss and finalise the scope of the audit to ensure that it is in compliance with guidelines issued by the Central Bank of Sri Lanka.
(g)	Review of financial information of Bank	Compliant	The Committee reviewed all quarterly non-audited interim financial statements and the financial statement for the year-ended 31 December 2016.
(h)	Meetings with External Auditor	Compliant	The Committee met with the External Auditor on five occasions and at two meetings without the presence of the management.
(i)	Review of Management Letter	Compliant	The Committee considered the Management Letter issued by the External Auditor for the period ended 31 December 2015 and the management responses thereto.
(j)	Internal audit function	Compliant	The Committee reviews the adequacy of the internal audit function to ensure that it is in conformity with the Audit Committee Charter. The annual audit plan is approved by the Committee. The plan covers the scope and resource requirement. The annual performance appraisal of the Head of Internal Audit and the senior staff members are reviewed by the Committee. The Committee was apprised of the resignation of the former Head of Internal Audit and the Committee recommended to the Board the appointment of the new Head of Internal Audit. The Committee, with the approval of the Board continued to supplement the internal audit function by engaging two firms of Chartered Accountants to carry out the periodic audits of some business units. The internal audit function is independent of the activities it audits and the findings are reported directly to the Audit Committee.
(k)	Internal audit findings	Compliant	The Committee reviewed the internal audit reports and considered the findings, recommendations and corrective action.
(l)	Attendance of non-audit committee members	Compliant	Vice President – Internal Audit attends all Committee meetings. CEO, Deputy CEO, CFO, other Heads of units and the External Auditors attend meetings on invitation. During the year, the Committee met with the External Auditor on two occasions without the presence of the Executive Directors.
(m)	Terms of Reference	Compliant	The Committee is guided by the Audit Committee Charter.
(n)	Meetings	Compliant	During the financial year-ended 31 December 2016, 14 meetings were held. Attendance of Committee members is given in the table on page 98.
(o)	Audit Committee activities	Compliant	Please refer Committee Report on page 113.
(p)	Secretary	Compliant	Vice President –Internal Audit serves as the Secretary of the Committee.

Rule	Governance Principle	Compliance	Remarks
	(q) Process of raising issues in confidence	Compliant	The Board has adopted a Whistleblowing Policy to encourage employees to communicate legitimate concerns on any illegal or unethical practices. Arrangements are in place to ensure that all employees are duly informed of the effective use of this process.
3.6 (iii)	Board Human Resources and Remuneration Committee		Please refer page 116.
	(a) Remuneration Policy	Compliant	A formal Remuneration Policy approved by the Board is in place.
	(b) Goals and targets for KMPs	Compliant	The business plan which is approved by the Board encompasses the annual goals and targets of the CEO and other Key Management Personnel.
	(c) Review of performance of KMPs	Compliant	The Committee annually reviews the performance against the set targets of the CEO and other KMPs and the remuneration levels of the CEO and other KMPs, while ensuring appropriate compensation levels are maintained in order to retain and motivate staff.
	(d) CEO's presence	Compliant	The CEO attends meetings by invitation and participates in deliberations except when matters relating to him are discussed.
3.6 (iv)	Board Nomination and Governance Committee		Please refer page 117.
	(a) Appointment of new Directors and KMPs	Compliant	During the year, the Committee considered and recommended to the Board the appointment of one new Director and candidates to fill key management positions.
	(b) Re-election of Directors	Compliant	During the year, the Committee considered and recommended to the Board the re-election of the Directors retiring under Articles 44 and 46 (ii) while ensuring that they are fit and proper persons to hold such office.
	(c) Criteria relating to appointment of KMPs	Compliant	The Committee evaluates the qualifications, experience and key attributes required for eligibility for appointment of KMPs.
	(d) Fit and proper test	Compliant	The fitness and propriety of KMPs are monitored by the Committee.
	(e) Succession planning	Compliant	The Committee evaluates the need for additional/new expertise to the Board and succession for retiring KMPs.
	(f) Composition	Compliant	The Committee consists of three Non-Executive Directors and is chaired by an Independent Director.
3.6 (v)	Board Integrated Risk Management Committee (BIRMC)		Please refer page 118.
	(a) Composition	Compliant	Please refer page 118.
	(b) Assessment of risk	Compliant	The Committee has put in place a Board approved risk framework. The risk exposures of the Bank are assessed on a monthly basis through Key Risk Indicators. The risk assessment of subsidiaries, joint venture and the associate are reviewed quarterly.
	(c) Review of Adequacy of Management Committees	Compliant	The Committee assesses the effectiveness of all Management Committees.
	(d) Controlling risks within prudent limits	Compliant	The Committee assesses possible risks, reviews and takes appropriate action to mitigate such risks.
	(e) Frequency of meetings	Compliant	The Committee met on a quarterly basis.
	(f) Corrective action on any management failure to identify risks	Compliant	Action is taken by the Committee with regard to any officer responsible for failure to identify specific risks, and appropriate corrective action is taken to remedy such situations.

Rule	Governance Principle	Compliance	Remarks
	(g) Submission of Risk Assessment Reports to the Board	Compliant	By submitting BIRMC minutes, the Board is informed of proceedings. The required approvals are obtained through specific submissions to the Board.
	(h) Compliance function	Compliant	The compliance function is headed by a dedicated officer identified as a KMP in terms of the Corporate Governance Direction. The Compliance Officer reports to the BIRMC. The Committee oversees the function and reviews the quarterly reports on compliance.
<b>3.7 Related Party Transactions</b>			
3.7 (i) to (iii)	Avoidance of conflicts of interest and favourable treatment in transactions with related parties	Compliant	<p>The Bank has adhered to the law as specified in the Banking Act and the Directions issued thereunder with regard to transactions with related parties. The Board ensures that no related party benefits from any favourable treatment except as indicated in 3.7 (vi).</p> <p>A Related Party Transactions Review Committee was established by the Board to be effective from 1 January 2016. During the year, the Board also formally adopted a Policy on Related Party Transactions.</p> <p>The Bank has put in place a mechanism to obtain, on a quarterly basis, a confirmation from all Key Management Personnel on a structured format to assist in the process of collating related party transactions.</p>
3.7 (iv)	Accommodation granted to Directors or their close relations	Compliant	The Bank complies with the law as specified in the Banking Act and the Directions issued thereunder in granting accommodation to the Directors and/or their close relations.
3.7 (v)	Accommodation granted to Directors prior to appointment	Compliant	The provisions of the Banking Act will be followed if such situations arise and public will be informed if not compliant by the specified date as he/she will cease to hold office. This situation did not arise.
3.7 (vi)	Avoidance of favourable treatment in granting accommodation to employees, close relations of employees and/or entities in which any employee or close relation of such employee hold substantial interest	Compliant	The accommodation granted to employees, close relations of employees and/or entities in which any employee or close relation of such employee holds substantial interest are subject to normal commercial terms applicable to such transactions and secured by security approved by the Monetary Board except in the case of accommodation under approved schemes, uniformly applicable to all or specific categories of employees.
3.7 (vii)	Not to remit part of accommodation or interest without prior approval of Monetary Board	Compliant	No such situation has arisen.

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

<b>(i) The Board shall ensure that:</b>		
	The annual audited financial statements and quarterly financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and such statements are published in the newspapers in an abridged form in Sinhala, Tamil and English.	Complied with.
<b>(ii) The Board shall ensure that the following minimum disclosures are made in the Annual Report:</b>		
(a)	A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with. Please refer the Statement of Directors' Responsibility on page 131.

(b)	A Report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied with. Please refer to the Directors' Statement of Internal Control on page 122.															
(c)	The External Auditor's Certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after 31 December 2008.	Complied with. Please refer Assurance Report of the External Auditor on page 124.															
(d)	Details of Directors, including names, fitness and propriety, transactions with the Bank and the total fees/remuneration paid by the Bank	Complied with. Please refer to pages 12, 13 and 109 and Note 55.6 to the financial statements.															
(e)	Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital	<p>Complied with.</p> <table border="1" data-bbox="776 598 1461 844"> <thead> <tr> <th colspan="3" data-bbox="776 598 1461 639">31 December 2016</th> </tr> <tr> <th data-bbox="776 639 1218 680">Category of related party</th> <th data-bbox="1218 639 1380 680">LKR 000</th> <th data-bbox="1380 639 1461 680">%</th> </tr> </thead> <tbody> <tr> <td data-bbox="776 680 1218 752">Key Management Personnel and close family members</td> <td data-bbox="1218 680 1380 752">35,393</td> <td data-bbox="1380 680 1461 752">0.1</td> </tr> <tr> <td data-bbox="776 752 1218 793">Total net accommodation</td> <td data-bbox="1218 752 1380 793">35,393</td> <td data-bbox="1380 752 1461 793">0.1</td> </tr> <tr> <td data-bbox="776 793 1218 844">Regulatory capital – Solo basis</td> <td data-bbox="1218 793 1380 844">36,340,233</td> <td data-bbox="1380 793 1461 844"></td> </tr> </tbody> </table> <p data-bbox="776 864 1461 946">The total net accommodation was 0.1% of the Bank's regulatory capital on solo basis. Maximum limit determined by Directors is 25% of the Bank's regulatory capital on solo basis.</p>	31 December 2016			Category of related party	LKR 000	%	Key Management Personnel and close family members	35,393	0.1	Total net accommodation	35,393	0.1	Regulatory capital – Solo basis	36,340,233	
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(f)	The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.	<p>Complied with.</p> <p>The aggregate value of compensation and transactions with the Bank by Key Management Personnel as defined by LKAS 24 for financial reporting purposes are given in Note 55.6 to the financial statements.</p> <p>Further, in addition to the above, compensation, total deposits and investments made and accommodation obtained as at 31 December 2016 by the other Key Management Personnel (officers performing executive functions referred to in Banking Act Determination No. 3 of 2010) amounted to LKR 97.44 million, LKR 109.52 million and LKR 26.13 million respectively.</p>															
(g)	All findings of the 'Factual Findings Report' of the External Auditor to be incorporated in this Report.	Complied with.															
(h)	A Report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance.	Complied with. See Annual Report of the Board of Directors.															
(i)	A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	The Monetary Board has not required any disclosure to be made.															

### Independent Assurance

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