

Dear Stakeholders,

Corporate Governance can be defined as the process used to direct and manage the business and affairs of the Bank with the objective of balancing the attainment of corporate objectives, the alignment of corporate behaviours with the expectations of society whilst being accountable to its shareholders.

At the Bank, we believe that setting the 'tone from the top' is key to building an effective culture of governance across the Group. The Group has maintained its reputation as a stable and professionally run financial services group over the past 35 years. On its journey from a development financial institution to a financial services group offering a vast array of financial services from commercial banking, retail banking, project financing, investment banking, advisory services, wealth management and stock brokering, the Group effectively managed the constant changes and challenges faced by it through continuous strengthening of processes and governance practices.

Our governing principles are based on our core values of Integrity, Care, Passion, Teamwork and Service which are shared and willingly embraced by our employees. Our expectations of our employees are further articulated in the Bank's Code of Conduct which is reviewed and updated periodically to reflect both best practices and industry norms.

It is said a successful organization requires Governance and Leadership to work hand in hand. If you have leadership without governance, you risk tyranny and fraud. If you have governance without leadership, you risk atrophy, bureaucracy and indifference.

Therefore in addition to promulgating strong governance, compliance and risk management practices, the Directors are conscious that strategy formulation, effective execution of strategy and leadership development are key responsibilities of the Board. In this regard, a great deal of emphasis is placed on ensuring that the Bank remains focused on both the compliance and performance aspects of business in order to add value to all its stakeholders.

We believe that at the Bank our balance of good governance with effective leadership have paid dividends in 2014.

The Board closely monitors progress of the implementation of the strategic plan and budgets approved by it through

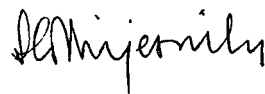
a formal quarterly review of performance against strategy, financial budgets and key result areas.

We wish to reinforce the fact that the Directors bring a wealth of knowledge and experience that complement the Group's strategy and future direction and we practice a culture of openness, effective debate and contribution from all members of the Board. The Board values the need for diversity, not only with regard to qualifications, gender and knowledge but also with diversity and independence of thought. The Board values the willingness to challenge one another, willingness to question one another but in a highly mutual and collaborative manner while marching in the same direction.

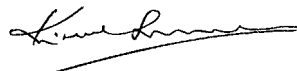
This report covers the 'Factual Findings Report' submitted by External Auditors in relation to compliance with the Corporate Governance Directions issued by the Central Bank of Sri Lanka (CBSL).

As required by the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission (SEC) of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka in 2013 (the Code), We hereby confirm that, we are not aware of any material violations of any of the provisions of the Code of Business Conduct and Ethics (as embodied in the Internal Code of Corporate Governance applicable to Directors and Key Management Personnel of the Bank as the case may be) by any Director or Key Management Personnel of the Bank.

This report will highlight the governance framework and the activities carried out during the year to ensure the maintenance of the highest standards of corporate governance and compliance within the Bank.



Sunil G Wijesinha
Chairman



Kimarli Fernando
Chairperson
Corporate Governance and Legal Affairs Committee

13 February 2015

The following developments in 2014 enhanced the Groups' corporate governance framework:

- Established a Related Party Transactions Review Board Sub-Committee constituted by a majority of Independent Directors of the Board and developed a comprehensive Board approved Related Party Policy detailing the process of identifying, approving, monitoring and reporting transactions with related parties of the Bank under CBSL regulations, SEC regulations and LKAS 24.
- Reviewed and updated the Business Continuity Plan (BCP) of the Bank to ensure readiness and identify any gaps that need to be addressed.
- Launched an E-Learning module which was mandatory for all staff across the Bank covering key aspects of the Compliance Policy and Code of Conduct requirements to ensure staff are trained and made aware of regulatory requirements and the Bank's internal policies on an ongoing basis.
- Relunched the Bank's core values and introduced the "NDB Spirit Achievers Programme", an award scheme designed to recognize employees who demonstrate the true spirit of the Bank through the Bank's five core values. The NDB Spirit Achievers Programme seeks to reward those people who bring to life the Bank's core values and actively demonstrate that our values are at the very heart of our business through their actions, behaviour, responses in times of difficulty and their engagement with clients and colleagues and wider communities thereby reinforcing the Bank's commitment to good corporate governance.
- Reinforced our commitment to adopt best corporate governance practices by formally reviewing and updating the charters of all Board Sub-Committees.
- Streamlined and broadened the scope of the Directors annual declaration and compliance statement.
- Enhanced resources and scope of the annual compliance programme to ensure compliance with applicable laws and regulations and that any non-compliances/deviations are escalated on a timely basis.
- NDB Capital Holdings PLC (de-listed), NDB Investment Bank Ltd., NDB Securities (Private) Ltd., NDB Wealth Management Ltd. and NDB Bangladesh Ltd. adopted revised and updated compliance policies and codes of conduct thereby strengthening our corporate governance framework across the Group.

Corporate Governance Framework

The Board of Directors is the highest governance body of the Bank. The Board is committed to achieving long-term success by being the best bank for customers and generating stable and sustainable returns for shareholders.

The Board is collectively responsible for upholding and ensuring the highest standards of corporate governance and inculcating ethics and integrity across the Bank.

Ensuring compliance with the provisions of the Banking Act Direction No. 11 of 2007 (as amended) issued by the Monetary Board of the Central Bank of Sri Lanka, the Bank's Internal Code of Corporate Governance and 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 is fundamental to the Board's corporate governance strategy.

The Role of the Board

The Board directs the Bank in the conduct of its affairs and ensures that corporate responsibility and ethical standards underline the conduct of the Groups' business. It bears ultimate responsibility for the Bank's governance, strategy, risk management and financial performance.

The Board believes that it is important to have a corporate culture instilled with the principles of corporate governance and to this end, seeks to ensure that a robust corporate governance framework is in place to promote transparency, fairness and accountability throughout the Bank.

The Board is responsible to stakeholders for creating and delivering sustainable shareholder value through the management of the Bank's businesses and

therefore, determines the strategic objectives and policies of the Bank to deliver such long-term value, providing overall strategic direction within a framework of rewards, incentives and controls.

The Board provides effective leadership within a framework of prudent and effective controls for the operations of the Bank. It has implemented appropriate policies on internal control and reviewed the adequacy and integrity of such systems and seek regular assurance from management that the system is functioning effectively.

There is a formal schedule of matters which is reserved for approval by the Board. This includes the approval of the Groups' strategy, approval of risk appetite, major changes to the Bank's corporate structure, approval of annual budgets, the Board structure, size and composition, including appointments and removals and such other matters specifically reserved for the approval of the Board under law and regulation.

Board Composition and Independence

The Board comprised of ten Directors as at end December 2014, of whom, nine including the Chairman are Non-Executive Directors. Of the nine Non-Executive

Directors, five are Independent Directors. The Chief Executive Officer of the Bank, functions as the only Executive Director on the Board.

There is a strong independent element on the Board, with the Independent Directors making up more than two-thirds of the Board. The number of Independent Directors exceeds the requirements set out in the Internal Code of Corporate Governance, the SEC Code and Banking Regulations. This ensures that the Board is able to exercise objective judgment on corporate affairs independently.

The Board is of an appropriate size and functions effectively as it comprises of individuals not only with the right skills and expertise, but also with the personal qualities required to be effective stewards of the business. The Directors provide the Bank with the knowledge, mix of skills and experience required. The Board is aware of the other commitments of its Directors and is satisfied that all Directors allocate sufficient time to enable them to discharge their responsibilities effectively.

Structure and composition of the Board as at 31 December 2014 and the attendance of each Director is set out in the table below:

Name of Director	Areas of Expertise	Independent/ Non-Independent under CBSL Direction	Independent/ Non-Independent under SEC/ICASL Code	No. of Board Meetings held in 2014	No. of Meetings Attended
Sunil G Wijesinha (Chairman)	Engineering, Finance & Management	Independent	Independent	12	12
Ashok K Pathirage (Deputy Chairman)	Management, IT & Business Skills	Non-Independent	Non-Independent	12	12
Rajendra Theagarajah (CEO)	Banking, Finance & Management	Non-Independent	Non-Independent	12	12
Trevine Jayasekara	Banking & Finance	Independent	Independent	12	11
Sarath Wikramanayake	Finance, Insurance & General Management	Non-Independent	Non-Independent	12	12
Kimarli Fernando	Law, Banking & Management	Independent	Independent	12	11
Anura Siriwardena	Management	Independent	Independent	12	12
Chandra Ekanayake	Finance, Public Policy & Management	Non-Independent	Independent	12	11
Sujeewa Rajapakse	Finance & Management	Non-Independent	Non-Independent	12	12
Indrani Sugathadasa	Insurance, Capital Markets, Human Resources & Management	Independent	Independent	12	12

The Role of the Chairman and the CEO

The Bank’s leadership model espouses a clear division of responsibilities between the Chairman and the CEO, which ensures an appropriate balance of power, increased accountability and enhanced independence in decision-making. The Chairman and the CEO are not related.

The Chairman provides clear and distinct leadership to the Board with respect to the Groups’ strategic growth. The Chairman maintains open lines of communication with senior management, and acts as a sounding board on strategic and operational matters.

The Chairman oversees the setting of the agenda of Board meetings in consultation with the CEO to ensure that there is sufficient information and time to address all agenda items, and promotes open and frank discussions by all Directors at Board meetings. As the Chairman also sits on a majority of the Board committees, he plays an important role in managing the business of the Board and supervising the activities of such Board committees.

The CEO oversees the execution of the Bank’s strategy and is responsible for managing its day-to-day operations.

The Chairman encourages and facilitates constructive dialogue between shareholders, Board members and management at shareholders meetings.

Delegation by the Board

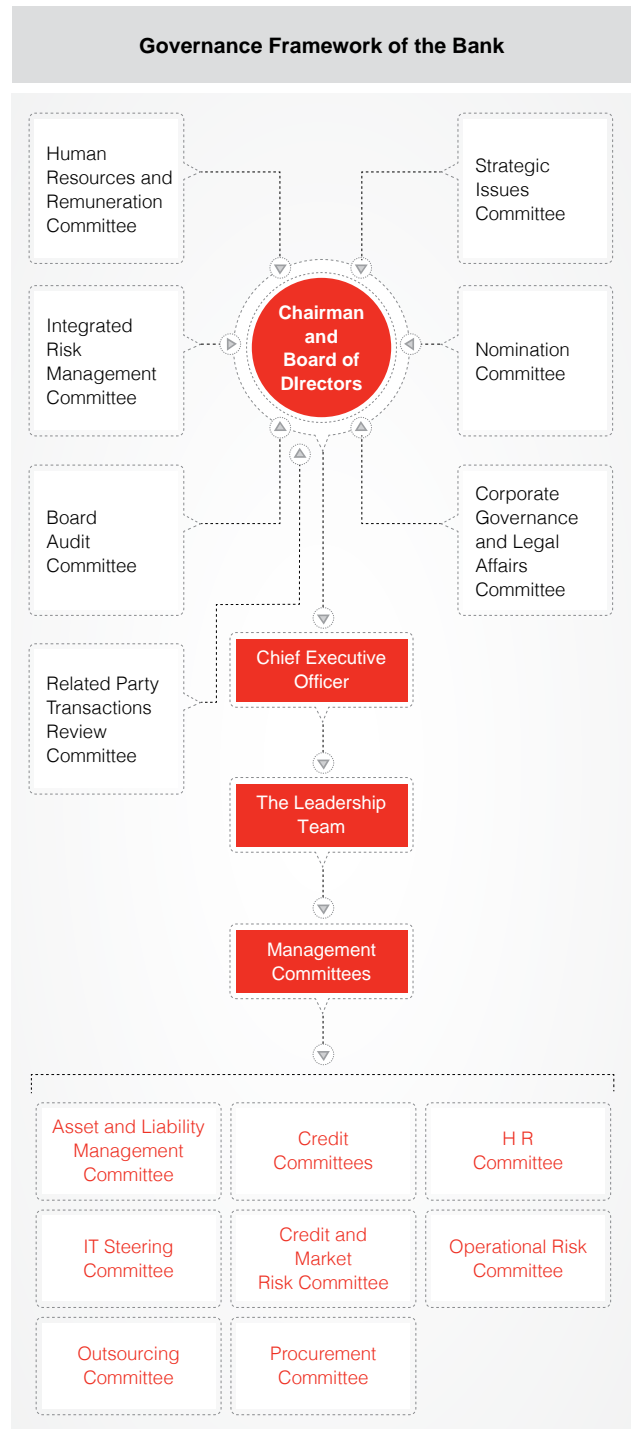
To enable the Board to discharge its stewardship and fiduciary responsibilities effectively, it delegates authority to Board committees to oversee specific responsibilities based on clearly defined terms of reference.

It is to be noted that the Board does not delegate any matters to a Board committee, the CEO, or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.

The Board has delegated its authority in operational areas to the senior management led by the CEO, within clearly defined limits. The management works through a number of internal committees as shown in the diagram on this page.

The Board reviews the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.

The Governance Framework of the Bank is broadly depicted below:



Information, Induction and Professional Development

On joining the Board, all Directors receive an induction pack which contains a range of documents including the Bank's Articles of Association, the Internal Code of Corporate Governance, a summary of Director's duties, Board calendar for the year, organization and management structure charts, annual goals and targets of Directors, minutes of the past three meetings, charters of Board committees and names and contact details of Key Management Personnel. These ensure that Non-Executive Directors have the knowledge and understanding of the business to enable them to commence contributing effectively at Board meetings.

A comprehensive and tailored induction is arranged as part of the on-boarding programme for every new Director to familiarize such Director with the discharge of duties and to introduce the Groups' businesses, governance practices and arrangements, amongst others.

All Directors are encouraged to attend the Directors Symposium organized by Central Bank of Sri Lanka each year and such other seminars and workshops that are held throughout the year, at the cost of the Bank.

The Board recognizes the value of providing Directors with training as and when required, by external professionals and management, to keep them abreast of legal, regulatory, corporate governance and economic developments which are relevant to the businesses and operations of the Group. To this end, adequate time is allocated during Board meetings to inform and update the Directors on latest developments locally and internationally.

Further, the Chairman and Directors propose topics for discussion/training at either Board or committee meetings which requests are facilitated through the Chairman.

In 2014, the topics discussed and training opportunities afforded to Directors ranged from leadership programmes, labour law, Board room dynamics, corporate governance, gamification, digital banking to current economic trends. All Directors receive accurate, timely, clear and pertinent information, in particular about the Bank's performance, to enable the Board to take sound decisions, monitor effectively and provide advice to promote the success of the Bank.

Independent professional advice is available, on request, to all Directors at the expense of the Bank.

The Bank's Internal Code of Corporate Governance further makes provision for the Chairman and Deputy Chairman to review the business awareness and development needs of each Director arising from the self-evaluation process and provide them with relevant training opportunities.

Managing Conflicts of Interest

Each Board member has a responsibility to determine whether he/she has a potential or actual conflict of interest arising from external associations, interest in material matters and personal relationships which may influence his/her judgment. If a Director of the Bank has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, such matters are disclosed and discussed at Board meetings, where Independent Non-Executive Directors who have no material interest in the transaction, are present.

Further, Directors abstain from voting on any Board resolution in relation to which such Directors or any of their close relation/s or a concern in which such Directors or their close relations have substantial interests, and/or are interested in. Further, their votes are not counted in the quorum for the relevant agenda item at the Board meeting.

Performance Evaluation

In accordance with the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka, the Board annually assesses the effectiveness of the Directors' own governance practices and to that end the Board has adopted a scheme of self-assessment to be undertaken by each Director annually. The evaluation covers a range of issues including Board composition, timeliness and the quality of information provided to the Board. As part of the assessment for 2014, each Director completed a Board self-assessment questionnaire and returned it to the Chairman.

The Chairman and Deputy Chairman review the responses of the Directors to the self-assessment questionnaire and report to the Board on any identified weaknesses and lapses and recommend an action plan for approval to the Board.

In addition, commencing from 2014, all Board committees will carry out a self-evaluation process to determine the effectiveness of their performance and areas of improvement.

Code of Conduct

The Bank's Compliance Policy and Code of Conduct governing all employees is an integral part of the governance framework of the Bank. The said Code provides a general outline of the standards of professional and ethical conduct that all employees of the Bank are expected to conform to including areas such as general conduct and competence, confidentiality and misuse of material confidential information, managing conflicts of interest situations and insider dealing provisions. The Bank's Compliance Policy also has a bribery and anti-discrimination policy. The Bank has zero tolerance towards bribery, including giving or receiving bribes and making of facilitation payments. Further, the Bank applies an equitable standard of fair treatment to all of its employees. It also

conducts its business dealings in a non-discriminatory manner and employs persons of varied backgrounds based upon their qualifications, without regard to age, gender, national origin, marital status, race, religion, disability etc.

Engagement with Stakeholders

The Chairman together with the CEO ensures effective communication with shareholders and the members of the Board are apprised of the views of investors and other key stakeholders. The Bank's engagement with shareholders has been disclosed in detail in the tables below. Further, individual shareholders have access to the Company Secretary and can raise matters relating to their shareholdings and the business of the Bank at any time.

The Bank has in place an effective Disclosure Policy that is dedicated to provide all its stakeholders with timely, accurate and relevant information which would enable stakeholders to make an accurate assessment of the Bank's activities, performance and risk profile. At the same time, the Bank ensures that confidentiality is strictly maintained in respect of material confidential information which is not publicly available, of the Bank's as well as its customers and stakeholders.

In order to encourage engagement with the Bank's Customers and stakeholders the Bank has in place a Customer Charter, a formal Complaint Handling Procedure supported by an effective Management Information System that has been developed internally by our IT Department and a formal Communication Policy.

Board Committees

Certain functions of the Board have been delegated to Board committees, enabling Directors forming part of respective committees to focus on their designated areas of responsibility and impart knowledge in areas where they have the greatest expertise. This permits the Board to provide effective oversight and leadership focus on key issues and prioritize its time and resources.

Appointment of the members to Board committees is decided by the Board. The terms of reference for each Board committee stipulate the responsibilities of the committee, quorum and voting requirements, as well as qualifications for Board committee membership. Each Board committee has direct access to management. Therefore, this framework provides the Board with a structured way to collaborate with management on specific issues. Changes to the terms of reference for any Board committee require Board approval.

The Board has appointed seven Board committees - viz, the Board Audit Committee, Integrated Risk Management Committee, Human Resources and Remuneration Committee, Nomination Committee, Strategic Issues Committee, Corporate Governance and Legal Affairs Committee and the newly constituted Related Party Transactions Review Committee.

Notwithstanding the functioning of the Board committees, the Board of Directors is collectively responsible for the decisions taken by these Board committees. The Board is kept up to date on the activities of the committees and minutes of each

committee are placed at the next Board meeting and the recommendations, and any matters of concern, are taken up for decision/discussion by the Board.

The committees, the structure and composition, frequency of meetings, attendance and other details are provided in each of the Board committee reports found on pages 166 to 175.

The extent of the adherence by these committees to the Corporate Governance Directions issued by CBSL and 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 is given in subsequent sections of this Report.

The Bank's compliance with the Banking Act Direction No. 11 of 2007 (as amended) on Corporate Governance issued by the Monetary Board of the Central Bank of Sri Lanka is detailed below with explanatory comments as follows:

Rule No.	Rule	Compliance Status
3 (1)	Responsibilities of the Board	
3 (1) (i)	<p>The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following:</p> <p>(a) Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank;</p>	<p>Complied.</p> <p>The Bank's strategic objectives and corporate values have been approved by the Board.</p> <p>The objectives, vision, mission statements and corporate values are communicated to all members of the staff at communications meetings, at various structured forums, via e-mails and through the Bank's intranet 'NDB Cloud' and have been displayed at head office and all branches of the Bank.</p>
	<p>(b) Approve the overall business strategy of the Bank, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years;</p>	<p>Complied.</p> <p>The Board approved an overall five year business strategy containing measurable goals for the period 2014-2018 after detailed discussions had with the senior management of the Bank in October 2013.</p> <p>Risk management policies and procedures have been approved as required by the Direction.</p>
	<p>(c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently;</p>	<p>Complied.</p> <p>The Board is responsible for the overall risk framework of the Bank. The Board constituted the Integrated Risk Management Committee (IRMC) and tasked the IRMC to define the risk appetite of the Bank, identify key risks, set governance structures and implement systems to measure, monitor and manage principal risks. The following reports provide further insights in this regard.</p> <ul style="list-style-type: none"> - Risk Management Report on pages 176 to 222. - The Board Risk Management Committee Report on pages 171 to 172.
	<p>(d) Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;</p>	<p>Complied.</p> <p>The Bank has in place a Board approved Communication Policy which was revised and updated in 2014 aimed at encouraging effective communications with all stakeholders including staff, customers, creditors, shareholders, partners, general public and regulators which is communicated to all members of staff through the 'NDB Cloud'.</p>

Rule No.	Rule	Compliance Status
	(e) Review the adequacy and the integrity of the Bank's internal control systems and management information systems;	<p>Complied.</p> <p>The Board reviews the adequacy and integrity of the Bank's internal control system by way of internal audit reports submitted to the Board through the Board Audit Committee on a quarterly basis.</p> <p>The Bank has in place a Management Information Systems Policy which was approved by the Board. The implementation of the policy and the integrity and effectiveness of the Bank's Management Information Systems were reviewed by the Internal Audit Department and discussed with the Board Audit Committee in October 2014. Thereafter the Board at its meeting held in February 2015 reviewed the adequacy of the Bank's Management Information Systems based on the monthly MIS pack submitted to the Board each month and the integrity of the Management Information Systems based on the process audit carried out by Internal Audit Department.</p>
	(f) Identify and designate Key Management Personnel, as defined in the International Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	<p>Complied.</p> <p>Key Management Personnel of the Bank have been identified by the Board having considered the Banking Act determination No. 3 of 2010 on officers performing executive functions of the Bank, the International Accounting Standards and the Sri Lanka Accounting Standards and presently include the following:</p> <ol style="list-style-type: none"> 1. Board of Directors 2. The Leadership Team 3. Company Secretary 4. Compliance Officer 5. Employees holding Director positions in subsidiaries
	(g) Define the areas of authority and key responsibilities for the Board Directors themselves and for the Key Management Personnel;	<p>Complied.</p> <p>Areas of authority and key responsibilities of the Directors have been set out in the Bank's Internal Code of Corporate Governance.</p> <p>Areas of authority and key responsibilities of Key Management Personnel are defined in the Job Descriptions and selection criteria which were reviewed at the Nomination Committee and noted by the Board.</p> <p>Further, delegations of authority levels have been clearly defined by the Board for Key Management Personnel.</p>

Rule No.	Rule	Compliance Status
	(h) Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy;	<p>Complied.</p> <p>Oversight by the Board over Key Management Personnel takes place at Board meetings and through Board Committees. Key Management Personnel make regular presentations to the Board on matters under their purview and are also called in by the Board to explain matters relating to their areas. Key Management Personnel responsible for the areas of Risk, Internal Control and Compliance attend every meeting of the Integrated Risk Management Committee and the Board Audit Committee.</p>
	(i) Periodically assess the effectiveness of the Board Directors' own governance practices, including: (i) the selection, nomination and election of Directors and Key Management Personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;	<p>Complied.</p> <p>The effectiveness of the Board's governance practices are reviewed periodically. Please refer page 113 of this Report for details on the assessment process.</p> <p>The Board has in place a Board approved 'Procedure for Selection and Appointment of Directors' which the Nomination Committee (NC) follows with regard to the selection, nomination and election of Directors. The Human Resources and Remuneration Committee and the NC follow a Board approved policy and process with regard to the selection and appointment of Key Management Personnel.</p> <p>The process adopted for the management of Conflicts of Interest is detailed on page 112 of this Report. Directors' interests are disclosed to the Board and Directors who have a particular interest abstain from voting and are not counted in the quorum.</p> <p>The Board appraises its own performance by responding to a self-assessment questionnaire by each Director. The responses are collected by the Company Secretary and submitted to the Chairman and Deputy Chairman for their review who then discuss areas of weaknesses and recommend changes where necessary at detailed discussions at a Board meeting pursuant to the self-evaluation. The process was followed in 2013 and is ongoing for the year 2014.</p>

Rule No.	Rule	Compliance Status
	(j) Ensure that the Bank has an appropriate succession plan for Key Management Personnel;	During 2014, the Bank announced its intention to enter into merger discussions with DFCC. During the merger implementation it was expected that a new organizational chart for the destination bank together with a succession plan would be formalized by the new Board and hence, the Board deliberated and deferred the finalization of an appropriate succession plan for Key Management Personnel. An interim succession plan was however approved by the Nomination Committee and Board.
	(k) Meet regularly, on a needs basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives;	Complied. Key Management Personnel regularly present or are called in for discussions at the meetings of the Board and its sub-committees on policy and other matters relating to their areas. Progress towards corporate objectives is a regular agenda item for the Board and Key Management Personnel are regularly involved in Board level discussions on the same.
	(l) Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators;	Complied. Directors are briefed about developments in the regulatory environment at Board meetings and are provided with a quarterly update of all directions issued by the Central Bank of Sri Lanka in order to ensure that the Board is updated regularly to facilitate the effective discharge of their responsibilities. In addition, the Directors, the Chief Executive Officer and Key Management Personnel of the Bank maintain a dialogue with the regulators on an ongoing basis.
	(m) Exercise due diligence in the hiring and oversight of External Auditors.	Complied. The Board Audit Committee carries out the necessary due diligence regarding the hiring of the External Auditor and makes recommendations to the Board. Oversight of the External Auditor is carried out by the Board Audit Committee and the Board is briefed of any concerns in this regard if the necessity arises.
3 (1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3 (5) of these Directions.	Complied. The Board has appointed the Chairman and the Chief Executive Officer (CEO) and has approved their functions. There is a clear division of responsibilities between the Chairman and the CEO maintaining the balance of power between the two roles. Functions and responsibilities of the Chairman and CEO are included in the Board approved Internal Code of Corporate Governance in line with this Direction.

Rule No.	Rule	Compliance Status
3 (1) (iii)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of Directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	<p>Complied.</p> <p>There have been 12 routine Board meetings during 2014.</p> <p>The attendance of Directors for Board and Committee meetings is set out in the table on page 110.</p> <p>17 Circular Resolutions were passed during the year 2014. Circulation of Board papers to obtain Board's consent is minimized and resorted to only when absolutely necessary. These decisions are in any event tabled at the immediately succeeding Board meeting.</p>
3 (1) (iv)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	<p>Complied.</p> <p>The Internal Code of Corporate Governance includes a provision to indicate that all Directors are entitled to include such matters and proposals in the agenda for Board meetings. In practice all Directors are able to include matters and proposals in the agenda for regular Board meetings and they can present their proposals at the meetings. During the year 2014 Directors have requested for discussions on matters and same have been minuted.</p>
3 (1) (v)	The Board procedures shall ensure that notice of at least 7 days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice may be given.	<p>Complied.</p> <p>Notice of meetings, the agenda and Board papers related to each Board meeting is circulated to all Directors at least 7 days in advance of the Board meeting. Therefore, adequate notice is given to Directors providing them with an opportunity to attend.</p>
3 (1) (vi)	The Board procedures shall ensure that a Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the Directors' meetings through an alternate Director shall, however, be acceptable as attendance.	<p>Complied.</p> <p>The Company Secretary monitors the attendance register to ensure compliance. All Directors have attended at least two thirds (2/3) of the meetings held during 2014 and no Director has been absent from three consecutive meetings during 2014.</p>
3 (1) (vii)	The Board shall appoint a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	<p>Complied.</p> <p>The Board has appointed a Company Secretary who is an Attorney-at-Law and who satisfies the provisions of Section 43 of the Banking Act. She is responsible to the Board for ensuring that Board procedures are followed and that applicable laws, rules and regulations are complied with.</p>

Rule No.	Rule	Compliance Status
3 (1) (viii)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	<p>Complied</p> <p>All Directors have access to the advice and services of the Company Secretary. For the year 2014, the Company Secretary has provided assistance to the Directors when requested. The Bank's Internal Code of Corporate Governance also includes this provision.</p>
3 (1) (ix)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	<p>Complied.</p> <p>The Company Secretary maintains detailed Board minutes and circulates minutes to all Directors. The minutes are approved at the subsequent Board meetings. The Bank's Internal Code of Corporate Governance also provides that minutes are open for inspection at any reasonable time, on reasonable notice by any Director. Additionally, copies have been provided of previous meetings to Directors when requested.</p>
3 (1) (x)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board meetings. Therefore, the minutes of a Board meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.	<p>Complied.</p> <p>The minutes contain adequate details appropriate to the matters dealt with. The minutes are read together with the corresponding Board papers, which supplement the information in the minutes. All matters required to be minuted in terms of 3 (1) (x) (a) - (f) are recorded in minutes.</p>

Rule No.	Rule	Compliance Status
3 (1) (xi)	There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/their duties to the Bank.	Complied. Independent professional advice is available, on request, to all Directors at the expense of the Bank. The Bank's Internal Code of Corporate Governance has put in place a procedure which enables independent professional advice to be obtained jointly or severally by a Director or Directors where such advice is necessary to enable the fulfilment of the obligations imposed on a member of the Board. The Directors have obtained professional advice during the year.
3 (1) (xii)	Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or related parties. If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter should be dealt with at a Board meeting, where Independent Non-Executive Directors [refer to Direction 3 (2) (iv) of these Directions] who have no material interest in the transaction, are present. Further, a Director shall abstain from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Complied. The Directors are conscious of their obligation to deal with situations where there is a conflict of interest in accordance with the Articles of Association of the Bank and the Corporate Governance Direction No. 11 of 2007 (as amended). The Bank's Internal Code of Corporate Governance has put in place a procedure to ensure that Directors avoid conflicts of interest, or the appearance of conflicts of interest. Accordingly, any interests are disclosed at the Board meeting and duly minuted. Directors abstain from participating in the discussions, voicing their opinion or approving in situations where there is a conflict of interest. Additionally, such Director is not counted in the quorum in such instances.
3 (1) (xiii)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority.	Complied. A formal schedule of matters has been specifically reserved for the decision of the Board and detailed in the Bank's Internal Code of Corporate Governance.
3 (1) (xiv)	The Board shall, if it considers that the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action.	The Bank is aware of the requirement but the situation has not arisen within the year. A Solvency Statement is prepared quarterly and tabled at the IRMC and the Board.
3 (1) (xv)	The Board shall ensure that the Bank is capitalized at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	Complied. Monthly and quarterly compliance reports have been submitted to the Board which contains the Capital Adequacy Ratio (CAR). The Bank is fully-compliant with the Capital Adequacy requirements stipulated by the Central Bank of Sri Lanka.

Rule No.	Rule	Compliance Status
3 (1) (xvi)	The Board shall publish in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	This requirement is complied with by this Report.
3 (1) (xvii)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	Complied. The Board has in place an annual scheme of self-assessment which is undertaken by each Director annually and records are maintained with the Company Secretary. The Chairman and Deputy Chairman discuss relevant matters, with a specific Director (if required) and the entire Board.
3 (2)	The Board's Composition	
3 (2) (i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	Complied. The composition as required under this Direction was met during the year 2014. The Bank's Board comprised of 10 Directors during the year 2014.
3 (2) (ii)	The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years.	Complied. All Directors comply with this requirement.
3 (2) (iii)	An employee of a Bank may be appointed, elected or nominated as a Director of the Bank (hereinafter referred to as an 'Executive Director') provided that the number of Executive Directors shall not exceed one-third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank.	Complied. The Chief Executive Officer is the only employee on the Board. Accordingly, the number of Executive Directors do not exceed one-third of the Directors on the Board.

Rule No.	Rule	Compliance Status
3 (2) (iv)	<p>The Board shall have at least three Independent Non-Executive Directors or one-third of the total number of Directors, which ever is higher. This sub-direction shall be applicable from 1 January 2010 onwards. A Non-Executive Director shall not be considered independent if he/she:</p> <p>(a) has direct and indirect shareholdings of more than 1% of the Bank;</p> <p>(b) currently has or had during the period of two years immediately preceding his/her appointment as Director, any business transactions with the Bank as described in Direction 3 (7) hereof, exceeding 10% of the regulatory capital of the Bank;</p> <p>(c) has been employed by the Bank during the two-year period immediately preceding the appointment as Director;</p> <p>(d) has a close relation who is a Director or Chief Executive Officer or a member of Key Management Personnel or a material shareholder of the Bank or another Bank. For this purpose, a 'close relation' shall mean the spouse or a financially dependant child;</p> <p>(e) represents a specific stakeholder of the Bank;</p> <p>(f) is an employee or a Director or a material shareholder in a company or business organization:</p> <p>i. which currently has a transaction with the Bank as defined in Direction 3 (7) of these Directions, exceeding 10% of the regulatory capital of the Bank or</p> <p>ii. in which any of the other Directors of the Bank are employed or are Directors or are material shareholders; or</p> <p>iii. in which any of the other Directors of the Bank have a transaction as defined in Direction 3 (7) of these Directions, exceeding 10% of regulatory capital in the Bank.</p>	<p>Complied.</p> <p>There are 9 Non-Executive Directors on the Board as at 31 December 2014. Of them 5 are Independent Non-Executive Directors. Non-Executive Directors are detailed on page 110 of this Report. Accordingly, the number of Independent Non-Executive Directors exceeds one-third of the total number of Directors on the Board.</p> <p>The Board assesses the independence or non-independence of each Non-Executive Director based on a declaration made by each Director to the Company Secretary each year.</p>

Rule No.	Rule	Compliance Status
3 (2) (v)	In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that applies to the Independent Director.	<p>Complied.</p> <p>No formal alternate Directors have been appointed. Directors appoint alternate Directors within the Rules and Articles of the Bank as and when required for a particular meeting and the persons so appointed during the year 2014 have met the criteria to ensure that the independent profile of the respective Director is met.</p>
3 (2) (vi)	Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	<p>Complied.</p> <p>The Non-Executive Directors of the Bank are persons with credible track records and have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources. Please refer the profiles of the Non-Executive Directors detailed on pages 102 to 103 of this Report. The Bank has a documented Board approved process in place for appointing Directors.</p>
3 (2) (vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one-half (1/2) of the number of Directors present at such meeting are Non-Executive Directors.	<p>Complied.</p> <p>Attendance of Directors is monitored by the Company Secretary and is strictly observed. It was noted that more than one-half (1/2) of Directors present at each meeting of the Board convened in the year 2014 were Non-Executive Directors.</p>
3 (2) (viii)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The Bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual corporate governance report.	<p>Complied.</p> <p>The Independent Non-Executive Directors are expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors are given on page 110 of this Report.</p>
3 (2) (ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	<p>Complied.</p> <p>The Board has established a Nomination Committee in conformity with the requirements of this Direction. All new appointments and re-election of Directors are on the recommendations of the Nomination Committee. Central Bank approval is obtained in terms of the Banking Act for the appointment of a new Director. The Bank has a documented Board approved process in place for appointing Directors.</p>

Rule No.	Rule	Compliance Status
3 (2) (x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first General Meeting after their appointment.	<p>Complied.</p> <p>Appointment to fill a casual vacancy is made by the Board on the recommendations of the Nomination Committee. A person so appointed would stand for re-election at the next Annual General Meeting in accordance with the Articles of Association.</p> <p>No Directors were appointed in 2014 to fill casual vacancies.</p>
3 (2) (xi)	<p>If a Director resigns or is removed from office, the Board shall: (a) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and</p> <p>(b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.</p>	<p>Complied.</p> <p>Resignations of Directors and the reasons are informed to the regulatory authorities and shareholders as per CSE requirements together with a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders. No Directors resigned during 2014.</p>
3 (2) (xii)	A Director or an employee of a bank shall not be appointed, elected or nominated as a Director of another bank except where such bank is a subsidiary company or an associate company of the first mentioned bank.	<p>Complied.</p> <p>The Bank's Compliance Policy and Code of Conduct (Chapter 7) states that employees cannot engage in any other trade/business or be a Director etc. without the specific written approval of the CEO.</p> <p>Further, the CBSL regulatory framework (declaration and affidavit required to be submitted by all Directors annually to CBSL before the AGM) has restrictions in place for Directors to be appointed as Directors of another bank.</p> <p>None of the Directors are either employees or Directors of other banks.</p>
3 (3)	Criteria to Assess the Fitness and Propriety of Directors	
3 (3) (i)	The age of a person who serves as Director shall not exceed 70 years.	<p>Complied.</p> <p>There are no Directors who are over 70 years of age.</p>
3 (3) (ii)	A person shall not hold office as a Director of more than 20 companies/entities/institutions inclusive of Subsidiaries or Associate companies of the Bank.	<p>Complied.</p> <p>No Director holds directorships of more than 20 companies.</p>

Rule No.	Rule	Compliance Status
3 (4)	Management Function Delegated by the Board	
3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	Complied. The Board periodically reviews and approves the delegation arrangements in place and ensures that the extent of delegation address the needs of the Bank whilst enabling the Board to discharge their functions effectively.
3 (4) (ii)	The Board shall not delegate any matters to a Board committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Delegation papers are prepared in detail and presented to the Board. Terms of Reference of each of the Board Committees which are incorporated in the respective charters of each Board Committee are approved by the Board.
3 (4) (iii)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	In addition, it is to be noted that by delegating, the Board does not lose the authority to deal with matters that have been delegated when necessary.
3 (5)	The Chairman and Chief Executive Officer	
3 (5) (i)	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	Complied. The roles of Chairman and Chief Executive Officer of the Bank are held by separate individuals. In addition, there is a clear division of responsibilities between the Chairman and the Chief Executive Officer thereby maintaining the balance of power between the two roles.
3 (5) (ii)	The Chairman shall be a Non-Executive Director and preferably an Independent Director as well. In the case where the Chairman is not an Independent Director, the Board shall designate an Independent Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the Bank's Annual Report.	Complied. The Chairman is a Non-Executive, Independent Director and therefore, the appointment of an Independent Director as the Senior Director does not arise.
3 (5) (iii)	The Board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied. There is a process in place which requires all Directors to declare to Board any relationship/s they may have with the Chairman, the CEO or among members of the Board. Based on the above declarations the Board can state that no relationship/s (including financial, business, family or other material/relevant relationships) exist between the Chairman and Chief Executive Officer and among the other members of the Board other than Directors who sit together on some of the Boards of the Bank's subsidiaries.

Rule No.	Rule	Compliance Status
3 (5) (iv)	The Chairman shall: (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner.	<p>Complied.</p> <p>The Chairman is responsible for the running of the Board, preserving order and ensuring that proceedings at meetings are conducted in a proper manner. Further, he ascertains the views of the Directors on the issues being discussed before decisions are taken. The self-evaluation process carried out by the members of the Board each year assists the Chairman in effectively carrying out his responsibilities by providing him the required feedback.</p>
3 (5) (v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	<p>Complied.</p> <p>The Chairman draws up the agenda for Board meetings in consultation with the Chief Executive Officer and Company Secretary which ensures that management viewpoints are included. The Bank's Internal Code of Corporate Governance also casts this responsibility with the Chairman.</p>
3 (5) (vi)	The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner.	<p>Complied.</p> <p>The Directors are adequately briefed in the course of discussions by the Chairman, Chief Executive Officer and Officers of the management in respect of matters that are taken up by the Board. The following procedures are in place to ensure this: Board papers are circulated in advance among the Directors, relevant Key Management Personnel are on hand for explanations and clarifications. Management information is provided on a regular basis to enable Directors to assess the performance and stability of the Bank and Directors are able to seek independent professional advice on a needs basis at the Bank's expense.</p>
3 (5) (vii)	The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	<p>Complied.</p> <p>The Chairman ensures that all members effectively participate as a team in Board decisions and Directors' concerns and comments are duly recorded in the minutes.</p>
3 (5) (viii)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between executive and Non-Executive Directors.	<p>Complied.</p> <p>9 of the 10 Board members are Non-Executive Directors which encourages active participation by the Non-Executive Directors. All Non-Executive Directors participate in Board Committees providing further opportunity for active participation.</p> <p>In addition, the self-evaluation process carried out by the Board assesses the contribution of Non-Executive Directors as well.</p>

Rule No.	Rule	Compliance Status
3 (5) (ix)	The Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied. The Chairman is a Non-Executive Director and not involved in the day-to-day operations of the Bank
3 (5) (x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied. The Chairman together with the CEO ensures effective communication with shareholders through investor's forums held each year and through continuous engagements with our institutional investors. Members of the Board are apprised of the views of major investors and other key stakeholders pursuant to these meetings.
3 (5) (xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	Complied. The Chief Executive Officer is responsible for providing the leadership, expertise and professional environment within the Bank for the implementation of the Board's policies and the achievement of the Bank's goals and objectives. The operations of the Bank are carried out in conformity to this requirement.

3 (6) Board Appointed Committees

3 (6) (i)	Each bank shall have at least four Board Committees as set out in Directions 3 (6) (ii), 3 (6) (iii), 3 (6) (iv) and 3 (6) (v) of these Directions. Each committee shall report directly to the Board. All committees shall appoint a Secretary to arrange the meetings and maintain minutes, records, etc., under the supervision of the Chairman of the Committee. The Board shall present a report of the performance on each committee, on their duties and roles at the Annual General Meeting.	<p>The Board has established a Corporate Governance and Legal Affairs Committee, a Strategic Issues Committee and a Related Party Transactions Review Committee in addition to the four Board Committees required in terms of this Direction namely, Audit Committee, Human Resources and Remuneration Committee, Nomination Committee and Integrated Risk Management Committee.</p> <p>Recommendations of such committees are addressed directly to the Board for decision and minutes of Committee meetings are tabled and discussed at the main Board meetings.</p> <p>This Annual Report includes individual reports of each such committee (except of the Related Party Transactions Review Committee as the same was constituted in December 2014) on pages 166 to 175 which reports include a summary of duties, roles and performance of each of the committees.</p>
-----------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Rule No.	Rule	Compliance Status
3 (6) (ii)	The following rules shall apply in relation to the Audit Committee:	
	(a) The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Complied. Mr. T L F W Jayasekera is the Chairman of the Board Audit Committee (BAC) and is an Independent Non-Executive Director who possesses the required qualifications and experience. The members of the Board Audit Committee are detailed on page 173 of this Report.
	(b) All members of the Committee shall be Non-Executive Directors.	Complied. All members of the Board Audit Committee are Non-Executive Directors.
	(c) The Committee shall make recommendations on matters in connection with: <ul style="list-style-type: none"> i. the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; ii. the implementation of the Central Bank guidelines issued to auditors from time to time; iii. the application of the relevant accounting standards; and iv. the service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. 	Complied. The matters referred to in this section are reviewed and appropriate recommendations are made by the BAC. <ul style="list-style-type: none"> i. Appointment of the External Auditor for audit services has been recommended by the BAC. In addition, the BAC has discussed the audit plan and methodology with the External Auditors. ii. BAC has discussed the implementation of the Central Bank Guidelines issued to Auditors from time to time. iii. The application of the relevant accounting standards. iv. The external audit partner was rotated in 2013 as per the five year rotation requirement, in order to ensure the independence of the Auditor and to comply with the requirements of this Direction. <p>External Auditor's fee has been discussed at the BAC and agreed to recommend the fee to the Board for approval.</p> <p>Refer the 'Report of the Board Audit Committee' given on pages 173 to 175.</p>
	(d) The Committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied. The BAC obtains representations from the External Auditor on their independence and that the audit is carried out in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs).

Rule No.	Rule	Compliance Status
	<p>(e) The Committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditor's independence or objectivity. When assessing the External Auditor's independence or objectivity in relation to the provision of non-audit services, the Committee shall consider:</p> <ul style="list-style-type: none"> i. whether the skills and experience of the audit firm make it a suitable provider of the non-audit services; ii. whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the External Auditor; and iii. whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the External Auditor. 	<p>Complied.</p> <p>A policy for 'Engaging the External Auditor for non-audit services' is in place which covers all aspects stated in this section.</p>
	<p>(f) The Committee shall, before the audit commences, discuss and finalize with the External Auditors the nature and scope of the audit, including:</p> <ul style="list-style-type: none"> i. an assessment of the Bank's compliance with the relevant Directions in relation to corporate governance and the management's internal controls over financial reporting; ii. the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations; and iii. the co-ordination between firms where more than one audit firm is involved. 	<p>Complied.</p> <p>The BAC charter requires the BAC to discuss and finalize the nature and scope of the audit. In order to comply, the External Auditors make a presentation at the BAC meeting with details of the proposed audit plan and the scope. Members of the BAC obtain clarifications in respect of the contents of the presentation, if deemed necessary, prior to finalizing the audit plan, methodology and scope.</p>

Rule No.	Rule	Compliance Status
	<p>(g) The Committee shall review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the Bank's Annual Report and accounts and quarterly reports before submission to the Board, the Committee shall focus particularly on:</p> <ul style="list-style-type: none"> i. major judgmental areas; ii. any changes in Accounting Policies and Practices; iii. significant adjustments arising from the audit; iv. the going concern assumption; and v. the compliance with relevant accounting standards and other legal requirements. 	<p>Complied.</p> <p>Quarterly Financial Statements as well as year end Financial Statements are reviewed and discussed at BAC meetings. Once the members of the BAC have obtained required clarifications in respect of all aspects included in the Financial Statements, such Financial Statements are recommended for approval of the Board.</p>
	<p>(h) The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.</p>	<p>Complied.</p> <p>The BAC discusses issues, problems and reservations arising from the interim and final audits with the External Auditor. The Committee met the External Auditors twice during the year (in October and December 2014) without the presence of the Executive Management.</p>
	<p>(i) The Committee shall review the External Auditor's Management Letter and the management's response thereto.</p>	<p>Complied.</p> <p>During the year, the BAC reviewed the Management Letter for the year ended 2013 and concerns raised by the External Auditors have been addressed.</p>

Rule No.	Rule	Compliance Status
(j)	<p>The Committee shall take the following steps with regard to the internal audit function of the Bank:</p> <ol style="list-style-type: none"> i. Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the Department has the necessary authority to carry out its work; ii. Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department; iii. Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department; iv. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; v. Ensure that the Committee is appraised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning; vi. Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care. 	<p>Complied. (Except iii below)</p> <p>The BAC has oversight of the Internal Audit Department (IAD) of the Bank and carries out the following duties:</p> <ol style="list-style-type: none"> i. Reviews and discusses with the Head of Internal Audit (HIA) the annual audit plan of the IAD, the adequacy of the scope and functions and the resources of the IAD; ii. The audit progress in line with the approved audit plan is tabled at the BAC every quarter. The BAC reviews the internal audit programme and results of the audits and ensures that appropriate actions are taken on the recommendations of the IAD in relation to all high and medium audit findings. All audit findings are sent to Operational Risk Department for inclusion in the Risk Grid; iii. Reviews of the performance of the HIA for 2014 is to be carried out by BAC with input from the Chief Executive Officer; iv. No senior appointments were made to the IAD in 2014. All outsourced arrangements of the IAD are recommended by the BAC and approved by the Board; v. Ensures that the BAC is appraised of resignations of senior staff members of the IAD and provides an opportunity to the resigning senior staff members to submit reasons for resignation; (However, there have been no resignations of Senior Staff of the IAD during the year 2014); vi. Ensures that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care. The IAD reports directly to the HIA who in turn reports directly to the BAC.
(k)	<p>The Committee shall consider the major findings of internal investigations and management's responses thereto.</p>	<p>Complied.</p> <p>The BAC has reviewed the major findings of IAD and management's responses thereto. It has also ensured that the recommendations of such investigations are implemented.</p>

Rule No.	Rule	Compliance Status
	(l) The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board Members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at least twice a year, the Committee shall meet with the External Auditors without the Executive Directors being present.	Complied. The Chief Financial Officer (CFO), Chief Risk Officer (CRO), Chief Operating Officer (COO) and Head Internal Audit (HIA) attend BAC meetings as permanent invitees. Members of the Leadership Team and the Compliance Officer attend meetings upon invitation of the BAC. The External Auditor also attends the meetings on invitation. During the year the External Auditor met the BAC twice, without the presence of the Executive Director.
	(m) The Committee shall have: i. explicit authority to investigate into any matter within its terms of reference; ii. the resources which it needs to do so; iii. full access to information; and iv. authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied. The charter of the BAC clearly defines the authority and terms of reference of the Committee which complies with this guideline.
	(n) The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied. The BAC has scheduled regular quarterly meetings and additional meetings are scheduled as and when required. Accordingly, the BAC met 9 times during the year. Members of the BAC are served with due notice of issues to be discussed and the conclusions in discharging its duties and responsibilities are recorded in the minutes of the meetings maintained by HIA who functions as the Secretary to the BAC.
	(o) The Board shall disclose in an informative way; i. details of the activities of the Audit Committee; ii. the number of Audit Committee meetings held in the year; and iii. details of attendance of each individual Director at such meetings.	Complied. Please refer 'Board Audit Committee Report' on pages 173 to 175 for the details of the activities of the BAC and the number of meetings held in the year. Attendance of the Committee members at each of these meetings is given in the table on page 173 of the Annual Report.
	(p) The Secretary of the Committee (who may be the Company Secretary or the Head of the Internal Audit function) shall record and keep detailed minutes of the Committee meetings.	Complied. The HIA functions as the Secretary to the BAC and maintains detailed minutes of all meetings. Copies of these minutes have been tabled at Board meetings.

Rule No.	Rule	Compliance Status
	(q) The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditor.	Complied. The Bank has in place a Board approved Whistle-Blowing Policy where the employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters.
3 (6) (iii)	Human Resources and Remuneration Committee - Composition and Responsibilities	Complied. Please refer page 167 for the composition and responsibilities of the Human Resources and Remuneration Committee (HRRC). The Terms of Reference of the HRRC was most recently reviewed and updated in November 2014.
	(a) Determine the remuneration policy relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank	Complied. The Board has established a HRRC that makes recommendations on remuneration payable to Directors and Key Management Personnel of the Bank. There is in place a Board approved Remuneration Policy and process for Directors, Chief Executive Officer and Key Management Personnel.
	(b) Set goals and targets for the Directors, CEO and the Key Management Personnel.	Complied. The Board approved strategy was cascaded for the year 2014 to the CEO and Key Management Personnel. The goals and targets set for the CEO and Key Management Personnel were reviewed and approved by the HRRC and noted/approved by the Board. Goals and targets for the Directors, for the year 2014 have been deliberated in detail at Board and HRRC level. The Board has noted that specific goals and targets for Directors could not be set for 2014 due to the discussions that commenced with DFCC and DFCC Vardhana Bank on a proposed merger and taking into account the level of extensive involvement of the Board in this matter. The Board decided that a list of achievements/work carried out in the year 2014 will be tabulated to record these developments.

Rule No.	Rule	Compliance Status
	(c) Evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance based incentives.	Complied. The performance of Key Management Personnel against set goals and targets are evaluated by the HRRC in March of every year and recommendations are then discussed and approved by the full Board. The Chief Executive Officer's performance will be evaluated by the full Board.
	(d) The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	Complied. The Chief Executive Officer was present at all meetings and has stepped out when matters relating to the Chief Executive Officer were discussed.
3 (6) (iv)	Nomination Committee - Composition and Responsibilities	
	(a) The Committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel.	Complied. The Nomination Committee (NC) has implemented a procedure to select new Directors. A Board approved procedure to select CEO and KMPs has been in place since December 2008.
	(b) The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.	Complied. The NC determines the Directors who will be re-elected every year pursuant to taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities. The Committee has considered and recommended the re-election of current Directors.
	(c) The Committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions.	Complied. The NC has set a procedure to assess eligibility including criteria such as qualifications, experience and key attributes, for appointment or promotion to Key Management Positions including the position of the CEO. The Committee is guided by applicable statutes in considering the suitable criteria for each appointment/promotion.
	(d) The Committee shall ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the statutes.	Complied. The annual declarations from Directors and Key Management Personnel are submitted to the NC to ensure that they are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the statutes was obtained for 2015 and submitted to the NC.

Rule No.	Rule	Compliance Status
	(e) The Committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel.	<p>The NC considers Board vacancies based on the expertise required by the Bank and recommends suitable candidates when necessary in accordance with the Board approved procedure for selection and appointment of Directors.</p> <p>The NC also approves the succession plans for Key Management Personnel. During 2014, the Bank announced its intention to enter into merger discussions with DFCC and it was expected that during the ongoing merger implementation, a new organizational chart for the destination bank together with a succession plan would be formalized by the new Board. An interim succession plan for Key Management Personnel has however been approved by the NC and Board.</p>
	(f) The Committee shall be Chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	<p>Complied.</p> <p>The NC is chaired by the Chairman of the Bank who is an Independent Director and is constituted by a majority of Independent Directors. The CEO is present only if invited.</p>
3 (6) (v)	Integrated Risk Management Committee - Composition and Responsibilities	<p>Please refer page 171 for the composition and responsibilities of the Integrated Risk Management Committee (IRMC). The Terms of Reference of the IRMC was reviewed and updated in 2014.</p>
	(a) The Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories - i.e., credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	<p>Complied.</p> <p>The composition of the IRMC complies with the provisions of this Direction. Please see detailed Report of the IRMC on pages 171 and 172 of this Report.</p>
	(b) The Committee shall assess all risks - i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of Subsidiary Companies and Associate Companies, risk management shall be done, both on a Bank basis and Group basis.	<p>Complied.</p> <p>The IRMC assesses all risks of the Bank and Group on a monthly basis through Key Risk Indicators, Risk Dashboards and through the quarterly risk assessment report done for the Bank and its Group as well. The Bank has formed seven management committees to assess risks on a monthly basis and their findings are submitted to the IRMC and the summary of the minutes of the IRMC and quarterly risk assessment reports are submitted to the main Board.</p>

Rule No.	Rule	Compliance Status
	(c) The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	The adequacy of effectiveness of all management level committees was carried out for the year 2014 by all members carrying out self-assessments. The feedback was reviewed by the Chairman of the respective management committee and a report based on the review together with an action plan was submitted to the IRMC for discussion and follow up.
	(d) The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements.	Complied. The IRMC takes prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the IRMC on the basis of the Bank's policies and regulatory and supervisory requirements. The Key Risk Indicators designed by the IRMC was approved by Board.
	(e) The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied. The Committee has met 5 times in the year 2014.
	(f) The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision.	Complied. At the Bank specific risks and the limits are identified by relevant Committees such as ALCO, Credit Committee etc. and as such decisions are taken collectively and appropriate action taken as per the Bank's Human Resources policy.
	(g) The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific Directions.	Complied. A detailed report is submitted to the Board subsequent to the IRMC meeting seeking the Board's views, concurrence and/or specific directions.

Rule No.	Rule	Compliance Status
	(h) The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated Compliance Officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	<p>Complied.</p> <p>The Bank has appointed a Compliance Officer who is a Key Management Personnel to carry out the compliance function of the Bank.</p> <p>The compliance function assesses the Bank's compliance with laws and regulations and the Bank's internal controls, policies, product programme guides and business operations against applicable laws and regulations and the compliance function reports quarterly to the IRMC.</p> <p>The Compliance Officer in consultation with the IRMC agrees on the annual compliance programme which includes but is not limited to the review of products, accuracy of statutory returns, all product programme guides to determine the Bank's compliance with applicable regulations. A detailed quarterly report indicating the status of compliance of the Bank is submitted to the IRMC and the Board. A quarterly compliance sign-off from all business unit heads is obtained and submitted to the Committee. In 2014, the Compliance Department carried out a review of the Internal Audit Department.</p>

3 (7) Related Party Transactions

3 (7) (i)	<p>The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as 'related parties' for the purposes of this Direction:</p> <ol style="list-style-type: none"> Any of the Bank's Subsidiary companies; Any of the Bank's Associate companies; Any of the Directors of the Bank; Any of the Bank's Key Management Personnel; A close relation of any of the Bank's Directors or Key Management Personnel; A shareholder owning a material interest in the Bank; A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest. 	<p>Complied.</p> <p>Steps have been taken by the Board to avoid any conflicts of interest that may arise in terms of this Direction.</p> <p>Using information submitted to the Bank by Directors and by information obtained from the Secretarial Department and HR Department, the Bank maintains a register of the names of Related Parties set out in the Direction and this list is circulated to all relationship managers of all business units and to all branch staff in terms of the Bank's internal circular on related party transactions which has been introduced to ensure that the Bank avoids 'Conflicts of Interest' which may arise from any transaction of the Bank with any person, particularly with 'Related Parties'.</p> <p>A documented Related Party Transaction Policy was approved by the Board in 2014 which lays down processes to identify, approve, monitor and disclose all related party transactions of the Bank coming within these guidelines.</p>
-----------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Rule No.	Rule	Compliance Status
3 (7) (ii)	<p>The type of transactions with related parties that shall be covered by this Direction shall include the following:</p> <ul style="list-style-type: none"> a. The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation; b. The creation of any liabilities of the Bank in the form of deposits, borrowings and investments; c. The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank; d. The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties. 	<p>Complied.</p> <p>All transactions defined in this Directions come within the scope of the Related Party Transaction Policy of the Bank</p>
3 (7) (iii)	<p>The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties 'more favourable treatment' than that accorded to other constituents of the Bank carrying on the same business. In this context, 'more favourable treatment' shall mean and include treatment, including the:</p> <ul style="list-style-type: none"> (a) Granting of 'total net accommodation' to related parties, exceeding a prudent percentage of the Bank's regulatory capital, as determined by the Board. For purposes of this sub-direction: <ul style="list-style-type: none"> i. 'Accommodation' shall mean accommodation as defined in the Banking Act Directions No. 07 of 2007 on Maximum Amount of Accommodation. ii. The 'total net accommodation' shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of 5 years or more. 	<p>Complied.</p> <p>No 'more favourable treatment' has been given to related parties of the Bank in 2014. All transactions entered into with related parties are to be reported to the Compliance Department and Compliance Department carries out random checks to determine if 'more favourable treatment' has been granted. The monitoring process will be strengthened on an ongoing basis.</p>

Rule No.	Rule	Compliance Status
	(b) Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counterparty;	
	(c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;	
	(d) Providing services to or receiving services from a related party without an evaluation procedure;	
	(e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.	
3 (7) (iv)	A Bank shall not grant any accommodation to any of its Directors or to a close relation of such Director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.	Complied. The Board ensures compliance with this Direction when accommodation is granted to Directors and their Close Relations or any concerns in which the Director/Close Relations has a substantial interest.
3 (7) (v)	(a) Where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.	Complied. Prior to the appointment of a new Director the Company Secretary obtains a declaration/affidavit from the proposed individual requiring the disclosure of all interests they may have with the Bank. The situation did not arise in 2014 as no appointments were made in 2014. The employees of the Bank are informed to obtain necessary security as set out by the Monetary Board if the need arises.

Rule No.	Rule	Compliance Status
	<p>(b) Where such security is not provided by the period as provided in Direction 3 (7) (v) (a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier.</p>	
	<p>(c) Any Director who fails to comply with the above sub-directions shall be deemed to have vacated the office of Director and the Bank shall disclose such fact to the public.</p>	
	<p>(d) This sub-direction, however, shall not apply to a Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank.</p>	
3 (7) (vi)	<p>A Bank shall not grant any accommodation or 'more favourable treatment' relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3 (7) (v) above.</p>	<p>Complied.</p> <p>No favourable treatment or accommodation is provided to Bank employees other than staff benefits. Employees of the Bank are informed through operational circulars to refrain from granting favourable treatment to other employees or their close relations or to any concern in which an employee or close relation has a substantial interest.</p>
3 (7) (vii)	<p>No accommodation granted by a bank under Direction 3 (7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.</p>	<p>Complied.</p> <p>Such a situation has not arisen in the Bank to date.</p>

Rule No.	Rule	Compliance Status
3 (8)	Disclosures	
3 (8) (i)	The Board shall ensure that: (a) Annual Audited Financial Statements and Quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards; and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied. The Financial Statements for the year ended 31 December 2014 and Quarterly Financial Statements are in conformity with all rules and regulations. These statements have been published in the newspapers in all three languages.
3 (8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report:	
	(a) A statement to the effect that the annual audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied. Compliance with applicable accounting standards and regulatory requirements has been reported under the 'Directors' Responsibility for Financial Reporting' on pages 261 and 262, the 'CEO's and CFO's Responsibility Statement' on pages 267 and 268 and Note No. 1.4 (Statement of Compliance) to the Financial Statements on page 278.
	(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. Directors' Report on the effectiveness of the internal control system over financial reporting is given under the 'Statement of Internal Control' on pages 263 and 264.
	(c) The Assurance Report issued by the Auditors under "Sri Lanka Standard on Assurance Engagements on SLSAE 3050 - Assurance Report for Banks on Directors' Statement on Internal Control".	Complied. The Assurance Report issued by the External Auditor on the Internal Control over Financial Reporting based on the auditing framework issued by ICASL which is detailed on page 265 of this Report.
	(d) Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank.	Complied. Please refer 'Board of Directors' on page 110. 'Directors' Interest in Contracts with NDB' on pages 259 to 260 and page 256 for Directors' Remuneration.

Rule No.	Rule	Compliance Status
	(e) Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.	Complied. The net accommodation granted to related parties as a percentage of the Bank's regulatory capital is 0.31.
	(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.	Complied. The aggregate value of transactions of the Bank with its Key Management Personnel are disclosed below: Compensation - LKR 282.9 million Accommodation - LKR 76.2 million Deposits and investments - LKR 450.9 million The aggregate values of transactions involving entities controlled/jointly controlled by Directors and Close Relations are disclosed below: Deposits and investments - LKR 575.6 million
	(g) A confirmation by the Board of Directors in its Annual Corporate Governance Report that all the findings of the 'Factual Findings Reports' of Auditors issued under 'Sri Lanka Related Services Practice Statement 4750' have been incorporated in the Annual Corporate Governance Report, provide that Auditors confirm to the Director of Bank Supervision to this effect.	Complied. Certification has been provided by the External Auditors as required by the Direction.
	(h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.	Complied. There were no material non-compliance to prudential requirements, regulations, laws and internal controls affecting the Bank.
	(i) A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	Complied. There were no supervisory concerns on lapses in the Bank's risk management system or non-compliance with this Direction that has been pointed out by the Director of the Bank Supervision Department of the CBSL and requiring disclosure to the public.

NDB's adherence with 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) is detailed below with explanatory comments as follows:

Corporate Governance Principle	Rule	Details of Compliance
A. The Board Directors		
Principle A. 1 Every public company should be headed by an effective Board, which should direct, lead and control the Company.	A.1.1 Board meetings should be held at least once in every quarter of a financial year.	Complied. The Bank is headed by an effective Board of Directors who are responsible and accountable for the functions of the Bank. The Board usually meets on monthly intervals, but meets more frequently whenever it is necessary. The Board met twelve (12) times during the year. Scheduled Board and Committee meetings were arranged well in advance and all Directors were expected to attend each Board meeting. The attendance at Board meetings held in 2014 is set out on page 110.
	A.1.2 Role of the Board - provide entrepreneurial leadership within a framework of prudent and effective control risks to be assessed and managed.	Complied. The Board is responsible for setting strategy, policies and for monitoring performance against agreed goals and Key Performance Indicators. A five year business strategy is in place and has been detailed under Section 3(1)(i)(b) of the CBSL table on page 115 of this Report.
	<ul style="list-style-type: none"> • formulation and implementation of a sound business strategy;. 	Complied.
	<ul style="list-style-type: none"> • the Chief Executive Officer (CEO) and management team possess the skills, experience and knowledge to implement the strategy 	The Human Resources and Remuneration Committee (HRRC) ensures that the CEO and Key Management Personnel have the required skills, experience and knowledge to implement strategy. The CEO and the Senior Management Team consist of senior bankers with an average experience of 20 years in the field of banking and finance.
<ul style="list-style-type: none"> • the adoption of an effective CEO and Key Management Personnel succession strategy; 	Complied. Please see our comments on the succession strategy detailed under Section 3 (1) (i) (j) of the CBSL table on page 118 of this Report.	

Corporate Governance Principle	Rule	Details of Compliance
	<ul style="list-style-type: none"> An effective system to secure integrity of information, internal controls, business continuity and risk management; 	<p>Complied.</p> <p>There is in place an adequate system of internal control. Policies relating to securing information, business continuity and risk management have been approved by the Board. These policies have been reviewed by either Integrated Risk Management Committee or Board Audit Committee. Our Business Continuity Plan was rehearsed twice during the year. Refer Directors' Statement on Internal Control, Board Audit Committee Report and Integrated Risk Management Committee Report.</p>
	<ul style="list-style-type: none"> compliance with laws, regulations and ethical standards; 	<p>Complied.</p> <p>There is a separate Compliance Department which reports directly to the Board Integrated Risk Management Committee.</p> <p>There is a procedure in place where every head of department provides the Compliance Officer with a comprehensive sign off at the end of each quarter on the status of compliance with laws and regulations impacting the Bank. The annual compliance programme of the Bank is approved by the Integrated Risk Management Committee at the beginning of each year. The compliance team carries out reviews, assessments on the Bank's products and the accuracy of regulatory returns based on the annual programme to determine the Bank's compliance with laws and regulations and ethical standards. The Compliance Officer submits a status report to the Integrated Risk Management Committee setting out the laws and regulations complied and any breaches that have occurred at the end of each quarter.</p> <p>There is also in place a Board approved Compliance Policy and Code of Conduct.</p>

Corporate Governance Principle	Rule	Details of Compliance
	<ul style="list-style-type: none"> all stakeholder interests are considered in corporate decisions 	<p>Complied.</p> <p>The Board of Directors consider the views/ impact on all stakeholders of the Bank when decisions are made at Board meetings.</p>
	<ul style="list-style-type: none"> recognising sustainable business development in Corporate Strategy, decisions and activities; 	<p>Complied.</p> <p>Sustainable business development is one of the key areas of focus considered by the Board when taking decisions.</p>
	<ul style="list-style-type: none"> Board approved accounting and compliance with financial regulations; 	<p>Complied.</p> <p>The Board Audit Committee and the Board review accounting policies annually to ensure that they are in line with the business model of the Bank and evolving international and local accounting standards and industry best practices. The Board ensures that the approved accounting standards and financial regulations are complied with when Financial Statements are being prepared.</p>
	<ul style="list-style-type: none"> fulfilling such other Board functions as are vital, given the scale, nature and complexity of the business concerned 	<p>Complied.</p> <p>The Board is committed to fulfilling their functions in line with the laws, regulations and good governance practices adopted by the Bank.</p>
	A.1.3 Approved procedure of the Board to seek independent professional advice	<p>Complied.</p> <p>Independent professional advice is available, on request, to all Directors at the expense of the Bank. The Board approved Internal Code of Corporate Governance contains the procedure to be followed where a Director or Board wishes to obtain independent professional advice on any matter. Independent professional services were sought on matters during the year in accordance with the above provision.</p>
	A.1.4 All Directors of the Board to have access to the advice and services of the Company Secretary	<p>Complied.</p> <p>All Directors have access to the advice and services of the Company Secretary. For the year 2014, the Company Secretary has provided assistance to the Directors when requested.</p>

Corporate Governance Principle	Rule	Details of Compliance
	A.1.5 All Directors to bring independent judgment to matters submitted to the Board for its decisions.	<p>Complied.</p> <p>All Directors bring their independent judgement to matters discussed at Board meetings. Details of Directors deliberations are contained in the minutes maintained by the Company Secretary.</p>
	<p>A.1.6 Every Director to dedicate adequate time and effort to matters of the Board</p> <ul style="list-style-type: none"> • sufficient time before a meeting to review Board papers. • facilitate call for additional information and clarification. • follow up on issues consequent to the meeting. • This should be supplemented by a time allocation for familiarization with business changes, operations, risks and controls. 	<p>Complied.</p> <p>Board Papers are circulated to the Board at least seven days prior to each Board meeting. Any requests for additional information is made to the Company Secretary. Relevant member of staff is informed by the Company Secretary and the requisite information is forwarded. All matters that require follow up are discussed at the immediately succeeding Board meeting under 'Matters Arising'. Business Heads regularly update the Board on developments in their respective fields.</p> <p>The CEO on a regular basis updates the Board on business changes, operational risks and controls relevant to the Bank.</p>
	A.1.7 Training for New and Existing Directors	<p>Complied.</p> <p>New Directors are provided with a comprehensive induction pack on appointment to the Board and an induction programme is conducted to facilitate their introduction to the business, activities and senior management of the Bank. Please refer page 112 of this Report for more details.</p>

Corporate Governance Principle	Rule	Details of Compliance
<p>Principle A.2 There are two key tasks at the top of every public company - conducting the business of the Board, and facilitating executive responsibility for management of the Company's business. There should be a clear division of responsibilities at the head of the Company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision.</p>	<p>A.2.1 There should be a clear division of responsibilities at the head of the Company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision.</p>	<p>Complied.</p> <p>The posts of Chairman and CEO of the Bank are held by two separate persons and there is a clear division of responsibilities between them, thereby maintaining the balance of power between the two roles.</p>
<p>Principle A.3 The Chairman's role in preserving good Corporate Governance is crucial. As the person responsible for running the Board, the Chairman should preserve order and facilitate the effective discharge of Board functions.</p>	<p>A.3.1 The Chairman should conduct Board proceedings in a proper manner and ensure, inter-alia, that:</p> <ul style="list-style-type: none"> • the effective participation of both Executive and Non-Executive Directors are secured; • all Directors are encouraged to make an effective contribution, within their respective capabilities, for the benefit of the Company; • a balance of power between Executive and Non-Executive Directors is maintained; • the views of Directors on issues under consideration are ascertained; and • the Board is in complete control of the Company's affairs and alert to its obligations to all shareholders and other stakeholders. 	<p>Complied.</p> <p>The Board approved Internal Code of Corporate Governance formally details the role of the Chairman. The Chairman ensures that the affairs of the Board are conducted in an effective manner. He encourages Directors to share their views on matters discussed, ensures the participation of both Executive and Non-Executive Directors and maintains a balance of power between Executive and Non-Executive Directors.</p>

Corporate Governance Principle	Rule	Details of Compliance
Principle A.4 The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.	A.4.1 Financial Acumen and Knowledge.	Complied. 6 of the 10 Directors of the Board have a finance background and as such there is sufficient financial acumen and knowledge on the Board.
Principle A.5 It is preferable for the Board to have a balance of Executive and Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision-taking.	A.5.1 Non-Executive Directors - The Board should include at least two Non-Executive Directors or such number of Non-Executive Directors equivalent to one-third of total number of Directors, which ever is higher.	Complied. 9 of the 10 Directors on the Board are Non-Executive Directors.
	A.5.2 - A.5.5 Independent Non-Executive Directors - Two or one third of Non-Executive Directors appointed to the Board of Directors whichever is higher should be 'Independent'. For a Director to be 'Independent', such Director should be Independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgment A Declaration to be obtained from each Non-Executive Director against the criteria set out in the Code of Best Practice issued by ICASL and the SEC. Based on the said declaration and other information available to the Board, the Board is required to annually make a determination as to the independence or non-independence of each Non-Executive Director. The Board should specify the criteria not met and basis of its determination in the Annual Report.	Complied. Annual declarations of independence or non-independence have been obtained from the Directors for 2014. Based on the annual declarations, there are 9 Non-Executive Directors on the Board as at 31st December 2014. Of them 5 are Independent Non-Executive Directors in terms of the criteria set out in this Code. The Non-Executive Directors are detailed on page 110 of this Report. Accordingly, the number of Independent Non-Executive Directors exceeds one-third of the total number of Directors on the Board.

Corporate Governance Principle	Rule	Details of Compliance
	<p>A.5.6 Alternate Directors - Executives of the Bank shall not be appointed as alternate Directors of Non-Executive Directors of the Bank.</p> <p>Any alternate of an Independent Director should also meet the criteria of independence.</p> <p>The minimum number of Independent Directors should be be complied with</p>	<p>Complied.</p> <p>No formal alternate Directors have been appointed. Directors appoint alternate Directors within the rules and Articles of the Bank as and when required for a particular meeting. An alternate Director of an Independent Director is also Independent.</p>
	<p>A.5.7-A.5.8</p> <p>The appointment of a Senior Independent Director - A Senior Independent Director is required to be appointed where CEO and Chairman are one and the same person.</p> <p>Such a Senior Independent Director should make himself available for discussions with other Directors.</p>	<p>The CEO and Chairman are not one and the same person. As such there is no requirement to appoint a Senior Independent Director.</p>
	<p>A.5.9 Chairman to meet only with Non-Executive Directors as necessary and at least once each year.</p>	<p>Complied.</p> <p>If required, the Chairman has discussions with/ meets Non-Executive Directors.</p>
	<p>A.5.10 Recording of a dissenting view - Any dissenting view to be minuted where a matter is not resolved unanimously.</p>	<p>Complied.</p> <p>Dissenting views are recorded in the minutes in detail.</p>
<p>Principle A.6 Supply of Information</p> <p>The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties.</p>	<p>A.6.1 The Board to be provided appropriate and timely information by management.</p>	<p>Complied.</p> <p>The management provides comprehensive information including both quantitative and qualitative information for the monthly Board meetings generally 7 days prior to the Board/Committee meetings. The Directors also have access to management to obtain further information or clarify any concerns they may have. As described above, they also have the right to seek independent professional advice at the Bank's expense.</p>

Corporate Governance Principle	Rule	Details of Compliance
	A.6.2 Agenda, Board Papers and Minutes of previous meetings to be circulated 7 days in advance of a meeting.	Complied. Papers are circulated at least 7 days in advance of each meeting of the Board.
Principle A.7 Appointments to the Board There should be a formal and transparent procedure for the appointment of new Directors to the Board.	A.7.1 and A.7.2 A Nomination Committee to be established to make recommendations on new appointments.	Complied. The Board has established a Nomination Committee to make recommendations on new appointments to the Board. There is in place a board approved policy and process for appointments of Directors to the Board. Please refer Page 169 for the Report of the Nomination Committee
	A.7.3 Disclosure to shareholders on new appointments to the Board.	Complied. Disclosures are made to shareholders in terms of the Listing Rules issued by the Colombo Stock Exchange (CSE)
Principle A.8 Re-election All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.	A.8.1 Non-Executive Directors should be appointed for specified terms and re-election should not be automatic. A.8.2 Re-election of Non-Executive Directors	Complied. As per the Articles, one-third of the Directors (except for the CEO and any Nominee Director of the Ministry of Finance) should retire at each Annual General Meeting and be subject to re-election. Such Directors who retire are those who held office for the longest time period since the election/reappointment. In accordance with this provision, the following Directors retire and offer themselves for re-election. Mrs Kimarli Fernando Mr Trevine Jayasekera
Principle A.9 Appraisal of Board Performance Boards should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.	The Board should annually appraise itself on its performance and that of its sub-committees	Complied. The Board annually appraises its own performance to ensure that it is discharging its responsibilities satisfactorily. The Board has in place a self assessment process which has been detailed under Section 3 (1) (i) (i) of the CBSL table on page 117 of this Report. Commencing from 2014 all Board Committees carried out a self-evaluation process to determine the effectiveness of their performance and areas for improvement.

Corporate Governance Principle	Rule	Details of Compliance
<p>Principle A.10 Disclosure of Information in Respect of Directors</p> <p>Principle A.10 Shareholders should be kept advised of relevant details in respect of Directors.</p>	<p>A.10.1 Disclosures on Directors in the Annual Report -</p> <p>The Annual Report of the Company should set out the following information in relation to each Director:</p> <ul style="list-style-type: none"> • name, qualifications and brief profile; • the nature of his/her expertise in relevant functional areas; • immediate family and/or material business relationships with other Directors of the Company; • whether Executive, Non-Executive and/or Independent Director; • names of listed companies in Sri Lanka in which the Director concerned serves as a Director; • names of other companies in which the Director concerned serves as a Director, provided that where he/she holds directorships in companies within a Group of which the Company is a part, their names need not be disclosed; it is sufficient to state that he/she holds other directorships in such companies; • number/percentage of Board meetings of the Company attended during the year; • the total number of Board seats held by each Director indicating listed and unlisted Companies and whether in an executive or non-executive capacity; • names of Board Committees in which the Director serves as Chairman or a member; and • number/percentage of committee meetings attended during the year. 	<p>Please refer pages 102 and 103 for Directors' Profiles.</p> <p>Details of directorship held by each Director are found on page 255 under the Directors' Report.</p> <p>Attendance of Directors at Board meetings are given on page 110 of this Report.</p> <p>Attendance of Directors at sub-committee meetings are detailed in the respective sub-committee reports found on pages 166 to 175.</p>

Corporate Governance Principle	Rule	Details of Compliance
<p>Principle A.11 Appraisal of Chief Executive Officer (CEO)</p> <p>Principle A.11 The Board should be required, at least annually, to assess the performance of the CEO.</p>	<p>A.11.1 Setting annual targets and the appraisal of performance of the CEO</p>	<p>Complied.</p> <p>At the beginning of 2014 the Board discussed and set financial and non-financial targets to be achieved during the year by the CEO with reference to the short, medium and long-term objectives of the Bank at the beginning of 2014. The targets for 2015 have also been set at the time of reporting. The entire Board evaluated the performance of the CEO for 2013.</p>
<p>B. Directors' Remuneration</p>		
<p>Principle B.1 - B.2</p> <p>Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors.</p>	<p>Remuneration Policy for Directors and Key Management Personnel</p>	<p>Complied.</p> <p>The Board has established a Human Resources and Remuneration Committee (HRRC) to develop policy and determine remuneration for the Directors and Key Management Personnel. There is in place, a Board approved Remuneration Policy for Directors and Key Management Personnel. Additionally the HRRC makes recommendations on remuneration payable to Directors and Key Management Personnel of the Bank.</p> <p>Please refer pages 166 and 167 for the Report of the HRRC.</p>
<p>B.3 Disclosure of Remuneration</p>	<p>Principle B.3 The Bank's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.</p>	<p>Complied.</p> <p>Please refer page 256 of the Annual Report for Directors' Remuneration and page 166 for the Statement of Remuneration Policy.</p>

Corporate Governance Principle	Rule	Details of Compliance
C. Relations With Shareholders		
C.1 Constructive use of the Annual General Meeting (AGM) and conduct of general meetings to communicate.	C.1.1 Companies should count all proxy votes and should indicate the level of proxies lodged on each resolution and the balance for and against the resolution and withheld, after it has been dealt with on a show of hands, except where a poll is called.	Complied. All proxy votes lodged together with the votes of shareholders present at the AGM are considered for each resolution and duly recorded in the minutes.
	C.1.2 Separate resolutions to be obtained for substantially separate issues and adoption of Annual Report and Accounts.	Complied. Separate resolutions are obtained for substantially separate issues.
	C.1.3 Chairpersons of all Board sub-committees to be available to respond to questions of any shareholder at AGM.	Complied. All the Directors of the Board are present at the AGM in order to respond to questions raised at the AGM.
	C.1.4 - C.1.5 Adequate notice of all meetings to Shareholders together with the summary of the procedure to be adopted by shareholders.	Complied. Notice to shareholders and relevant papers are circulated to shareholders in compliance with the provisions for notice under the Companies Act No. 7 of 2007.
	Principle C.2 The Board should implement effective communication with shareholders.	C.2.2 - C.2.3 The Company to disclose the policy and methodology for communication with shareholders and how it is implemented. The process for responding to shareholder matters should be formulated by the Board and disclosed.
	C.2.4 The Company to disclose to shareholders the contact person for communication with shareholders. There should be a process to make all Directors aware of major issues and concerns of shareholders, and this process has to be disclosed by the Company.	Complied. Shareholder correspondence on major issues are handled by the Chairman who will communicate to the Board of Directors as and when necessary.

Corporate Governance Principle	Rule	Details of Compliance
<p>Principle C.3 Further to complying with the requirements under the Companies Act, Securities and Exchange Commission Law and Colombo Stock Exchange (CSE) Regulations; as applicable, Directors should disclose to shareholders, all proposed material transactions, which if entered into, would materially alter/vary the Company's net asset base or in the case of a company with subsidiaries, the consolidated group net asset base.</p>	<p>C.3.1 Disclosure of major and material transactions</p>	<p>During 2014, there were no Major Transactions as defined by Section 185 of the Companies Act No. 07 of 2007 which materially affected the Bank's net asset base.</p> <p>Further, all material transactions will be disclosed in the Quarterly/Annual Financial Statements as well as the disclosure made to the CSE.</p>

D. Accountability and Audit

D.1 Financial Reporting

Principle D.1 The Board should present a balanced and understandable assessment of the Company's Financial Position, Performance and Prospects.

D.1.1 The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators, as well as to information required to be presented by statutory requirements.

Complied.

Please refer pages 251 to 258 of this Report.

Corporate Governance Principle	Rule	Details of Compliance
	<p>D.1.2 The Directors' Report, which forms part of the Annual Report, should contain declarations by the Directors to the effect that:</p> <ul style="list-style-type: none"> • the Company has not engaged in any activity, which contravenes laws and regulations; • the Directors have declared all material interests in contracts involving the Company and refrained from voting on matters in which they were materially interested; • the Company has made all endeavours to ensure the equitable treatment of shareholders; • the business is a going concern, with supporting assumptions or qualifications as necessary; and • they have conducted a review of the internal controls, covering financial, operational and compliance controls and risk management and have obtained reasonable assurance of their effectiveness and successful adherence therewith, and, if it is unable to make any of these declarations, to explain why it is unable to do so. 	<p>Complied.</p> <p>Please refer pages 251 to 258 of this Report</p>
	<p>D.1.3 The Annual Report to contain a report/statement</p> <p>(i) setting out the responsibilities of the Board for the preparation and presentation of Financial Statements, together with a Statement by the Auditors about their reporting responsibilities; and</p> <p>(ii) on Internal Control.</p>	<p>Complied.</p> <p>Please refer pages 261 and 262 of this Report</p> <p>Please refer page 268 for Independent Auditors' Report</p> <p>Please refer pages 263 and 264 for Directors' Statement on Internal Control</p>

Corporate Governance Principle	Rule	Details of Compliance
	<p>D.1.4 The Annual Report should contain a 'Management Discussion & Analysis', discussing, among other issues:</p> <ul style="list-style-type: none"> • industry structure and developments; • opportunities and threats; • risks and concerns; • internal control systems and their adequacy; • social and environmental protection activities carried out by the Company; • financial performance; • material developments in human resource/industrial relations; and • prospects for the future. 	<p>Complied. Please refer pages 37 to 98 of this Report</p>
	<p>D.1.5 The Directors should report that the business is a going concern, with supporting assumptions or qualifications as necessary.</p>	<p>Complied. Please refer pages 251 to 258 of this Report</p>
	<p>D.1.6 In the event the net assets of the Company fall below 50% of the value of the Company's shareholders' funds, the Directors shall forthwith summon an Extraordinary General Meeting (EGM) of the Company to notify shareholders of the position and of remedial action being taken.</p>	<p>Likelihood of such occurrence is remote. However, should the situation arise, an EGM will be called for and shareholders will be notified.</p>

Corporate Governance Principle	Rule	Details of Compliance
	<p>D.1.7 The Board should adequately and accurately disclose the related party transactions in its Annual Report:</p>	<p>Complied. Please see Note 55 on pages 372 to 376 of this Report</p>
	<ul style="list-style-type: none"> • Each related party should submit signed and dated declaration quarterly mentioning whether they have related party transactions with the Company as defined in this Code; 	<p>A declaration is obtained from related parties quarterly.</p>
	<ul style="list-style-type: none"> • It should be the responsibility of the Company Secretary to keep a record on related party transactions and make necessary disclosures accordingly; 	<p>The Finance Department at the Bank keeps a record of all related party transactions and discloses the same to the Company Secretary.</p>
	<ul style="list-style-type: none"> • There should be a process to capture related parties and related party transactions. This process needs to be operationalized and related party transactions should be properly documented. Further, a report should be presented by the Audit Committee to the Board on identified related parties and related party transactions on a regular basis; 	<p>A detailed Board approved documented process is available and has been circulated to all staff through the NDB Cloud for compliance.</p>
	<ul style="list-style-type: none"> • A record/register either in hard or soft form on related party and related party transaction should be maintained by the Company; 	<p>In addition to the interest register maintained by the Company Secretary, a system generated related party transaction report is available at the Finance Department. Finance Department uses this report for disclosure purposes.</p>
	<ul style="list-style-type: none"> • This record should ensure that the Company captures information to comply with the respective related party disclosure requirements imposed by SEC/Accounting Standards/Auditing Standards and similar regulations. 	<p>The Bank has in place an internal system to capture information relating to related party transactions, in line with SEC and ICASL requirements.</p>

Corporate Governance Principle	Rule	Details of Compliance
<p>Principle D.2 The Board should have a process of risk management and a sound system of internal control to safeguard shareholders' investments and the Company'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 the Company's objectives.</p>	<p>D.2.1 Directors to conduct an annual review of Internal Controls through the Board Audit Committee.</p>	<p>Complied.</p> <p>The Board's Statement on the effectiveness of Bank's Internal Control Mechanism as reviewed by the Board Audit Committee is presented under the caption "Directors' Statement on Internal Control" in this Annual Report on pages 263 and 264. The Board also reviewed the External Auditors' assurance report in this regard, pursuant to the independent audit conducted by them in accordance with Sri Lanka Standards on Assurance Engagement SLSAE 3050 - Assurance Report for Banks on Directors' Statement on Internal Control as given in the Annual Report on page 265</p>
	<p>D.2.2 The Bank should have an internal audit function.</p>	<p>Complied.</p> <p>The Bank has a fully-fledged Internal Audit Department which reports to the Board Audit Committee.</p>
	<p>D.2.3 The Board should require the Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls and to document to the Board and Board takes the responsibility for the disclosures on internal controls.</p>	<p>Complied.</p> <p>The Board Audit Committee Report and the Integrated Risk Management Committee Report on pages 171 to 175 specified the process carried out in relation to reviewing the effectiveness of Risk Management and Internal Control.</p>
	<p>D.2.4 The Schedule K to this document contains guidance on the responsibilities of Directors in maintaining a sound system of internal control and the contents of the Statement of Internal Control.</p>	<p>Complied</p> <p>Please refer the Board Audit Committee Report and the Directors Statement on Internal Control in relation to compliance with this requirement.</p>
<p>Principle D.3 The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Bank's External Auditors.</p>	<p>D.3.1 Composition of Audit Committee</p>	<p>Complied.</p> <p>All members of the Board Audit Committee, including the Chairman are Non-Executive Directors.</p> <p>Please refer page 173 for the Board Audit Committee report which details the composition.</p>

Corporate Governance Principle	Rule	Details of Compliance
	D.3.2 The duties of the Audit Committee	<p>Complied.</p> <p>As stated in the Report of the Board Audit Committee of the Bank on pages 173 to 175 of the Annual Report, Board Audit Committee regularly reviews the scope, results and effectiveness of the audits carried out. It also ensures the balance amongst objectivity, independence and value for money of the services provided by the Bank's External Auditors, with special attention to provision of non-audit services by the External Auditors.</p>
	D.3.3 Terms of Reference of the Audit Committee	<p>Complied.</p> <p>Terms of Reference of the Board Audit Committee is clearly defined in the Charter of the Audit Committee approved by the Board of Directors, which was last revised and updated 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 and matters with regard to the External Auditors and Internal Audit.</p>
	D.3.4 Disclosures regarding Audit Committee.	<p>Complied.</p> <p>Please refer pages 173 to 175 for the Board Audit Committee report.</p>
Principle D.4 Companies must adopt a Code of Business Conduct & Ethics for Directors and Key Management Personnel and must promptly disclose any waivers of the Code for Directors or others	D.4.1 Code of Conduct to be developed for Directors and Senior Management.	<p>Complied.</p> <p>The Board approved Internal Code of Corporate Governance details matters relating to Directors and Key Management Personnel and best practices relating to their business conduct and ethics.</p> <p>In addition the Board approved Compliance Policy and Code of Conduct ensures that the Bank stays ahead of best practice related to business conduct and ethics.</p>
	D.4.2 Affirmative declaration by Chairman of compliance with Code of Business Conduct & Ethics.	Is complied by this Report.

Corporate Governance Principle	Rule	Details of Compliance
<p>Principle D.5 Corporate Governance Disclosures</p> <p>Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good Corporate Governance.</p>	D.5.1 Disclosure of Corporate Governance	<p>Complied.</p> <p>The requirement is met through the presentation of this Corporate Governance Report.</p>
<p>E. Institutional Investors</p>		
<p>Principle E.1 Institutional shareholders have a responsibility to make considered use of their votes and should be encouraged to ensure their voting intentions are translated into practice.</p>	E.1 Shareholders voting	<p>Complied.</p> <p>The Annual General Meeting is used as an effective channel to create a dialogue between the shareholders and the Board of Directors. Also The Chairman and CEO have regular structured meetings with institutional shareholders. Board members are briefed about the matters discussed at such meetings.</p>
<p>Principle E.2 When evaluating Companies' Governance arrangements, particularly those relating to Board structure and composition, institutional investors should be encouraged to give due weight to all relevant factors drawn to their attention.</p>	E.2 Evaluating the Corporate Governance initiatives	<p>Complied.</p> <p>Institutional investors are encouraged to give due weight to all relevant factors in Board structure and composition</p>
<p>F. Other Initiative</p>		
<p>Principle F.1 Individual shareholders, investing directly in shares of companies should be encouraged to carry-out adequate analysis or seek independent advice in investing or divesting decisions.</p>	F.1 Investing/Divesting decisions	<p>Complied.</p> <p>The Annual Report contains sufficient information for a potential investor to carry out his/her own analysis. Further, Interim Financial Statements provided each quarter, provides sufficient information to enable the retail investors to make informed judgements regarding the performance of the Bank.</p> <p>Additionally, there is a separate part of the Bank's website dedicated to Investor Relations which provides this information online to all investors/shareholders.</p>
<p>Principle F.2 Individual shareholders should be encouraged to participate in General Meetings of companies and exercise their voting rights.</p>	F.2 Shareholder Voting	<p>Complied.</p> <p>Individual shareholders are encouraged to participate at the Annual General Meeting and exercise their voting rights.</p>

Corporate Governance Principle	Rule	Details of Compliance
G. Sustainability Reporting		
Principle G.1.1 The principle of Economic Sustainability Governance recognizes how organizations take responsibility for impacts of their strategies, decisions and activities on Economic Performance and Corporate Citizenship in their sphere of influence (including geographic) and how this is integrated throughout the organization.	G.1.1 Economic Sustainability	Complied. Please refer pages 37 to 98 for details.
Principle G.1.2 Environmental Governance of an organisation should adopt an integrated approach that takes into consideration the direct and indirect economic, social, health and environmental implications of their decisions and activities, including pollution prevention, sustainable resource use, climate change, protection of environment, bio-diversity and restoration of national resources.	G.1.2 Environmental Governance	Complied. Please refer pages 93 to 98 for details.
Principle G.1.3 Labour Practices Governance of an organisation encompass all policies and practices relating to work performed by or on behalf of the organization.	G.1.3 Labour Practice	Complied. Please refer pages 82 to 92 for details.
Principle G.1.4 Society Governance encompasses support for and building a relationship with the community and striving for sustainable development including responsible public policy participation, fair competition and responsible community involvement.	G.1.4 Society Governance	Complied. Please refer pages 93 to 98 for details.

Corporate Governance Principle	Rule	Details of Compliance
<p>Principle G.1.5 Product Responsibility Governance includes manufacturing quality products and distributing them and ensuring that the products are safe for the consumers and the environment and also communicating clearly with consumers so that they can make an informed choice including factual unbiased information and fair contractual practices and consumer data protection and privacy.</p>	G.1.5 Product Responsibility	<p>Complied.</p> <p>Please refer pages 67 to 81 for details.</p>
<p>Principle G.6 Stakeholder Identification, Engagement & Effective communication. Internal and external stakeholder groups should be identified in relation to the Company's sphere of influence, impact and implication. Communications should be proactive and transparent. The communication with stakeholders should include reporting on economic, social and environmental issues and be relevant, material, comparable with past performance and should be well presented focusing on substance over form.</p>	G.1.6 Stakeholder identification, engagement & effective communication	<p>Complied.</p> <p>Please refer pages 28 to 36 for details.</p>
<p>Principle G.7 Sustainable Reporting and Disclosure should be formalized as part of the Company's reporting processes and take place on a regular basis.</p>	G.7 Sustainable Reporting and Disclosures	<p>Complied.</p> <p>Please refer pages 37 to 98 and pages 396 to 399 for details.</p>





Good Governance

Good governance is all about performance with accountability - accountability to all the stakeholders. Since good governance will lead to sustainable performance, it is in our own interest that we institute good governance. We in fact have done so in line with the spirit of the law.