

# Compliance Status

## Compliance with the Provisions of the Banking Act Direction NO.12 of 2007 of the Central Bank of Sri Lanka

Guideline	Function of the Board	Level of compliance	Complied/Not
3 (1) (i)	The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following:		
	(a) Ensure that the Board-approved strategic objectives and corporate values are communicated throughout the Bank.	Strategic objectives and corporate values were approved by Board of Directors for 2017-2020 and communicated to all employees through frequent meetings with the Corporate and Senior Managers.	Complied with
	(b) Overall business strategy including the overall risk policy and risk management procedures and mechanisms with measurable goals.	The Bank's current Strategic Plan includes measurable goals and there is a Board-approved risk management policy which defines risk-related procedures and tools for identification, measurement and management of risk exposures.	Complied with
	(c) Identify the principal risks and ensure implementation of appropriate system to manage the risk prudently.	The Board has delegated its risk-related functions to a dedicated committee, namely the Board Integrated Risk Management Committee (BIRMC) and its findings are submitted on a quarterly basis to the main Board for review.	Complied with
	(d) A policy of communication is available with all stakeholders, including depositors, creditors, shareholders and borrowers.	Board-approved Communication Policy is in place.	Complied with
	(e) Reviewed the adequacy and the integrity of the Bank's internal control systems and management information system.	The Board reviews the adequacy and the integrity of the Bank's internal control system by way of internal audit reports submitted to the Board through the Audit Committee on a monthly basis, which is also assured by the External Auditor.  Board Audit Committee (BAC) and the Board have reviewed the adequacy and the integrity of the Bank's Management Information System.	Complied with  Complied with
	(f) Identified and designated Key Management Personnel, as defined in the Central Bank Guidelines.	Based on Corporate Governance Direction issued by the Central Bank of Sri Lanka (CBSL), the Board has designated Key Management Personnel (KMP) of the Bank.	Complied with
	(g) Defined the areas of authority and key responsibilities for the Board of Directors themselves and for the Key Management Personnel.	Areas of authority and key responsibilities of the KMPs are included in their Job Descriptions (JDs).  Areas of authority and key responsibilities of Board of Directors (BOD) are defined in the Articles of Association.	Complied with
	(h) Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel that is consistent with Board policy.	Board has exercised appropriate oversight of the affairs of the Bank by KMPs through Chief Executive Officer (CEO) and when the need arises they are called by the Board to explain matters relating to their areas.	Complied with
	(i) Periodically assess the effectiveness of the Board of Directors own governance policies including –		
	(a) The selection, nomination and election of Directors and Key Management Personnel.	A transparent procedure for selecting and appointing new Directors upon the recommendation of the Board Selection and Nominations Committee and a Policy of selection, appointment and remuneration of the KMPs are in place.	Complied with
	(b) The management of conflicts of interests.	Director's interests are disclosed to the Board and Directors who have a particular interest abstained from voting in such a situation and he/she is not counted for the quorum.	Complied with
	(c) The determination of weaknesses and implementation of changes where necessary.	Determination of weaknesses of BODs has been identified through the self-evaluation process for 2018.	Complied with

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	(j) Ensure that the Bank has a succession plan for Key Management Personnel.	Committee has developed a succession plan and procedure for appointing Independent Non-Executive Directors in place of retiring Directors of the Bank.  One to one succession plan for KMPs is available with the Board.	Complied with
	(k) Ensure that the Board has scheduled regular meetings with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Board meets the KMPs at Board committees to review policies and monitor progress towards corporate objectives at quarterly performance review meetings. when the need arises they are called by Board to explain matters relating to their area.	Complied with
	(l) Understand the regulatory environment and that the Bank maintains a relationship with regulators.	All the new regulations and directions issued by regulators and non-compliances are reported to the BODs by the Compliance Officer for their understanding of the regulatory environment.  Awareness programmes are conducted on an ongoing basis.	Complied with
	(m) Process in place for hiring and oversight of External Auditors.	The Board selects External Auditors through the BAC, which holds responsibility for overseeing their activities.	Complied with
3 (1) (ii)	The Board has appointed the Chairman and the Chief Executive Officer (CEO) and define the functions and responsibilities of the Chairman and the CEO are in line with Direction No. 3 (5).	Appointment of the Chairperson and CEO is done by the Board and functions are defined as per Direction No 3 (5).	Complied with
3 (1) (iii)	The Board has met regularly and held Board meetings at least twelve times a year at approximately monthly intervals.	15 meetings were held during the year.	Complied with
3 (1) (iv)	The Board has a procedure 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.	A Board-approved procedure is in place allowing all Directors to include matters and proposals in the agenda for regular Board meetings.	Complied with
3 (1) (v)	The Board has given notice of at least seven days for a regular Board meeting to provide all Directors an opportunity to attend. And for all other Board meetings, notice has been given.	Directors are notified of Board meetings more than seven days in advance.	Complied with
3 (1) (vi)	The Board has taken required action on Directors who have not attended at least two-third of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held. Participation at the Directors' meetings through an alternate Director, however, is acceptable as attendance.	Such a situation did not arise during the year.	Complied with
3 (1) (vii)	The Board has appointed a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	The Company Secretary is an Attorney-At-Law who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988.	Complied with
3 (1) (viii)	All Directors to have access to advice and services of the Company Secretary.	All the Directors are free to access the Company Secretary for her advices and services.	Complied with
3 (1) (ix)	The Company Secretary maintains the minutes of Board meetings and there is a process for the Directors to inspect such Minutes.	The Minutes of Board meetings are maintained by the Company Secretary; and during each Board meeting the Board of Directors approve the Minutes of the previous Board meeting.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not
3 (1) (x)	The Minutes of a Board meeting 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 matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) The 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.	Minutes of the Board meetings contains all the necessary information required under the direction.	Complied with
3 (1) (xi)	There are procedures agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense.	A Board-approved procedure is in place to seek independent professional advice when necessary, with the cost borne by the Bank.	Complied with
3 (1) (xii)	There is a procedure to determine, report, resolve and to take appropriate action relating to Directors avoiding conflicts of interests, or the appearance of conflicts of interest. A Director has abstained 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 in the quorum for the relevant agenda item at the Board meeting.	There is a provision in the Related Party Transaction Policy to determine, report, resolve and to take appropriate actions relating to Directors to avoid conflicts of interests, or the appearance of conflicts of interest.	Complied with
3 (1) (xiii)	The Board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the Bank is firmly under its authority.	A formal schedule of matters specifically reserved for the Board is in place.	Complied with
3 (1) (xiv)	The Board has forthwith informed the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action, if it considers that the procedures to identify when 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.	This situation did not arise during the year.	Complied with
3 (1) (xv)	The Board shall ensure that the Bank capitalised at levels as required by the Monetary Board.	The Bank was fully compliant with the Capital Adequacy Requirements during the year.	Complied with
3 (1) (xvi)	The Board shall publish, in the Bank's Annual Report, an Annual Corporate Governance Report setting out the compliance with Direction No. 3 of these directions.	This report serves this purpose.	Complied with
3 (1) (xvii)	The Board adopts a scheme of self-assessment to be undertaken by each Director annually, and maintains records of such assessments.	Board has a scheme of self-assessment of Directors and the Company Secretary maintains records of such evaluations.	Complied with
<b>3 (2)</b>	<b>The Board's Composition:</b>		
3 (2) (i)	The Board comprises of not less than 7 and not more than 13 Directors.	The Board comprised Nine Directors as at 31 December 2018.	Complied with
3 (2) (ii)	The total period of service of a Director other than a Director who holds the position of CEO, does not exceed nine years.	None of the Directors have completed nine years of service in the Board.	Complied with
3 (2) (iii)	The number of Executive Directors, including the CEO does not exceed one-third of the number of Directors of the Board.	The Board comprises solely of Non-Executive Directors; the CEO is not a Board member.	Complied with
3 (2) (iv)	The Board has at least three independent Non-Executive Directors or one-third of the total number of Directors, whichever is higher.	Board comprises Four Independent Non-Executive Directors.	Complied with

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3 (2) (v)	In the event an Alternate Director was appointed to represent an Independent Director, the person so appointed meets the criteria that apply to the Independent Director.	This situation did not arise during the financial year 2018.	Complied with
3 (2) (vi)	The Bank has a process for appointing Independent Directors.	A procedure is in place for appointing Independent Directors by the Board upon the recommendation of the Board Selection and Nominations Committee.	Complied with
3 (2) (vii)	The stipulated quorum of the Bank includes more than 50% of the Directors and out of this quorum more than 50% should include Non-Executive Directors.	Every meeting during the year was consistent with the required quorum and composition.	Complied with
3 (2) (viii)	The Bank discloses 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.	The composition of the Board has been disclosed under "Board of Directors" on page 111 of this Annual Report.	Complied with
3 (2) (ix)	There shall be procedure for the appointment of new Directors to the Board.	A procedure for appointing new Directors with the recommendation of the Board Selection and Nomination Committee is in place.	Complied with
3 (2) (x)	All Directors appointed to fill a casual vacancy are subject to election by shareholders at the first general meeting after their appointment.	Appointment of Directors are done according to the Bank's Articles of Association.	Complied with
3 (2) (xi)	If a Director resigns or is removed from office, the Board – (a) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and (b) Issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Directors' resignation/removal and the reason for such resignation are duly informed to the CBSL and Colombo Stock Exchange.	Complied with
3 (2) (xii)	There is a process to identify whether a Director or an employee of a Bank is appointed, elected or nominated as a Director of another Bank.	Directors provide annual declarations regarding their employment or directorships in other banks; None of the present Directors of the Bank acts as Director of another bank.  The Letter of Appointment and Code of Conduct issued to the employees explicitly prevents employees from accepting any directorship of other banks without the prior permission from the Bank.	Complied with
<b>3 (3)</b>	<b>Criteria to assess the fitness and propriety of Directors</b>		
3 (3) (i)	The age of a person who serves as Director does not exceed 70 years.	Declarations given by Directors at the time of appointment indicate the date of birth. The age is monitored accordingly.	Complied with
3 (3) (ii)	No person shall hold office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.	As per the declaration made by Directors, none of the Directors are holding Directorship in more than 20 companies.	Complied with
<b>3 (4)</b>	<b>Management functions delegated by the Board</b>		
3 (4) (i)	The delegation arrangements have been approved by the Board.	The Board is empowered by the Articles of Association to delegate its powers to the General Manager/CEO upon such terms and conditions and with such restrictions as the Board may think fit.	Complied with
3 (4) (ii)	The Board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.	The Board has delegated its authority to KMPs through CEO subject to final responsibility being retained with them.	Complied with
3 (4) (iii)	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 delegated powers are reviewed periodically by the Board to ensure that they remain relevant to the needs of the Bank.	Complied with

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<b>3 (5)</b>	<b>The Chairman and CEO</b>		
3 (5) (i)	The roles of Chairman and CEO is separate and not performed by the same individual.	Roles of Chairman and CEO are held by two different individuals that carry out different functions.	Complied with
3 (5) (ii)	The Chairman is a Non-Executive Director. In the case where the Chairman is not an Independent Director, the Board designates an Independent Director as the Senior Director with suitably documented terms of reference. The designation of the Senior Director is disclosed in the Bank's Annual Report.	The Chairperson is Non-Executive and Non-Independent Director and the Bank has appointed a Non-Executive independent Director as the Senior Director.  This is disclosed under the "Annual Report of the Board of Directors on the Affairs of the Company " and " Board of Directors".	Complied with
3 (5) (iii)	The Board has a process to identify and disclose in its Corporate Governance Report, which shall be a part of its Annual Report, any relationship, if any, between the Chairman and the CEO and Board members and the nature of any relationships including among members of the Board.	There is a process to obtain an annual declaration from each Director about relationships, if any, between the Chairman and the CEO and Board members and its nature.  If there is any relationship, it is disclosed in the Corporate Governance Report in the Annual Report.	Complied with
3 (5) (iv)	The Board has a self-evaluation process where the Chairman – (a) Provides leadership to the Board; (b) Ensures that the Board works effectively and discharges its responsibilities; and (c) Ensures that all key and appropriate issues are discussed by the Board in a timely manner.	A scheme of self-assessment process for the BODs is in place.	Complied with
3 (5) (v)	A formal agenda is circulated by the Company Secretary approved by the Chairman.	The Agenda for each Board meeting is prepared by the Company Secretary, which is approved by the Chairperson.	Complied with
3 (5) (vi)	The Chairman ensures, through timely submission that all Directors are properly briefed on issues arising at Board meetings.	The Chairperson ensures that the Directors receive adequate information in a timely manner and Directors are properly briefed on issues arising at the Board meeting.  The minutes of the previous month's meetings are distributed to the Board members in advance and tabled at the next Board meeting for approval.	Complied with
3 (5) (vii)	The Board has a self evaluation process that encourages all Directors to make a full and active contribution to the Board's affairs and the Chairman takes the lead to act in the best interest of the Bank.	A scheme of self-assessment process for the BODs is in place which covers the requirement.	Complied with
3 (5) (viii)	The Board has a self-evaluation process that assesses the contribution of Non-Executive Directors.	Assessment process covers the contribution of Non-Executive Directors as well.  All the Directors are Non-Executive.	Complied with
3 (5) (ix)	The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	The Chairperson is a Non-Executive Director and has not engaged in any activities involving direct supervision of KMPs or any other executive duties during the financial year 2018.	Complied with
3 (5) (x)	There is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	AGM of the Bank is the main platform through which the Board maintains effective communication with shareholders and further the communication policy of the Bank is evidence there is a process in this regard.	Complied with
3 (5) (xi)	The CEO functions as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	The CEO functions as the apex executive-in charge of the day-to-day management of the Bank's operations and business.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not
<b>3 (6)</b>	<b>Board-appointed Committees</b>		
3 (6) (i)	The Bank has established at least four Board committees as set out in Direction 3 (6) (ii), 3 (6) (iii), 3 (6) (iv) and 3 (6) (v) of these Directions. The Committee report is addressed directly to the Board. The Board presents in its Annual Report, a report on each committee on its duties, roles, and performance.	<p>Following committees established and directly report to the Board and minutes of the same are discussed and ratified at the main Board meeting:</p> <p>(1) Board Audit Committee (BAC)  (2) Board Human Resources and Remuneration Committee (BHRRC)  (3) Board Selection and Nomination Committee (BSNC)  (4) Board Integrated Risk Management Committee (BIRMC)  (5) Board Credit Committee (BCC)  (6) Board Related Party Transaction Review Committee (BRPTRC)</p> <p>This is disclosed under the "Report of the Directors".</p>	Complied with
3 (6) (ii)	Board Audit Committee		
(a)	The Chairman of the Committee is an Independent Non-Executive Director and possesses qualifications and related experience.	The Chairman is an Independent Non-Executive Director who is a qualified Chartered Accountant.	Complied with
(b)	All members of the Committee are Non-Executive Directors.	All members are Non-Executive Directors.	Complied with
(c)	The Committee has made recommendations on matters in connection with –	The Committee make recommendations regarding those matters.	Complied with
	(i) The appointment of the External Auditors 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 Auditors; 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.		
(d)	The Committee has obtained representations from the External Auditor on their independence, and that the audit is carried out in accordance with SLAuS.	External Auditors are independent since they report directly to the BAC. The Report on the Financial Statements of the Bank for the year 2018 indicates that the audit is carried out in accordance with SLAuS.	Complied with
(e)	The Committee has implemented a policy on the engagement of an External Auditor to provide non-audit services in accordance with relevant regulations.	Committee has implemented the policy in this regard.	Complied with
(f)	The Committee has discussed and finalised the nature and scope of the audit, with the External Auditors in accordance with SLAuS before the audit commences.	Committee has discussed and finalised the Audit Plan 2018, with nature and scope of the audit and deliverables, with the External Auditors in accordance with SLAuS before the audit commences.	Complied with

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(g)	The Committee has a process to 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 a process in place to receive from the CFO the following: (i) Major judgemental areas; (ii) Any changes in accounting policies and practices; (iii) The going concern assumption; and (iv) The compliance with relevant accounting standards and other legal requirements; and (v) In respect of the Annual Financial Statements the significant adjustments arising from the audit.	BAC reviews the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, when the Annual Financial Statements and other accounts are submitted to the BAC by the CFO.	Complied with
(h)	The Committee has met the External Auditors relating to any issue in the absence of the Executive Management with relation to the audit.	Committee has met the External Auditors in the absence of the Executive Management during the year.	Complied with
(i)	The Committee has reviewed the External Auditors' Management Letter and the Management's response thereto.	BAC reviews the External Auditors' Management Letter and Management, response at the meeting.	Complied with
(j)	The Committee shall take the following steps with regard to the internal audit function of the Bank; (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) 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) The internal audit function is independent of the activities it audits.	The Committee reviews the adequacy of the scope, functions, and resources of the Internal Audit Department.  The Committee reviews the internal audit programmes, and progress of internal audit function for the year 2018 was discussed at BAC.  BAC has evaluated the performance of the Head of Internal Audit for the year 2018.  Appointment, termination, or transfers of the head, senior staff and outsource service providers of the internal audit function are approved by the BAC.  There were no resignation or termination of senior staff, or outsourced service providers of the Internal Audit Department during the period.  Internal Audit Department is independent since they report directly to the BAC and is not involved in any operational activities of the Bank. Its functions are performed with impartially proficiency and due professional care.	Complied with  Complied with  Complied with  Complied with  Complied with
(k)	The minutes to determine whether the Committee has considered major findings of internal investigations and Management's responses thereto;	The Committee has reviewed all the findings and advised the internal investigation officers for appropriate actions.	Complied with
(l)	Ensure that whether the Committee has had at least two meetings with the External Auditors without the Executive Directors being present.	There are no Executive Directors in the Board and they have met on more than two occasions with the External Auditors.	Complied with

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	(m) The Terms of Reference of the Committee to ensure that there is – (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.	The Board approved Terms of Reference (ToR) of the Committee addresses all those matters.	Complied with
	(n) The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties.	During the year 2018, BAC has held more than 12 regular meetings and its minutes are maintained by the Company Secretary.	Complied with
	(o) The Board has disclosed in the annual report, (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.	This information is disclosed in the Annual Report under the following headings: (i) “Report of the Board Audit Committee”. (ii) and (iii) “ Annual Report of the Board of Directors on the Affairs of the Company”	Complied with
	(p) The secretary of the Committee is the Company Secretary or the Head of the internal audit function.	The secretary of the Committee is the Chief Internal Auditor.	Complied with
	(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 Auditors.	This requirement has been documented in the “Whistle Blower” policy and approved by the Board.	Complied with
3 (6) (iii)	The following rules apply in relation to the Human Resources and Remuneration Committee: (a) The Committee has implemented a policy to determine the remuneration (salaries, allowances, and other financial payments) relating to Directors, CEO and Key Management Personnel of the Bank by review of the “Terms of Reference” and minutes. (b) The goals and targets for the Directors, CEO and the Key Management Personnel are documented. (c) The Committee has considered evaluations of the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determines the basis for revising remuneration, benefits, and other payments of performance-based incentives. (d) The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	BHRRC has implemented a policy to determine the remuneration of Directors. Committee has implemented a policy to determine the remuneration relating to CEO and KMPs of the Bank. Goals and targets for the KMPs are in place and approved by the Board. However, this process needs to be strengthened after implementation of new performance management system going forward. No Executive Directors are available in the Board. Goals and targets of CEO and KMPs are reviewed by the BHRRC. The Bank has a process to review and evaluate the performance of CEO and KMPs by the BHRRC/BAC or BIRMC. CEO is present at all meetings other than when matters relating to the CEO are discussed.	Complied with Complied with Complied with Complied with



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3 (6) (iv)	The following rules apply in relation to the Nomination Committee:		
	(a) The Committee has implemented a procedure to select/appoint new Directors, CEO, and Key Management Personnel.	Board has a policy and procedure for the selection, appointment and remuneration of the Directors, CEO, and KMPs.	Complied with
	(b) The Committee has considered and recommended (or not recommended) re-election of current Directors.	Duly recommended.	Complied with
	(c) The Committee has set the criteria such as qualifications, experience, and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the Key Management Personnel, by review of job descriptions.	Criteria such as qualifications, experience, and key attributes required for eligibility for appointment or promotion to the post of CEO are submitted at the Selection and Nomination Committee.  Criteria for KMPs are included in their Job descriptions approved by the HRRC committee.  These Job descriptions are submitted at the Nomination Committee for their review.	Complied with
	(d) The Committee has obtained from the Directors, CEO, and Key Management Personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction No. 3 (3) and as set out in the Statutes.	Signed Declarations are obtained from Directors, CEO, and KMP that they are fit and proper persons to hold the office.	Complied with
	(e) The Committee has considered a formal succession plan for the retiring Directors and Key Management Personnel.	The Committee has developed a succession plan and procedure for appointing Independent Non-Executive Directors in place of retiring Directors of the Bank.  The Bank has developed a one-to-one succession plan for KMPs.	Complied with
	(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.	The Committee is chaired by an Independent Director, and the majority of the members are also Independent Directors.  The CEO participates only on invitation.	Complied with
3 (6) (v)	The following rules apply in relation to the Board Integrated Risk Management Committee (BIRMC):		
	(a) The Committee shall consist of at least three Non-Executive Directors, CEO, and Key Management Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational, and strategic risks, and work within the framework of the authority and responsibility assigned to the Committee.	At present BIRMC consists of three Non-Executive Directors.  The Committee will include CEO and KMPs supervising broad risk categories, i.e. credit, market, liquidity, operational, and strategic risks as members of the Committee.	Complied with
	(b) The Committee has a process to 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.	Credit, market, operational, and strategic risks are evaluated on a monthly basis by the Executive Integrated Risk Management Committee and minutes are submitted to BIRMC on quarterly basis.  At present the Bank has no subsidiary or associate companies.	Complied with
	(c) The Committee has reviewed specific quantitative and qualitative risk limits for all management level Committees such as the Credit Committee and the Asset, and Liability Committee, and report any risk indicators periodically.	The Committee has reviewed the effectiveness of management level committees such as the Credit Committee and the Asset, and Liability Committee.	Complied with

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	(d) The Committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	The BIRMC reviews risk indicators which have exceeded the defined limits.	Complied with
	(e) The Committee has met at least quarterly.	Committee has met five times during 2018.	Complied with
	(f) The Committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	Disciplinary actions to be taken against officers responsible for failure to identify specific risk is discussed at the Committee and it is incorporated into the disciplinary procedure manual.	Complied with
	(g) The Committee submits a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	All the risk assessment reports are reviewed by the Committee and the Committee will take actions to submit a risk assessment report for the next Board meeting.	Complied with
	(h) The Committee has established 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 and that there is a dedicated Compliance Officer selected from Key Management Personnel to carry out the compliance function and report to the Committee periodically.	Compliance function is in place to ensure that the Bank complies with all relevant regulations, rules, and guidelines. A dedicated senior officer has been appointed by the Bank in this regard who has designated as a KMP.  The Compliance Officer submits a monthly compliance report to the Board and Related Party Transaction Report on a monthly basis to the main Board.	Complied with
<b>3 (7) Related Party Transaction</b>			
3 (7) (i)	There is an established and documented process by the Board to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:  (a) Any of the Bank's subsidiary companies; (b) Any of the Bank's associate companies; (c) Any of the Directors of the Bank; (d) Any of the Bank's Key Management Personnel; (e) A close relation of any of the Bank's Directors or Key Management Personnel; (f) A shareholder owning a material interest in the Bank; (g) A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest.	There is a Board approved "Related Party Transaction Policy" which defines guidelines on related parties and avoiding any conflicts of interest with said parties that may arise from such transactions of the Bank.  Transactions with related parties are done strictly according to the Board approved Related Party Transaction Policy and are reported to the Board on monthly basis.  Further, the Related Party Transactions Review Committee (RPTRC) is a subcommittee of the Board and is responsible for making decisions over related party transactions other than day-to-day business activities.	Complied with
3 (7) (ii)	There is a process to identify and report the following types of transactions been identified as transactions with related parties that are covered by this direction.  (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,	There is a Board approved "Related Party Transaction Policy" which defines guidelines on related parties and avoiding any conflicts of interests with said parties that may arise from such transactions of the Bank.  Bank has started the reporting of related party transactions with regard to related entities to the Board of Directors on a monthly basis.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not
3 (7) (iii)	<p>The Board has a process to ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i), 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.</p> <p>(a) Granting of “total net accommodation” to related parties, exceeding a prudent percentage of the Bank’s regulatory capital, as determined by the Board.</p> <p>(b) Charging of a lower rate of interest than the Bank’s best lending rate or paying more than the Bank’s deposit rate for a comparable transaction with an unrelated comparable counterparty.</p> <p>(c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;</p> <p>(d) Providing services to or receiving services from a related party without an evaluation procedure;</p> <p>(e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential, or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.</p>	<p>The Board approved “Related Party Transaction Policy” in place which defines related parties and types of related party transactions and for the Bank not to 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.</p> <p>The Bank modified the system to enable the effective identification of related party transactions and to ensure that there are no favourable treatments offered to such related parties than that accorded to other constituents of the Bank carrying on the same business.</p> <p>However, this process needs to be strengthened, implementing a mechanism to get a “pop up” when the name or other identifying data of a related party is entered into systems of the Bank. Monitoring has to be carried out accordingly covering all the products of the Bank to ensure the Bank would not offer “more favorable treatment” to related parties.</p>	Complied with
3 (7) (iv)	<p>The Bank has a process for granting accommodation to any of its Directors and Key Management Personnel, and that 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 and that this accommodation be secured by such security as may from time to time be determined by the Monetary Board as well.</p>	<p>This requirement is documented in the Board approved Related Party Transaction Policy.</p>	Complied with
3 (7) (v)	<p>(a) The Bank has a process, 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, that steps have been taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.</p> <p>(b) Where such security is not provided by the period as provided in Direction 3 (7) (v) (a) above, has the Bank taken 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) There is a process to identify any Director who fails to comply with the above sub directions be deemed to have vacated the office of Director and has the Bank disclose such fact to the public.</p>	<p>No such matters were pending as at end of 31 December 2018.</p> <p>No such matters are outstanding as at 31 December 2018.</p> <p>Such a situation did not occur during 2018.</p>	<p>Complied with</p> <p>Complied with</p> <p>Complied with</p>

Guideline	Function of the Board	Level of compliance	Complied/Not
	(d) Process in place to ensure Clause 3 (7) (v) (c) does not apply to any 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.	Such a situation did not occur during 2018.	Complied with
3 (7) (vi)	There is a process in place to identify when the bank grants 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.	No favourable treatments were given to the employees under any category other than staff benefit schemes approved by the Board of Directors.	Complied with
3 (7) (vii)	There is a process to obtain prior approval from the Monetary Board for any accommodation granted by the Bank under Direction 3 (7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary Board and any remission without such approval is void and has no effect.	Not applicable due to the reasons mentioned in 3 (7) (v) and 3 (7) (vi) above.	Complied with
<b>3 (8)</b>	<b>Disclosures</b>		
3 (8) (i)	The Board ensure that the Board has disclosed: <ul style="list-style-type: none"> <li>(a) Annual Audited Financial Statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.</li> <li>(b) Quarterly Financial Statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.</li> </ul>	Annual Audited Financial Statements including basis of preparation and presentation, statement of compliance is disclosed in the Annual Report 2018 and such Audited Financial Statements and quarterly Financial Statements have been published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with
3 (8) (ii)	The Board has made the following minimum disclosures in the Annual Report: <ul style="list-style-type: none"> <li>(a) The 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.</li> <li>(b) The 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.</li> <li>(c) The board has obtained the assurance report issued by the Auditors under "Sri Lanka Standards on Assurance Engagements SLSAE – 3050 – Assurance reports for banks on Directors Statement on Internal Control" referred to in Direction 3 (8) (ii) (b) above.</li> </ul>	Specific disclosures are available on page 120 of this Annual Report under "Statement of Directors Responsibility for Financial Reporting".	Complied with
		Specific disclosures are available on page 116 of this Annual Report under "Directors' Statement on Internal Control over Financial Reporting".	Complied with
		Board has obtained the Assurance Report issued by the Auditors under "Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Reports for Banks on Directors' Statements on Internal Control" and included on page 118 of this Annual Report.	Complied with

Guideline	Function of the Board	Level of compliance	Complied/Not														
(d)	Details of Directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the Bank, and the total of fees/remuneration paid by the Bank.	<p>Details on the same are disclosed under heading “Board of Directors”.</p> <p>Fees and transactions with the Bank has been disclosed in this report under direction 3 (8) (ii) (f).</p>	Complied with														
(e)	Total net accommodation as defined in direction 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.	<p>Disclosures of accommodation outstanding as of balance sheet date to related parties are made under Notes to the Financial Statements in the Annual Report. Net accommodations granted to each category of related parties and its percentage as a Bank capital is as follow.</p> <table border="1"> <thead> <tr> <th>Category of Related Party</th> <th>Balance LKR Mn.</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>Board of Directors</td> <td>21.47</td> <td>0.29</td> </tr> <tr> <td>Corporate Management</td> <td>104.21</td> <td>1.40</td> </tr> <tr> <td>Related Companies</td> <td>72.99</td> <td>0.98</td> </tr> </tbody> </table> <p><i>Spouses and other family members of Related Parties – NIL</i></p>	Category of Related Party	Balance LKR Mn.	%	Board of Directors	21.47	0.29	Corporate Management	104.21	1.40	Related Companies	72.99	0.98	Complied with		
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Corporate Management	104.21	1.40															
Related Companies	72.99	0.98															
(f)	The aggregate values of remuneration paid by the Bank to its Key Management Personnel and Directors, and the aggregate values of the transactions of the Bank with its Key Management Personnel and Directors, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.	<p>Disclosure of remuneration paid by the Bank to its KMP and Directors and other transactions with KMPs and Directors are disclosed below.</p> <table border="1"> <thead> <tr> <th rowspan="2">Category of KMP</th> <th colspan="2">Balance as at 31 December 2018 (LKR Mn.)</th> <th rowspan="2">Remuneration/ Fees paid during the year (LKR Mn.)</th> </tr> <tr> <th>Deposit</th> <th>Loan outstanding</th> </tr> </thead> <tbody> <tr> <td>Directors</td> <td>0.08</td> <td>2.03</td> <td>19.44</td> </tr> <tr> <td>Corporate Management (AGM grade and above)</td> <td>3.87</td> <td>26.81</td> <td>77.40</td> </tr> </tbody> </table>	Category of KMP	Balance as at 31 December 2018 (LKR Mn.)		Remuneration/ Fees paid during the year (LKR Mn.)	Deposit	Loan outstanding	Directors	0.08	2.03	19.44	Corporate Management (AGM grade and above)	3.87	26.81	77.40	Complied with
Category of KMP	Balance as at 31 December 2018 (LKR Mn.)			Remuneration/ Fees paid during the year (LKR Mn.)													
	Deposit	Loan outstanding															
Directors	0.08	2.03	19.44														
Corporate Management (AGM grade and above)	3.87	26.81	77.40														
(g)	Board has confirmed in its Annual Corporate Governance Report that all the findings of the “Factual Findings Report” of Auditors issued under “Sri Lanka Related Services Practice Statement 4750” have been incorporated in the Annual Corporate Governance Report.	Board has confirmed in the 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 Annual Corporate Governance Report.	Complied with														
(h)	A report setting out details of the compliance with prudential requirements, regulations, laws, and internal controls and measures taken to rectify any material non-compliance.	This aspect is covered by the “Board of Directors on the affairs of the Company” on page 115 of this Annual Report.	Complied with														
(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.	No such direction was issued by the Monetary Board during the year.	Complied with														

Corporate governance principle	SEC and ICASL code reference	Description of the requirement	SDB Bank's Extent of compliance in 2018
<b>A. Directors</b>			
<b>A.1. The Board</b>			
The Bank should be headed by a Board, which should direct, lead and control the Bank			
All Directors of the Bank function in a Non-Executive capacity. The Board consists of professionals in the fields of Banking, Accounting, Rural Development, Management and Economics. All Directors possess the skills, experience and knowledge combined with a high sense of integrity and independent judgement. The Board gives leadership in setting the strategic direction and establishing a sound control framework for the successful functioning of the Bank. The Board's composition reflects sound balance of independence and anchors shareholder commitment.			
1. Board meetings	A.1.1	The Board should meet regularly. At least once a quarter.	The Board meets regularly on monthly basis. During the year the Board met 15 times.
2. Board responsibilities	A.1.2	Board should provide an entrepreneurial leadership within a framework of prudent and effective controls.	The Board is responsible to the shareholders for creating and delivering sustainable shareholder value through the management of business. The Board has provided strategic direction in vision statement, mission statement and the Annual budget.
3. Compliance with laws and access to independent professional advice	A.1.3	The Board collectively and Directors individually must act in accordance with rules and regulations.	The Board collectively as well the Directors individually, recognise their duties to comply with laws of the country which are applicable to the Bank. A procedure has been put in place for Directors to seek independent professional advice, in furtherance of their duties, at the Bank's expense. This will be coordinated through the Board Secretary, as and when it is requested.
4. Board secretary	A.1.4	All Directors should have access to the advice and services of secretary.	All Directors have access to the Board Secretary. Further, she provides the Board with support and advice relating to Corporate Governance matters, Board procedures and applicable rules and regulations.
5. Independent judgement	A.1.5	All Directors should bring an independent judgement to bear on issues of strategy.	Directors are responsible for bringing independent and objective judgement, and scrutinising the decisions taken by the Corporate Management led by the GM/CEO, on issues of strategy, performance, resources utilisation and business conduct.
6. Dedication of adequate time and effort by the Board and Board Committee	A.1.6	Every Director should dedicate adequate time and effort to matters of the Board and the Company.	"The Chairperson and members of the Board have dedicated adequate time for the fulfillment of their duties as Directors of the Bank. In addition to attending Board meetings, they have attended Subcommittee meetings and also have made decisions via circular resolution where necessary. Papers relating to the Board meetings are sent well in advance allowing sufficient time for preparation."
7. Training for new Directors	A.1.7	Every Director should get an appropriate training.	The Board of Directors recognise the need for continuous training and expansion of knowledge and undertake such professional development as they consider necessary in assisting them to carry out their duties as Directors.
<b>A.2 Chairman and CEO</b>			
There should be a clear division of responsibilities between the Chairperson and the Chief Executive Officer to ensure a balance of power and authority, in such a way that any individual has no unfettered powers of decisions. The roles of the Chairperson and the Chief Executive Officer are functioning separately at SDB Bank. The Chairperson's main responsibility is to lead, direct and manage the work of the Board to ensure that it operates effectively and fully discharges its legal and regulatory responsibilities. CEO is responsible for the day-to-day operations of the Bank.			
1. Division of responsibilities of the Chairperson and the MD/CEO	A.2.1	A decision to combine the posts of Chairman and the CEO in one person should be justified and highlighted in the Annual Report.	The roles of the Chairperson and the Chief Executive Officer have been segregated, ensuring an appropriate balance of power.

Corporate governance principle	SEC and ICASL code reference	Description of the requirement	SDB Bank's Extent of compliance in 2018
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### A.3 Chairman's role

The Chairperson should lead and manage the Board, ensuring that it discharges its legal and regulatory responsibilities effectively and fully and preserves order and facilitates the effective discharge of the Board function.

1. Role of the Chairperson	A.3.1	The Chairman should conduct Board proceedings in a proper manner and ensure an effective discharge of the Board functions.	The Chairperson leads the Board ensuring effectiveness in all aspects of its role. The Chairperson of SDB Bank is a Non-Executive Director, elected by the Board. The Chairperson's role encompasses –  Ensuring that the new Board members are given appropriate induction, covering terms of appointment, duties and responsibilities.
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### A.4 Financial acumen

The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance. The Board is equipped with members having sufficient financial acumen and knowledge.

1. Availability of sufficient financial acumen and knowledge	A.4.1	The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.	There is sufficient financial acumen on the Board, gained from leading large private and public enterprises coupled with academic and professional back grounds The details of their qualifications and experiences have been listed in the Annual Report under "Board of Directors".
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### A.5 Board balance

It is preferable for the Board to have balance of Executive and Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision-taking.

1. Presence of Non-Executive Directors	A.5.1	The Board should include at least 2 Non-Executive Directors or a number equalling to 1/3 of all Directors whichever is higher and in the event of CEO and Chairman is same the majority should be consistent with Non-Executives.	All Directors are Non-Executive Directors. The requirement as per the direction has been complied throughout 2018.
2. Independent Directors	A.5.2	Two or 1/3 of Non-Executive Directors out of all, should be Independent Directors.	Board comprises Four Independent, Non-Executive Directors.
3. Criteria to evaluate Independence of Non-Executive Directors	A.5.3	For a Director to be deemed as "Independent", such Director should be independent from Management and free of any business or other relationships that could materially interfere.	Comply with independency criteria.
4. Signed declaration of independence by the Non-Executive Directors	A.5.4	Each Non-Executive Director should submit a signed and dated declaration annually of his/her independence.	There is a declaration of Independence signed by all Non-Executive Directors.
5. Determination of independence of the Directors by the Board	A.5.5	The Board should make a determination annually as to the independence or Non-Independence of each Non-Executive Directors.	The Board has determined that the submission of declaration/s by the Non-Executive Directors, as to the independence of them, as fair representation and will continue to evaluate their submission annually.
6. Appointment of alternate Director	A.5.6	If an Alternate Director is appointed by a Non-Executive Director such Alternate Director should not be an Executive of the Bank.	No Alternate Director was appointed during the year 2018.
7. Senior Independent Directors	A.5.7	In the event the Chairman and CEO is the same person, the Board should appoint one of the Independent Non-Executive Directors to be the "Senior Independent Director" and disclose this appointment in Annual Report.	The roles of the Chairman and the CEO are segregated. However, an Independent Director has been appointed as the Senior Director.

Corporate governance principle	SEC and ICASL code reference	Description of the requirement	SDB Bank's Extent of compliance in 2018
8. Confidential discussion with the Senior Independent Director	A.5.8	The Senior Independent Director should make himself available for confidential discussions with other Directors.	The Senior Independent Director is available for discussion of confidential issues by the other Directors if and when required.
9. Meeting of Non-Executive Directors	A.5.9	The Chairman should hold meetings with the Non-Executive Directors only, without the Executive Directors being present, as necessary and at least once each year.	All Directors are Non-Executive Directors and meet on a monthly basis.
10. Recording of concerns in Board minutes	A.5.10	Where Directors have concerns about the matters of the Company which cannot be unanimously resolved, they should ensure their concerns are recorded in the Board minutes.	Concerns of Directors have been duly recorded in Board Minutes.

#### A.6 Supply of information

Management should provide time bound information in a form and of quality appropriate to enable the Board to discharge its duties.

1. Information to the Board by the Management	A.6.1	Management has the responsibility to provide the information appropriately and timely to the Board. But information volunteered by Management is not always enough and Directors should make further inquiries where necessary.	The Board was provided with timely and appropriate information by the Management by way of Board papers and proposals. The Board sought additional information as and when necessary. Members of the Corporate Management made presentations on issues of importance whenever clarification was sought by the Board. The Chairperson ensured that all Directors were briefed on issues arising at Board meetings.
2. Adequate time for effective Board meetings	A.6.2	The Minutes, Agenda and Papers required for a Board meeting should ordinarily be provided to Directors at least 7 days before.	The Board papers were circulated to the Directors at least a week before the respective Board meetings by giving an adequate time for Directors to study the papers and prepare for a meaningful discussion at the meeting.

#### A.7 Appointments to The Board

There should be a formal and transparent procedure for the appointment of new Directors to the Board.

1. Nomination Committee	A.7.1	A Nomination Committee should be established to make recommendations to the Board on selection of New Directors. The Chairman and members of the Committee should be disclosed in the Annual Report.	The Nomination Committee made recommendations to the Board on all new Board appointments. The Terms of Reference of the Committee was formally approved by the Board and Chairman and members are disclosed in the Annual Report under "Report of the Board Selection and Nomination Committee (BS & NC)".
2. Assessment of Board Composition by the Nomination Committee	A.7.2	The Nomination Committee or in the absence of Nomination Committee, the Board as a whole should annually assess Board composition.	The Nomination Committee carried out continuous review of the structure, size and composition (including the skills, knowledge, experience and independence required for Directors) of the Board to address and challenge adequately key risks and decisions that confront or may confront the Board and makes recommendations to the Board with regard to any changes.
3. Disclosure of details of new Directors to shareholders	A.7.3	Upon the appointment of a new Director, the Company should forthwith disclose relevant particulars to shareholders.	New appointments of Directors are disclosed through the CSE as well as at the AGM.



Corporate governance principle	SEC and ICASL code reference	Description of the requirement	SDB Bank's Extent of compliance in 2018
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### A.8 Re-election

All Directors should submit themselves for re-election at regular intervals and at least once in every three years.

1. Appointment of Non-Executive Directors	A.8.1	Non-Executive Directors should be appointed for specified terms subject to re-election and to the provisions of Companies Act relating to the removal of Directors and their reappointment should not be automatic.	Articles of Association of the Bank requires, each Director other than the CEO and any nominee Director, to retire by rotation once in every three years and is required to stand for re-election by the shareholders at the Annual General Meeting. The proposed re-election of Directors is subject to prior review.
2. Election of Directors by the shareholders	A.8.2	All Directors including the Chairman of the Board should be subject to election by shareholders at the first opportunity after their appointment and re-election thereafter at intervals of no more than three years.	Complied with.

### A.9 Appraisal of Board Performance

The Board should periodically appraise its own performance against the preset targets in order to ensure that the Board responsibilities are satisfactorily discharged.

1. Appraisal of Board performances	A.9.1	The Board should annually appraise it self on its performance in the discharge of its key responsibilities as set out in A.1.2.	Self-assessments for Board of Directors were done for the year 2018.
2. Annual self-evaluation of the Board and its committees	A.9.2	The Board also should undertake an annual self-evaluation of its own performance and that of its committees.	There is a self-performance evaluation procedure for the Board of Directors of the Bank.
3. Disclosure of the method of appraisal of board and board Subcommittee performances	A.9.3	The Board should state how such evaluation was done in the Annual Report.	Refer the "Board of Directors" in the Annual Report.

### A.10 Disclosure of Information in respect of Directors

Details in respect of each Director should be disclosed in the Annual Report for the benefit of the shareholders.

1. Details in respect of Directors	A.10.1	The Annual Report of the Company should disclose details regarding Directors.	Details of the Directors are given in the Annual Report under "Board of Directors" and "Annual Report of the Board of Directors on the Affairs of the Company".
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### A.11 Appraisal of the CEO

The Board of Directors should at least annually assess the performance of the Chief Executive Officer.

1. Targets for MD/CEO	A.11.1	At the commencement of every fiscal year the Board in consultation with the CEO should set objectives for the Company.	CEO's performance objectives are aligned with business objectives of the Bank. The performance targets for the CEO are set at the commencement of every year by the Board.
2. Evaluation of the performance of the MD/CEO	A.11.2	The performance of CEO should be evaluated by the Board at the end of each fiscal year to ascertain whether the targets have been achieved.	Bank has a process to review and evaluate the performance of CEO at the Board Human Resources and Remuneration Committee.

Corporate governance principle	SEC and ICASL code reference	Description of the requirement	SDB Bank's Extent of compliance in 2018
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## B. Directors' remuneration

### B.1. Remuneration procedures

The Bank should have a formal and transparent procedure for developing policy on Executive remuneration and fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her remuneration.

1. HR and Remuneration Committee	B.1.1	To avoid potential conflicts of interest, the Board of Directors should set up a Remuneration Committee to make recommendations to the Board.	The HR and Remuneration Committee is responsible for assisting the Board with regard to the remuneration policy of the Directors and Corporate Management, and for making all relevant disclosures.
2. Composition of the HR and Remuneration Committee	B.1.2 and B.1.3	Remuneration Committees should consist exclusively of Non-Executive Directors, and should have a Chairman who should be appointed by the Board and the Chairman and members of the Committee should be stated in the Annual Report.	All Committee members are Non-Executive Directors and the Chairperson is appointed by the Board. Composition of the Committee is given in the Annual Report under "Report of the Board Human Resources and Remuneration Committee".
3. Remuneration of the Non-Executive Directors	B.1.4	The Board as a whole or as required by the Articles of Association the shareholders should determine the remuneration of Non-Executive Directors.	Remuneration of Non-Executive Directors are determined by the Board Human Resources and Remuneration Committee.
4. Consultation of the Chairperson and access to professional advice	B.1.5	The Remuneration Committee should consult the chairman and CEO about its proposals relating to the remuneration of other executive Directors and have access to other professional advice.	Input of the Chairman is obtained by her involvement as a member of the said sub committee and access is available to obtain professional advices if necessary.

### B.2 Level and make up of remuneration

The level of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Bank successfully. A Proportion of Executive Directors remuneration should be structured to link rewards to the corporate and individual performance.

1. Level and make up of the remuneration of Executive Directors	B.2.1	The Remuneration Committee should provide the packages needed to attract, retain and motivate Executive Directors.	The Board is mindful of the fact that the remuneration of Executive and the Non-Executive Directors should reflect the market expectations and is sufficient enough to attract and retain the quality of Directors needed to run the Bank.
2. Comparison of remuneration with other companies	B.2.2	The Remuneration Committee should judge where to position the level of remuneration of the Company relative to other companies.	The Remuneration Committee in deciding the remuneration of the Directors (including the compensation package of the CEO) takes into consideration the level of remuneration paid by the other comparable companies, performance and risk factors.
3. Comparison of remuneration with other companies in the Group	B.2.3	The Remuneration Committee should be sensitive to remuneration and employment conditions.	Please refer the above comment under B.2.2.
4. Performance-related payment to Executive Directors	B.2.4	The performance-related elements of remuneration of Executive Directors should be designed and tailored to align their interests with those of the Company and main stakeholders and to give these Directors appropriate incentives to perform at the highest levels.	The Bank does not have Executive Directors.
5. Executive share options	B.2.5	Executive share options should not be offered at a discount.	Not in practice such a share option scheme in the Bank.
6. Deciding the Executive Directors remuneration	B.2.6	In designing schemes for performance-related remuneration, Remuneration Committee should follow the relevant SEC regulations.	The Bank does not have Executive Directors.

Corporate governance principle	SEC and ICASL code reference	Description of the requirement	SDB Bank's Extent of compliance in 2018
7. Early termination of Directors	B.2.7	Remuneration Committee should consider what compensation commitments, their Directors contracts of service, if any entail in the event of early termination.	Compensation on early termination will be discussed on case by case basis considering the relevant facts.
8. Early termination not included in the initial contract	B.2.8	Where the initial contract does not explicitly provide for compensation commitments, remuneration committees should, within legal constraints, tailor their approach in early termination cases to the relevant circumstances.	Compensation on early termination will be discussed on case by case basis by the Remuneration Committee.
9. Remuneration of the Non-Executive Directors	B.2.9	Levels of remuneration for Non-Executive Directors should reflect the time commitment and responsibilities of their roles, taking into consideration market practices.	The level of remuneration of Non-Executive Directors reflect the time commitment and responsibility of their role taking into consideration market practices.

### B.3 Disclosure of remuneration

The Bank should disclose the Remuneration Policy and the details of remuneration of the Board as a whole.

1. Disclosure of Remuneration	B.3.1	The Annual Report should set out the names of Directors comprising the Remuneration Committee, contain a Statement of Remuneration Policy and set out the aggregate remuneration paid to Directors.	Refer Note 35 to the Financial Statements relating to Related Party Transaction included in the Annual Report for remuneration of Directors, and "Report of the Board Human Resources and Remuneration Committee" for composition of the Remuneration Committee with names.
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### C. Relations with shareholders

#### C.1 Constructive use of the Annual General Meeting and Conduct of General Meetings.

Boards should use the AGM to communicate with shareholders.

1. Encourage their participation	C.1.1	Companies should count all proxy votes and should indicate the level of proxies lodged in each resolution, and the balance for and withheld after it has been dealt with on a show of hands, except where a poll is called.	The Bank has a mechanism to record all proxy votes and proxy votes lodged on each resolution.
2. Separate resolution for all separate issues	C.1.2	Companies should propose a separate resolution at the AGM on each substantially separate issue and should in particular propose a resolution at the AGM relating to the adoption of the report and accounts.	Bank propose a separate resolution at the AGM on each substantially separate issue.
3. Availability of all Board Sub Committee Chairmen at the AGM	C.1.3	The Chairman of the Board should arrange for the Chairman of the Audit, Remuneration and Nomination Committees to be available to answer questions at the AGM if so requested by the Chairman.	The Board which includes the Chairman of the Audit, Remuneration, Nomination and Integrated Risk Management Committees are present at the AGM to answer any questions.
4. Adequate notice of the AGM	C.1.4	Companies should arrange for the Notice of the AGM and related papers to be sent to shareholders as determined by statute, before the meeting.	Bank gives notice of the AGM and related papers to the shareholders 15 working days prior to the meeting date.
5. Procedures of voting at General Meetings	C.1.5	Companies should circulate with every Notice of General Meeting, a summary of the procedures governing voting at General Meetings.	Voting procedures at General Meetings are circulated to the shareholders along with the Annual Report.

#### C.2 Communication with shareholders

The Board should implement effective communication with shareholders.

1. Dissemination of timely information	C.2.1	There should be a channel to reach all shareholders of the Company in order to disseminate timely information.	All the financial information of the Bank could be reached through newspapers and website to stakeholders.
2. Policy and Methodology for communication with shareholders	C.2.2	The Company should disclose the policy and methodology for communication with shareholders.	Communication with shareholders are done through individual letters through inquiries from Company Secretary Department, Annual Report, Bank Face Book page and Bank Website.

Corporate governance principle	SEC and ICASL code reference	Description of the requirement	SDB Bank's Extent of compliance in 2018
3. Implementation of communication Policy and Methodology	C.2.3	The Company should disclose how they implement the above policy and methodology.	A Board-approved communication policy is in place.
4. Contact person for communication	C.2.4	The Company should disclose the contact person for such communication.	Following is the contact number of person to be contacted in the Company Secretary – 011 2832590
5. Awareness of Directors on major issues and concerns of shareholders	C.2.5	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.	Shareholders can discuss with Company Secretary/Senior Director regarding any matter via above given contact numbers.
6. The Contact person in relation to shareholders' matters	C.2.6	The Company should decide the person to contact relating to shareholders matters. The relevant person with statutory responsibilities is the Company Secretary or in his/her absence should be a member of the Board of Directors.	Following is the contact number of person to be contacted relating to shareholders matters. Company Secretary – 011 2832590
7. The process of responding to shareholder matters	C.2.7	The process for responding to shareholder matters should be formulated by the Board and disclosed.	Answering the shareholders' matters is done by Company Secretary/through the above contact numbers and at the AGM.

### C.3 Major and material transactions

Directors should disclose to shareholders all proposed material transactions which would materially alter the net asset position of the Bank, if entered into.

1. Major transactions	C.3.1	Prior to a company engaging in or committing to a "Major related party transaction" with a related party, Directors should disclose to shareholders the purpose and all relevant material facts and obtain shareholders' approval by ordinary resolution.	During 2018 there were no major transactions that took place as defined by Section 185 of the Companies Act No. 07 of 2007 which materially affects Bank's net asset base.
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## D. Accountability and audit

### D.1. Financial reporting

The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects.

1. Statutory and regulatory reporting	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.	SDB Bank has reported a true and fair view of its position and performance for the year ended 31 December 2018 and at the end of each month of 2018. In the preparation of quarterly and annual financial statements, SDB Bank had strictly complied with the requirements of the Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 and amendments thereto, and are prepared and presented in conformity with Sri Lanka Accounting Standards. SDB Bank has complied with the reporting requirements prescribed by the regulatory authorities such as the Central Bank of Sri Lanka, the Colombo Stock Exchange and the Securities and Exchange Commission.
2. Directors' Report in the Annual Report	D.1.2	The Directors' Report which forms a part of the Annual Report, should contain a declaration by the directors stating that Bank operations are in line with statutory requirements.	The "Annual Report of the Board of Directors on the Affairs of the Company" given in the Annual Report covers all areas of this section.
3. Statement of Directors' and Auditor's responsibility for the Financial Statements	D.1.3	The Annual Report should contain a statement setting out the responsibilities of the Board on preparation and presentation of Financial Statements, and a statement of Internal Control.	This requirement is satisfied by the "Statement of Directors' responsibility for financial reporting" and "Directors' Statement on Internal Control over Financial Reporting" given in the Annual Report Statement of Internal Control is also given in the Annual Report.

Corporate governance principle	SEC and ICASL code reference	Description of the requirement	SDB Bank's Extent of compliance in 2018
4. Management Discussions and analysis	D.1.4	Annual Report should contain a "Management Discussion and Analysis".	The Annual Report contains "Management Discussion and Analysis".
5. Declaration by the Board that the business as a going concern	D.1.5	The Directors should report that the business is going concern, with supporting assumptions or qualifications as necessary.	This is given in the "Annual Report of the Board of Directors on the affairs of the Company" in the Annual Report.
6. Summoning an EGM to notify serious loss of capital	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 Director shall forthwith summon an EGM of the Company to notify shareholders of the position and remedial actions.	Such a situation has not arisen during the period
7. Disclosure of Related Party Transactions	D.1.6	The Board should adequately disclose the Related Party Transactions in its Annual Report.	Related party transaction details are given in the Annual Report.

## D.2 Internal Control

The Board should have a sound system of internal controls to safeguard shareholders' investments and the Bank's assets.

1. Annual evaluation of the internal controls system	D.2.1	The Directors should at least annually, conduct a review of the risks facing the Company and the effectiveness of the system of internal control.	The Board is responsible for establishing a sound framework of internal controls and monitoring its effectiveness on a continuous basis. The system of internal controls is evaluated by the Audit Committee In the year 2018. Risk has been reviewed by BIRMC quarterly.  The Board of Directors was satisfied with the effectiveness of the system of internal controls, which is evidenced through the "Independent Assurance Report to the Board of Directors of SANASA Development Bank PLC" given in the Annual Report under "Directors Statement on Internal Control over Financial Reporting".
2. Need for internal audit function	D.2.2	Companies should have an internal audit function.	The Bank has a separate Internal Audit Department. The Board of Directors reviews the internal control function once a year.
3. Reviews of the process and effectiveness of risk management and internal controls	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.	Complied with. Directors' certification on effectiveness of risk management and internal control is given in the Annual Report.
4. Sound system of internal control and its content	D.2.4	Directors should follow the said guidance on responsibilities in maintaining a sound system of internal control.	Complied with. Directors' certification on effectiveness of risk management and internal control is given in the Annual Report.

## D.3 Audit Committee

The Board should have a formal and transparent arrangements in selecting and applying the accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Bank's External Auditor.

1. Composition of the Audit committee	D.3.1	The Audit committee should be comprised of a minimum of two independent Non-Executive Directors or exclusively by Non-Executive Directors, a majority of whom should be independent, whichever is higher.	Complied with. (Please refer the composition of Audit committee in the Annual Report.)
2. Review of objectivity of the External Auditor	D.3.2	The duties of the Audit Committee should include keeping under review the scope and results of the audit and its effectiveness, and the independence and objectivity of the Auditors.	The Audit Committee ensures the independence and objectivity of External Auditors.

Corporate governance principle	SEC and ICASL code reference	Description of the requirement	SDB Bank's Extent of compliance in 2018
3. Terms of reference of the Audit Committee	D.3.3	The Audit Committee should have a written Terms of Reference.	Bank has written Terms of Reference for Audit Committee which addresses requirements of the code.
4. Disclosures of the Audit committee	D.3.4	The names of the Directors of Audit Committee, determination of the independence of the Auditors and its basis should be disclosed in the Annual Report.	The names of the members of the Audit Committee are given in the Annual Report.  The Committee ensures the rotation of External Audit Engagement Partner once in every 5 years. The External Auditor has provided an Independent confirmation in compliance with the "Guidelines for Appointment of Auditors of Listed Companies" issued by SEC.

#### D.4. Code of Business Conduct and Ethics

The Bank should develop a Code of Business Conduct and Ethics for Directors and members of the Senior Management Team.

1. Code of Business Conduct and Ethics	D.4.1	Companies must disclose whether they have a Code of Business Conduct and Ethics for Directors and Key Management Personnel and if there is such a Code, make an affirmative declaration in the Annual Report.	The Bank has developed a Code of Business Conduct and Ethics for all employees, which addresses conflict of interest, corporate opportunities, confidentiality of information, fair dealing, protecting and proper use of the Company's assets, compliance with laws and regulations and encouraging the reporting of any illegal or unethical behaviour etc.
2. Affirmation by the Chairperson that there is no violation of the code of conduct and ethics	D.4.2	The Chairperson must affirm in the Company's Annual Report that she is not aware of any violation of any of the provisions of the Code of Business Conduct and Ethics.	Please refer the "Chairperson's Statement on Corporate Governance" for details.

#### D.5 Corporate Governance Disclosures

The Bank should disclose the extent of adoption of best practice in Corporate Governance.

1. Disclosure of Corporate Governance	D.5.1	The Directors should include in the Company's Annual Report a Corporate Governance Report, setting out the manner in which Company has complied with the principles and provisions of this code.	This requirement is met through the presentation of this report.
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#### E. Institutional investors

##### E.1. Shareholders voting

Institutional shareholders are required to make considered use of their votes and encouraged to ensure their voting intentions are translated into practice.

1. Institutional shareholders	E.1.1	A listed company should conduct a regular and structured dialogue with shareholders based on a mutual understanding of objectives.	Annual General Meeting is used to have an effective dialogue with the shareholders on matters which are relevant and concern.
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##### E.2 Evaluation of governance disclosures

1. Evaluation of Governance Disclosures	E.2.1	When evaluating companies' governance arrangements, particularly those relating to Board structure and composition, institutional investors are encouraged to give due weight to all relevant factors drawn to their attention.	Institutional investors' concerns are addressed as and when raised.
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#### F. Other Investors

##### F.1 Investing/Divesting decision

1. Individual shareholders	F.1.1	Individual shareholders, investing directly in shares of companies should be encouraged to carryout adequate analysis or seek independent advice in investing or divesting decisions.	Information are readily available for individual shareholders investing directly in shares of the Company to encourage and carryout adequate analysis.
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Corporate governance principle	SEC and ICASL code reference	Description of the requirement	SDB Bank's Extent of compliance in 2018
<b>F.2 Shareholder Voting</b>			
2. Individual shareholder's voting	F.2.1	Individual shareholders should be encouraged to participate in General Meetings of companies and exercise their voting rights.	All individual shareholders are given opportunity to participate at Annual General Meetings and exercise their voting rights by sending individual invitations and news paper notices.
<b>G. Sustainability reporting</b>			
<b>G.1 Principles of sustainability reporting</b>			
1. Principle 1 – Economic sustainability	G.1.1	Principle of economic sustainability governance recognises how organisations take responsibility for impacts of their strategies, decisions and activities on economic performance and corporate in their sphere of influence and how this is integrated through the organisation.	The Bank considers its regional influence and its impact when planning their strategies, activities and decisions on economic performances for economic sustainability government.
2. Principle 2 – The environment	G.1.2	Environmental governance of an organisation should adopt an integrated approach that takes into consideration economic, social, health and environmental implications of their decisions and activities.	Bank has taken into consideration integrated approach on direct and indirect economic, social, health and environmental implications when taking decisions on pollution prevention, protection of environment and restoration of natural resources.
3. Principle 3 – Labour practice	G.1.3	Labour practices governance of an organisation encompasses all policies and practices relating to work performed by or on behalf of the organisation.	All practices and policies are formulated to have a present working environment in the organisation.
4. Principle 4 – Society	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 development.	Development including responsible public policies encompass support for a building for a relationship with the community.
5. Principle 5 – Product responsibility	G.1.5	Product responsibility governance includes manufacturing quality products and distributing them and ensuring that the products safe for the consumers and the environment.	Bank Develops banking products to ensure the safety and fair contractual practices and its data protection and privacy.
6. Stakeholder identification, engagement and effective communication	G.1.6	Internal and external stakeholder groups should be identified in relation to the Company's sphere of influence, impact and implication. Communication should be proactive and transparent.	Communication with the stakeholders is cordial and include past performance and existing economic, social and environmental issues.
7. Principle 7 – Formalisation of sustainability report	G.1.7	Sustainability reporting and disclosure should be formalised as part of the Company's reporting process and take place on a regular basis.	Sustainability reporting is based on local and global standards providing credible accounts of the Bank's economic, social and environmental impact.