

Compliance Requirements as per Banking Act Direction No. 11 of 2007

Section	Principle	Level of Compliance during the Year 2017
3 (1)	The Responsibilities of the Board	
3 (1) (i)	<p>The Board shall strengthen the safety and soundness of the bank by ensuring the implementation of the following:</p> <p>a. Approve and oversee the bank's strategic objectives and corporate values and ensure that these are communicated throughout the bank;</p>	<p>Complied with.</p> <p>Strategic objectives and values are formulated at sessions held at an off-site location with the participation of the Board and the top management. They were incorporated in the Board approved Corporate Plan for the period 2017-2019. These were communicated to staff up to Branch Manager level at an off-site location where the Corporate Plan was launched and reinforced by the Corporate Management Team. All other levels of staff were informed through regular briefing sessions and at meetings.</p> <p>The Board approved Corporate Plan for 2018-2020 formulated in a similar manner is in place. The corporate values have been revamped going forward from 2018. The corporate values are included in the Employee Handbook given to all employees which is also available on the intranet.</p>
	<p>b. Approve the overall business strategy of the bank, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years;</p>	<p>Complied with.</p> <p>The Bank's overall Business Strategy is included in the Corporate Plan 2017-2019 and the Action Plan for the same period which was approved by the Board. The risk appetite, risk management framework and mechanisms have also been approved by the Board in line with the strategic plan. Measurable goals for the Bank as a whole have been set and performance is measured in line with these goals and analysed at off-site discussion meetings.</p>
	<p>c. Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently;</p>	<p>Complied with.</p> <p>The Board has appointed a Board Integrated Risk Management Committee tasked with approving the Bank's Risk Policy, defining the risk appetite, identifying principal risks, setting governance structures and implementing systems to measure, monitor and manage the principal risks.</p> <p>The Bank has implemented a process where the Board members discuss at length the risks arising out of new strategies and further the ways and means to mitigate such risks.</p> <p>A Board approved Integrated Risk Management Policy covering all areas of major risks is in place.</p> <ul style="list-style-type: none"> • The following reports also provide further details in this regard: Risk Management Report on pages 80 to 92. • Integrated Risk Management Committee Report on pages 74 to 75.
	<p>d. Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;</p>	<p>Complied with.</p> <p>Board has approved and implemented a Communication Policy covering all stakeholders which is reviewed periodically.</p>
	<p>e. Review the adequacy and the integrity of the bank's internal control systems and management information systems;</p>	<p>Complied with.</p> <p>The Board Audit Committee which reports to the Board is tasked with reviewing the adequacy and the integrity of the Bank's internal control system and financial reporting. This Committee reviewed reports from the Internal Audit Department which reports directly to the Audit Committee and from the External Auditors in carrying out this task. Internal Audit Department is tasked with information systems audits to assess the effectiveness of the MIS. The Board has reviewed the adequacy of the MIS and the Internal Control System.</p>

Section	Principle	Level of Compliance during the Year 2017
	f. Identify and designate Key Management Personnel;	<p>Complied with.</p> <p>In terms of the Central Bank of Sri Lanka guidelines dated 2 December 2015 and Banking Act Determination No. 3 of 2010, the Bank has identified the General Manager, Deputy General Managers, Assistant General Managers and officers in allied grades as Key Management Personnel (KMP) of the Bank for Corporate Governance purposes.</p>
	g. Define the areas of authority and key responsibilities for the Board Directors themselves and for the Key Management Personnel;	<p>Complied with.</p> <p>Areas of authority and key responsibilities have been defined for the Directors and Key Management Personnel through the Board Charter and position descriptions respectively. Board Charter was last reviewed in the year 2017.</p>
	h. Ensure that there is appropriate oversight of the affairs of the bank by Key Management Personnel, that is consistent with Board policy;	<p>Complied with.</p> <p>Performance against the Bank's Corporate Plan is reviewed by the Board based on the Action Plan.</p> <p>Key Management Personnel make presentations to the Board and Subcommittees on matters under their purview and are also called in by the Board as and when needed to explain matters relating to their areas.</p>
	i. Periodically assess the effectiveness of the Board Directors' own governance practices, including: (i) the selection, nomination and election of Directors and Key Management Personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;	<p>Complied with.</p> <p>A self-evaluation of the performance of the Board is carried out annually assessing its own governance practices.</p>
	j. Ensure that the bank has an appropriate succession plan for Key Management Personnel;	<p>Complied with.</p> <p>A Board approved Succession Plan for Key Management Personnel (viz. for the Corporate and Executive Management) is in place which was reviewed and revised by the Nomination and Corporate Governance Committee in year 2017.</p>
	k. Meet regularly, on a needs basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives;	<p>Complied with.</p> <p>Key Management Personnel regularly present or are called in for discussions at the meetings of the Board and its Subcommittees on policy and other matters relating to their areas. The performance review of the Corporate Plan is carried out at off-site locations with the participation of the Management.</p>
	l. Understand the regulatory environment and ensure that the bank maintains an effective relationship with regulators;	<p>Complied with.</p> <p>On appointment as Directors, they are furnished with all applicable regulatory requirements. They are also briefed about developments in the regulatory environment at Board meetings to ensure that their knowledge is updated regularly to facilitate effective discharge of their responsibilities.</p> <p>Compliance reports submitted to the Central Bank of Sri Lanka which includes all returns to regulators are presented to the Board monthly and monitored by the Board.</p>
	m. Exercise due diligence in the hiring and oversight of External Auditors.	<p>Complied with.</p> <p>As provided for in the Constitution of the country, the Auditor General is the External Auditor of the Bank as it is a State-Owned Enterprise. However, the Audit Committee has been tasked with the oversight of the External Auditors who are assisting the Auditor General in the audit of the Bank.</p>

Section	Principle	Level of Compliance during the Year 2017
3 (1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3 (5) of these Directions.	<p>Complied with when read in conjunction with Direction No. 3 (9) (ii).</p> <p>The Board appoints the Chief Executive Officer referred to as the General Manager in the Bank of Ceylon with the approval of the Minister under whose purview the Bank falls and the Chairman is appointed by the said Minister in terms of the Bank of Ceylon Ordinance No. 53 of 1938 and its amendments.</p> <p>The Board has also approved their functions and responsibilities maintaining the balance of power between the two roles through the Board Charter.</p>
3 (1) (iii)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of Directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	<p>Complied with.</p> <p>Regular fortnightly Board meetings were held and special meetings were scheduled as and when the need arises. During the year under review the Board met 28 times.</p> <p>The Bank has minimised obtaining approval via circular resolutions and it is done only on an exceptional basis and such resolutions are ratified by the Board at the next meeting. During the year 2017, five resolutions have been adopted by circulation.</p>
3 (1) (iv)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank.	<p>Complied with.</p> <p>Meetings are scheduled and the Board is informed at the beginning of the each calendar year to enable submission of proposals to the agenda for regular meetings.</p>
3 (1) (v)	The Board procedures shall ensure that notice of at least seven days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice may be given.	<p>Complied with.</p> <p>Notice of meetings are given through an Annual Calendar at the beginning of the year. Agenda and Board papers for the Board meetings are circulated to the Directors seven days prior to the meetings through a secure eSolution.</p> <p>Reasonable notice is given before any special meeting.</p>
3 (1) (vi)	The Board procedures shall ensure that a Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the Directors' meetings through an alternate Director shall, however, be acceptable as attendance.	<p>Complied with.</p> <p>The Directors are apprised of their attendance in accordance with the Corporate Governance Code. Details of the Directors' attendance are set out on page 69. Directors' attendance has been in compliance with this Direction.</p>
3 (1) (vii)	The Board shall appoint a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	<p>Complied with.</p> <p>The Secretary, Bank of Ceylon/Secretary to the Board is an Attorney-at-Law, whose credentials/qualifications are in compliance with the provisions of Section 43 of the Banking Act No. 30 of 1988 and its amendments. She is primarily responsible for handling the secretariat services to the Board and carrying out other functions specified in the statutes and other regulations.</p>
3 (1) (viii)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	<p>Complied with.</p> <p>All members of the Board have the opportunity to obtain the advice and services of the Secretary to the Board who is an Attorney-at-Law and who is responsible to the Board for follow-up of Board procedures, compliance with rules and regulations, directions and statutes and keeping and maintaining minutes and relevant records of the Bank.</p>

Section	Principle	Level of Compliance during the Year 2017
3 (1) (ix)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	<p>Complied with.</p> <p>The Secretary, Bank of Ceylon/Secretary to the Board maintains the minutes of the Board meetings and circulates same to all Board members through a secure eSolution.</p> <p>The minutes are approved at the subsequent Board meeting. Additionally, the Directors have access to the past Board papers and minutes through the same eSolution.</p>
3 (1) (x)	<p>Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board meetings. Therefore, the minutes of a Board meeting shall clearly contain or refer to the following:</p> <ol style="list-style-type: none"> a summary of data and information used by the Board in its deliberations; the matters considered by the Board; 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; the testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; the Board's knowledge and understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and the decisions and Board resolutions. 	<p>Complied with.</p> <p>Minutes of the meetings are kept covering the given criteria.</p>
3 (1) (xi)	There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/their duties to the bank.	<p>Complied with.</p> <p>A Policy for Directors' Access to Independent Professional Advice is in place and the Directors are able to obtain independent professional advice when deemed necessary.</p>
3 (1) (xii)	Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or related parties. If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter should be dealt with at a Board meeting, where Independent Non-Executive Directors [refer to Direction 3 (2) (iv) of these Directions] who have no material interest in the transaction, are present. Further, a Director shall abstain from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern, in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board meeting.	<p>Complied with.</p> <p>The Directors are conscious of their obligation to deal with a situation when there is a conflict of interest in accordance with applicable regulations. A Board approved Policy on Conflict of Interest is in place. As a practice at every Board meeting Directors are required to declare any interest in contracts/new appointments to any other Board or Institution. Directors abstain from participating in the discussions, voicing their opinion or approving in situations where there is a conflict of interest and such Director is not counted in the quorum in such instances.</p>
3 (1) (xiii)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the Direction and control of the bank is firmly under its authority.	<p>Complied with.</p> <p>Powers Reserved for the Board are included in the Board Charter which was reviewed during the year.</p>

Section	Principle	Level of Compliance during the Year 2017
3 (1) (xiv)	The Board shall, if it considers that the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the bank prior to taking any decision or action.	Complied with. Such a situation has not arisen during the year 2017. Monthly Financial Statements submitted to the Board assures the Board of the Bank's solvency.
3 (1) (xv)	The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board in terms of the Capital Adequacy Ratio and other prudential grounds.	Complied with. The Board ensures that the Bank is capitalised at levels as required by the Monetary Board in terms of the Capital Adequacy Ratio (CAR) and other prudential grounds. Capital Augmentation Plan is submitted to the Board on quarterly basis. Calculation of CAR is submitted to the Board with the monthly Financial Statements of the Bank.
3 (1) (xvi)	The Board shall publish in the Bank's Annual Report, an Annual Corporate Governance Report setting out the compliance with Direction 3 of these Directions.	Complied with. These disclosures are part of the Corporate Governance Report in the Bank's Annual Report.
3 (1) (xvii)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	Complied with. A scheme of self-assessment is adopted. The self-assessment reports of the Board is maintained by the Secretary, Bank of Ceylon/Secretary to the Board.
3 (2)	The Board's Composition	
3 (2) (i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	According to the Bank of Ceylon Ordinance No. 53 of 1938 and its amendments the number of Directors permitted on the Board is six and the present Board consists of six Directors. Bank is in the process of amending the said Bank of Ceylon Ordinance to accommodate the said requirement of the Direction.
3 (2) (ii)	a. The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years, and such period in office shall be inclusive of the total period of service served by such Director up to 1 January 2008.	Complied with. Present Directors of Bank of Ceylon have been in office for a period less than nine years. Details of their appointments are given on pages 35 to 37 of this Annual Report.
3 (2) (iii)	An employee of a bank may be appointed, elected or nominated as a Director of the bank (hereinafter referred to as an "Executive Director") provided that the number of Executive Directors shall not exceed one-third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the bank.	Complied with. Bank of Ceylon Ordinance does not provide for Executive Directors in Bank of Ceylon.
3 (2) (iv)	The Board shall have at least three Independent Non-Executive Directors or one-third of the total number of Directors, whichever is higher. This sub-direction shall be applicable from 1 January 2010 onwards.	Complied with. The entire Board of Bank of Ceylon consists of six Non-Executive Directors. Out of them, five are identified as Independent Directors based on the criteria specified in this Direction. The Director representing the Ministry of Finance is considered Non-Independent since he represents the shareholder, the Government of Sri Lanka.

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	<p>A Non-Executive Director shall not be considered independent if he/she:</p> <ol style="list-style-type: none"> has direct and indirect shareholdings of more than 1% of the bank; currently has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the bank as described in Direction No. 3 (7) hereof, exceeding 10% of the regulatory capital of the bank; has been employed by the bank during the two year period immediately preceding the appointment as Director; has a close relation who is a Director or Chief Executive Officer or a member of Key Management Personnel or a material shareholder of the bank or another bank. For this purpose, a “close relation” shall mean the spouse or a financially dependant child; represents a specific stakeholder of the bank; is an employee or a Director or a material shareholder in a Company or business organisation: <ol style="list-style-type: none"> which currently has a transaction with the bank as defined in Direction No. 3 (7) of these Directions, exceeding 10% of the regulatory capital of the bank; or in which any of the other Directors of the bank are employed or are Directors or are material shareholders; or in which any of the other Directors of the bank have a transaction as defined in Direction No. 3 (7) of these Directions, exceeding 10% of regulatory capital in the bank. 	<p>They are identified on pages 35 to 37 with the Profiles of the Directors and also under Direction No. 3 (2) (viii) below.</p>
3 (2) (v)	In the event an Alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that applies to the Independent Director.	No Alternate Director has been appointed to represent any Independent Director (Only Alternate Director appointed is for the Director representing the Ministry of Finance).
3 (2) (vi)	Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgement to bear on issues of strategy, performance and resources.	<p>Complied with.</p> <p>Present Directors’ Profiles appearing on pages 35 to 37 spell out the necessary information.</p>
3 (2) (vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are Non-Executive Directors. This sub-direction shall be applicable from 1 January 2010 onwards.	<p>Complied with.</p> <p>All the Board members of Bank of Ceylon are Non-Executive Directors.</p>

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3 (2) (viii)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the bank. The bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the Annual Corporate Governance Report.	<p>Complied with.</p> <p>During the year 2017 the Board consisted of the following members:</p> <ul style="list-style-type: none"> • Mr Ronald C Perera, PC Independent Non-Executive Director/Chairman • Mr Sajith R Attygalle Non-Executive Ex Officio Director • Mr Ranel T Wijesinha Independent Non-Executive Director • Mr H P Ajith Gunawardana Independent Non-Executive Director • Mr Charitha N Wijewardane Independent Non-Executive Director (Resigned w.e.f. 21 July 2017) • Mr Sanjaya Padmaperuma Independent Non-Executive Director (Resigned w.e.f. 30 June 2017) • Mr Mano Sekaram Independent Non-Executive Director (Appointed w.e.f. 6 July 2017 and resigned w.e.f. 8 September 2017) • Mr Samantha Rajapaksa Independent Non-Executive Director (Appointed w.e.f. 25 July 2017) • Mr Mohan Wijesinghe Independent Non-Executive Director (Appointed w.e.f. 24 November 2017) • Mr Kanagasabai Vimalenthirarajah (Appointed as the Alternate Director to Mr S R Attygalle w.e.f. 9 November 2017)
3 (2) (ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Appointments to the Board are made by the shareholder, the Government of Sri Lanka through Minister under whose purview the Bank falls under the terms of the provisions of Bank of Ceylon Ordinance No. 53 of 1938 and its amendments.
3 (2) (x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first General Meeting after their appointment.	This does not arise since the relevant Minister appoints them.
3 (2) (xi)	<p>If a Director resigns or is removed from office, the Board shall:</p> <p>a. announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the bank, if any; and</p> <p>b. issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.</p>	<p>Complied with.</p> <p>The Government of Sri Lanka, the sole shareholder does the appointments as well as the removals through the Minister under whose purview the Bank falls. Any resignation is also referred to the same Minister. The Central Bank of Sri Lanka and the Colombo Stock Exchange are kept informed of the resignations.</p> <p>There is not any matter that needs to be highlighted. The Shareholder of the Bank is the Government and the changes to the Directorate is carried out by the Government through the subject Minister.</p>
3 (2) (xii)	A Director or an employee of a bank shall not be appointed, elected or nominated as a Director of another bank except where such bank is a subsidiary company or an associate company of the first mentioned bank.	Neither Directors nor employees of Bank of Ceylon are Directors of another Bank, other than for the appointment of a Deputy General Manager to the Pradeshiya Sanwardana Bank as per the requirements of the enabling enactments of this Bank (Pradeshiya Sanwardana Bank Act No. 41 of 2008).

Section	Principle	Level of Compliance during the Year 2017
3 (3)	Criteria to Assess the Fitness and Propriety of Directors	
3 (3) (i)	<p>The age of a person who serves as Director shall not exceed 70 years.</p> <p>In this context, the following general exemption shall apply:</p> <p>A Director who has reached the age of 70 years as at 1 January 2008 or who would reach the age of 70 years prior to 31 December 2008 may continue in office for a further maximum period of three years commencing 1 January 2009.</p>	<p>Complied with.</p> <p>None of the Directors of the Bank are over 70 years of age.</p>
3 (3) (ii)	A person shall not hold office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank.	<p>Complied with.</p> <p>No Director holds directorships of more than 20 companies/entities.</p>
3 (4)	Management Functions Delegated by the Board	
3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	<p>Complied with.</p> <p>The Board periodically reviews and approves the delegation arrangements in place and ensures that the extent of delegation addresses the needs of the Bank whilst enabling the Board to discharge their functions effectively.</p>
3 (4) (ii)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	<p>The provisions in the governing Ordinance are considered in this process.</p>
3 (4) (iii)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank.	
3 (5)	The Chairman and Chief Executive Officer	
3 (5) (i)	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	<p>Complied with.</p> <p>The positions of the Chairman and the Chief Executive Officer referred to as the General Manager in Bank of Ceylon are held by two different individuals.</p> <p>A Board Charter is in place defining the responsibilities of the Chairman and the General Manager.</p>
3 (5) (ii)	The Chairman shall be a Non-Executive Director and preferably an Independent Director as well. In the case where the Chairman is not an Independent Director, the Board shall designate an Independent Director as the Senior Director with suitably documented Terms of Reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the bank's Annual Report.	<p>Complied with.</p> <p>The Chairman of Bank of Ceylon is an Independent Non-Executive Director and as such the need to appoint a Senior Independent Director does not arise.</p>
3 (5) (iii)	The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	<p>Complied with.</p> <p>The identity of the Chairman and the General Manager are disclosed in the Annual Report on pages 12 to 22 there are many references to these roles throughout.</p> <p>There are no material, financial, business or family relationships between the Chairman, General Manager and other members of the Board as per annual declarations taken as at year end 2017.</p>

Section	Principle	Level of Compliance during the Year 2017
3 (5) (iv)	The Chairman shall: (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner.	Complied with.
3 (5) (v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	Complied with. The Secretary, Bank of Ceylon/Secretary to the Board draws up the agenda under the authority delegated by the Chairman based on the memoranda submitted through the General Manager and any other relevant items proposed by any Board member.
3 (5) (vi)	The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner.	Complied with. The Chairman ensures that the Board is adequately briefed. The following procedures are in place to ensure this: <ul style="list-style-type: none"> • Board papers are circulated seven days prior to the Board meetings through a secured electronic link. • Relevant members of the management team are on hand for explanation and clarifications. • Management information is provided in agreed formats on a regular basis to enable Directors to assess the performance and stability of the Bank. • Directors are able to seek independent professional advice on a needs basis at the Bank's expense.
3 (5) (vii)	The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the bank.	Complied with.
3 (5) (viii)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors.	Complied with. The entire Board consists of Non-Executive Directors.
3 (5) (ix)	The Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied with. Chairman is an Independent Non-Executive Director and does not get involved in the direct supervision of Key Management Personnel or any other executive duties.
3 (5) (x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with. Effective communication is maintained with the Government of Sri Lanka who is the sole shareholder. The Ex Officio Director acts as the channel between the Board and the shareholder.
3 (5) (xi)	Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the bank's operations and business.	Complied with. The day-to-day operations of the Bank is the responsibility of the General Manager. The Board Charter specifically refers to such authority of the General Manager.

Section	Principle	Level of Compliance during the Year 2017
3 (6)	Board Appointed Committees	
3 (6) (i)	Each bank shall have at least four Board committees as set out in Directions 3 (6) (ii), 3 (6) (iii), 3 (6) (iv) and 3 (6) (v) of these Directions. Each committee shall report directly to the Board. All committees shall appoint a Secretary to arrange the meetings and maintain minutes, records, etc., under the supervision of the Chairman of the committee. The Board shall present a report of the performance on each committee, on their duties and roles at the Annual General Meeting.	<p>Complied with.</p> <p>Four Subcommittees of the Board (viz. Audit, Human Resources and Remuneration, Nomination and Corporate Governance and Integrated Risk Management) have been established as required under this Direction which are reporting directly to the Board. The Terms of Reference for each Subcommittee is in place and are reviewed annually.</p> <p>The Secretary, Bank of Ceylon/Secretary to the Board serves as Secretary to all Subcommittees and maintains minutes etc. with oversight by the respective Chairpersons.</p> <p>The reports of the Subcommittees are included in this Annual Report.</p> <p>Audit Committee on pages 70 to 73.</p> <p>Integrated Risk Management Committee on pages 74 and 75.</p> <p>Human Resources and Remuneration Committee on page 76.</p> <p>Nomination and Corporate Governance Committee on page 77.</p> <p>The Government being the sole shareholder, the Annual Report of the Bank is submitted to the Parliament of Sri Lanka and to the relevant Ministries.</p>
3 (6) (ii)	<p>The following rules shall apply in relation to the Audit Committee:</p> <p>a. The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.</p>	<p>Complied with.</p> <p>The Chairman of the Audit Committee is an Independent Non-Executive Director who has required qualifications as indicated under the profiles on page 36.</p>
	<p>b. All members of the Committee shall be Non-Executive Directors.</p>	<p>Complied with.</p> <p>All members of the Committee are Non-Executive Directors.</p>
	<p>c. The Committee shall make recommendations on matters in connection with:</p> <p>(i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;</p> <p>(ii) the implementation of the Central Bank Guidelines issued to Auditors from time to time;</p> <p>(iii) the application of the relevant accounting standards; and</p> <p>(iv) the service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.</p>	<p>Complied with.</p> <p>In accordance with the Terms of Reference, the Audit Committee makes the following recommendations among many others:</p> <ul style="list-style-type: none"> • The implementation of the Central Bank Guidelines issued to Auditors from time to time. • The application of the relevant accounting standards. <p>Since the Auditor General is the External Auditor of the Bank, the Committee has no role to play in the engagement of the External Auditor.</p>
	<p>d. The Committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices</p>	<p>The Bank's Auditor being the Auditor General, his independence and effectiveness is guaranteed under the Constitution of Sri Lanka.</p> <p>The Auditor General in turn ensures the independence of any Auditor appointed to assist him to perform the audit of the Bank.</p>

Section	Principle	Level of Compliance during the Year 2017
	<p>e. The Committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditor's independence or objectivity. When assessing the External Auditor's independence or objectivity in relation to the provision of non-audit services, the Committee shall consider:</p> <ul style="list-style-type: none"> (i) whether the skills and experience of the audit firm make it a suitable provider of the non-audit services; (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the External Auditor; and (iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the External Auditor. 	<p>Complied with.</p> <p>This does not arise since the Auditor General is the Auditor of the Bank.</p> <p>However, the Committee ensures that provision by an audit firm appointed by the Auditor General to assist him in the audit of the Bank of non-audit services does not impair that firm's independence or objectivity.</p>
	<p>f. The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including:</p> <ul style="list-style-type: none"> (i) an assessment of the bank's compliance with the relevant Directions in relation to corporate governance and the management's internal controls over financial reporting; (ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations; and (iii) the coordination between firms where more than one audit firm is involved. 	<p>Complied with.</p> <p>The scope and the extent of audit have been determined by the Auditor General and it is stated that Messrs KPMG, Chartered Accountants (KPMG) who assist the Auditor General in the audit of year 2017 can make further changes/amendments to the scope having considered the volume and risk associated.</p> <p>KPMG presented the Audit Plan for year 2017 and the Committee agreed to it.</p>
	<p>g. The Committee shall review the financial information of the bank, in order to monitor the integrity of the Financial Statements of the bank, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgements contained therein. In reviewing the bank's Annual Report and accounts and quarterly reports before submission to the Board, the Committee shall focus particularly on:</p> <ul style="list-style-type: none"> (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements. 	<p>Complied with.</p> <p>There is a continuing process carried out in reviewing monthly, quarterly and annual financials of the Bank by the Committee and recommendations are made to the Board.</p>
	<p>h. The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.</p>	<p>Complied with.</p> <p>The Committee discusses issues, problems and reservations arising from the interim and final audits. The representative of the Auditor General was present at the Committee meetings throughout along with the representatives of KPMG who assisted the Auditor General, where relevant.</p>

Section	Principle	Level of Compliance during the Year 2017
	i. The Committee shall review the External Auditor's Management Letter and the management's response thereto.	Complied with.
	j. The Committee shall take the following steps with regard to the internal audit function of the bank:	Complied with.
	(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;	The Audit Committee reviews and make necessary recommendations with regard to the adequacy of the scope, functions and resources of the Internal Audit Department.
	(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;	Complied with. The Committee reviews the internal audit programme and results of the internal audit procedures and ensures that appropriate actions are taken for improvements.
	(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;	Complied with. Performance appraisal of Chief Internal Auditor and the work process and results of the internal audit function have been evaluated by the Audit Committee. Performance evaluation of senior staff is carried out according to the Board approved evaluation process by the Chief Internal Auditor and is tabled before the Audit Committee.
	iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	Complied with.
	(v) Ensure that the Committee is appraised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	Complied with. Such a situation has not arisen during the year.
	(vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.	Complied with. According to the organisation structure of the Bank, the Chief Internal Auditor reports directly to the Board through the Audit Committee and he is independent of any operations of the Bank
	k. The Committee shall consider the major findings of internal investigations and management's responses thereto.	Complied with. The Audit Committee has reviewed the major findings of internal investigations and management responses thereto.
	l. The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at least twice a year, the Committee shall meet with the External Auditors without the Executive Directors being present.	Complied with. The Chief Financial Officer, Chief Internal Auditor, Chief Risk Officer and Compliance Officer, representative of the Auditor General and the representatives of KPMG who are appointed to assist the Auditor General participate at the Committee meetings. The General Manager also attended the meetings on invitation of the Committee. The members of the management are invited for any explanations, if necessary. A "Closed door" meeting was held with the External Auditors in the absence of the Management.

Section	Principle	Level of Compliance during the Year 2017
	<p>m. The Committee shall have:</p> <ul style="list-style-type: none"> (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. 	<p>Complied with.</p>
	<p>n. The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.</p>	<p>Complied with.</p> <p>The Audit Committee has scheduled regular meetings.</p> <p>Additional meetings are convened when required.</p> <p>The Committee met eleven times during the year. The members of the Committee are served with due notice of issues to be discussed and the conclusions in discharging its duties and responsibilities are recorded in the minutes of the meetings maintained by the Secretary to the Board/Secretary, Bank of Ceylon.</p>
	<p>o. The Board shall disclose in an informative way,</p> <ul style="list-style-type: none"> (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. 	<p>Complied with.</p> <p>Activities of the Committee are reported in Audit Committee Report on pages 70 to 73.</p> <p>The Committee met eleven times during the year 2017 and details of attendance are given on page 69.</p>
	<p>p. The Secretary of the Committee (who may be the Company Secretary or the Head of the Internal Audit function) shall record and keep detailed minutes of the Committee meetings.</p>	<p>Complied with.</p> <p>Minutes are maintained by the Secretary to the Board/Secretary, Bank of Ceylon who is also the Secretary to the Committee.</p>
	<p>q. The Committee shall review arrangements by which employees of the bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the bank's relations with the External Auditor.</p>	<p>Complied with.</p> <p>A Whistle-Blower Policy is in place which covers these aspects and significant findings are reported to the Audit Committee for appropriate follow-up action.</p> <p>The Audit Committee is the key representative body for overseeing the Bank's relations with the External Auditor.</p>
3 (6) (iii)	<p>The following rules shall apply in relation to the Human Resources and Remuneration Committee:</p> <p>a. The Committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the bank.</p>	<p>Complied with.</p> <p>The Remuneration for Directors is according to the circulars/ letters issued by the Government of Sri Lanka through the relevant Ministry and the Bank of Ceylon Ordinance No. 53 of 1938 and its amendments. The Bank has adopted a Remuneration Policy based on the said circulars.</p> <p>The Board approved Remuneration Policy for the Key Management Personnel is in place and was reviewed in the year 2017.</p>

Section	Principle	Level of Compliance during the Year 2017
	b. The Committee shall set goals and targets for the Directors, CEO and the Key Management Personnel.	<p>Complied with.</p> <p>Directors are Non-Executive Directors as such specific goals are not set for them. Goals and targets for KMPs are documented and detailed in the Action Plan prepared based on the Corporate Plan of the Bank. The General Manager is responsible for the implementation of the Corporate Plan through Key Management Personnel (KMPs). Performance on same is reviewed.</p> <p>A separate evaluation of the performance of the General Manager is also carried out on an annual basis.</p>
	c. The Committee shall evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	<p>Complied with.</p> <p>The Committee evaluated the performance of the Deputy General Managers including the General Manager against the targets given to them at the beginning of the year. Performance of the Assistant General Managers were evaluated through the evaluation carried out on them by the respective Deputy General Managers.</p>
	d. The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	Complied with.
3 (6) (iv)	The following rules shall apply in relation to the Nomination Committee:	The Bank has established a Nomination and Corporate Governance Committee. In addition to the duties of the Nomination Committee given under this Direction, certain other duties pertaining to upholding the applicable Corporate Governance Principles are included under the Terms of Reference of this Committee.
	a. The Committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel.	<p>Complied with.</p> <p>The Directors are appointed by the Minister under whose purview the Bank falls. The General Manager is appointed by the Board with the approval of the said Minister. There is a Board approved general procedure/scheme for the appointment of the KMP.</p>
	b. The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.	Does not arise since the Directors are appointed by the relevant Minister.
	c. The Committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions.	<p>Complied with.</p> <p>The General Manager is appointed based on the Bank's accepted procedure with the approval of the Board of Directors and the relevant Minister as specified in the Bank of Ceylon Ordinance No. 53 of 1938 and its amendments. The Board approved promotion schemes stipulate the attributes required to be eligible to be selected or promoted to the other key management positions.</p>
	d. The Committee shall ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the statutes.	<p>Complied with.</p> <p>Annual declarations from Directors ensuring that they are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in statutes are sent to CBSL.</p> <p>Also the Committee ensures that KMPs are fit and proper persons to hold their offices when they are promoted or appoint as KMPs.</p>

Section	Principle	Level of Compliance during the Year 2017
	<p>e. The Committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel.</p>	<p>Complied with.</p> <p>A Succession Plan for the KMPs is in place. Additional or new expertise that is needed are either recommended by the Board Subcommittees or decided by the Board.</p>
	<p>f. The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.</p>	<p>Complied with.</p> <p>The Committee is chaired by an Independent Non-Executive Director. Page 77 of this Annual Report provides details in this regard.</p>
3 (6) (v)	<p>The following rules shall apply in relation to the Integrated Risk Management Committee:</p>	<p>Complied with.</p>
	<p>a. The Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.</p>	<p>The Committee comprises three Non-Executive Directors, General Manager and the Chief Risk Officer who supervises credit, market, operational, reputational and strategic risks. The Chief Internal Auditor, Chief Financial Officer and Compliance Officer participate at all Committee meetings at the request of the Committee. Any other KMP and other staff are invited as and when the Committee needs their presence. The Committee works closely with KMPs within the framework of authority and responsibility assigned to the Committee.</p>
	<p>b. The Committee shall assess all risks, i.e. credit, market, liquidity, operational and strategic risks to the bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.</p>	<p>Complied with.</p> <p>Independent Integrated Risk Management Division of the Bank assesses the credit, market, liquidity, operational, strategic and operational risks of the Bank based on the policy documents recommended by this Committee and approved by the Board, on a monthly basis and the summary reports are submitted to the Committee at its regular meetings and then to the next immediate Board meeting.</p> <p>In the case of subsidiaries and associates, a risk management dashboard has been developed to address the risks.</p>
	<p>c. The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.</p>	<p>Complied with.</p>
	<p>d. The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the bank's policies and regulatory and supervisory requirements.</p>	<p>Complied with.</p> <p>Specific quantitative and qualitative risks which went beyond the limits are monitored by the Chief Risk Officer and reported direct to the Committee based on the severity of the issues involved.</p>
	<p>e. The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.</p>	<p>Complied with.</p> <p>During the year, the Committee has had five meetings.</p> <p>Details of meetings and attendance are given on page 69.</p>
	<p>f. The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision.</p>	<p>Complied with.</p> <p>Formal documented disciplinary action procedure is in place in the Bank.</p>

Section	Principle	Level of Compliance during the Year 2017
	g. The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied with. The detailed minutes of the meetings are submitted to the next immediate Board meeting together with the recommendations and Risk Management Reports.
	h. The Committee shall establish a compliance function to assess the bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated Compliance Officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	Complied with. The Bank has established a separate compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. This function is headed by a dedicated Compliance Officer and he submits quarterly Compliance Reports to the Committee and monthly Compliance Reports to the Board. The compliance function also assess the Bank's compliance with Internal Controls and approved policies on all areas of business operations.
3 (7)	Related Party Transactions	
3 (7) (i)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons 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.	Complied with. There is a Board approved Policy on Related Party Transactions covering related parties, their transactions, and restrictions on offering more favourable treatment to related parties in order for the Board members to avoid any Conflict of Interest in this regard. Directors who have related party transactions are individually requested to declare their transactions. Transactions are monitored through an automated system.
3 (7) (ii)	The type of transactions with related parties that shall be covered by this Direction shall include the following: 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.	Complied with. Information in this regard, is disclosed in Note 57 on page 274 "Related Party Disclosures" disclosures.

Section	Principle	Level of Compliance during the Year 2017
3 (7) (iii)	<p>The Board shall ensure that the bank does not engage in transactions with related parties as defined in Direction No. 3 (7) (i) above, in a manner that would grant such parties “more favourable treatment” than that accorded to other constituents of the bank carrying on the same business. In this context, “more favourable treatment” shall mean and include treatment, including the:</p> <ol style="list-style-type: none"> Granting of “total net accommodation” to related parties, exceeding a prudent percentage of the bank’s regulatory capital, as determined by the Board. For purposes of this sub-direction: <ol style="list-style-type: none"> “Accommodation” shall mean accommodation as defined in the banking Act Direction No. 7 of 2007 on Maximum Amount of Accommodation. The “total net accommodation” shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the bank’s share capital and debt instruments with a maturity of five years or more. 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; 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; Providing services to or receiving services from a related-party without an evaluation procedure; 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>Complied with.</p> <p>The Bank has implemented a Board approved process to monitor related party transactions which is monitored by the Compliance Division and compliance status is indicated in the monthly Compliance Report submitted to the Board.</p>
3 (7) (iv)	<p>A bank shall not grant any accommodation to any of its Directors or to a close relation of such Director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.</p>	<p>Complied with.</p>
3 (7) (v)	<ol style="list-style-type: none"> Where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the bank, steps shall be taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director. 	<p>Complied with.</p> <p>Such a situation has not arisen during the year 2017.</p>

Section	Principle	Level of Compliance during the Year 2017
	<p>b. Where such security is not provided by the period as provided in Direction 3 (7) (v) (a) above, the bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier.</p> <p>c. Any Director who fails to comply with the above sub-directions shall be deemed to have vacated the office of Director and the bank shall disclose such fact to the public.</p> <p>d. This sub-direction, however, shall not apply to a Director who at the time of the grant of the accommodation was an employee of the bank and the accommodation was granted under a scheme applicable to all employees of such bank.</p>	
3 (7) (vi)	A bank shall not grant any accommodation or “more favourable treatment” relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3 (7) (v) above.	<p>Complied with.</p> <p>No favourable treatment/accommodation is provided to any employee of the Bank on more favourable terms unless under general staff loan schemes applicable to all employees of the Bank. Circular instructions have been issued in this regard. Close relations of Bank employees are also not given any favourable treatment/recommendation.</p>
3 (7) (vii)	No accommodation granted by a bank under Direction 3 (7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remission without such approval shall be void and of no effect.	<p>Complied with.</p> <p>Such a situation has not arisen during the year 2017.</p>
3 (8)	Disclosures	
3 (8) (i)	The Board shall ensure that: <p>a. annual Audited Financial Statements and quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards; and that</p> <p>b. such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.</p>	<p>Complied with.</p>
3 (8) (ii)	The Board shall ensure that the following minimum disclosures are made in the Annual Report: <p>a. A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.</p> <p>b. A report by the Board on the bank’s internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.</p>	<p>Complied with.</p> <p>Disclosed in the “Annual Report of the Directors on the State of Affairs of the Bank” on pages 139 to 143 and Directors’ Responsibility for Financial Reporting on page 149.</p> <p>Complied with.</p> <p>Disclosed in the “Directors’ Statement on Internal Control” on pages 146 and 147 of this Annual Report and Directors’ Responsibility for Financial Reporting on page 149.</p>

Section	Principle	Level of Compliance during the Year 2017																				
	c. 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”.	Complied with. The Bank has obtained a certificate on the Effectiveness of Internal Controls over Financial Reporting from the Auditor General which is published on page 148 of this Annual Report.																				
	d. Details of Directors, including names, fitness and propriety, transactions with the bank and the total of fees/remuneration paid by the bank.	Complied with. Details of Directors are given on pages 35 to 37. Directors’ Interest in Contracts with the Bank are given on page 144 and 145. Remunerations paid by the Bank are given in Note 15 to the Financial Statements on page 180.																				
	e. Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the bank’s regulatory capital.	Complied with. “Total net accommodation” granted to each category of related party during the year 2017 as a percentage of the Bank’s regulatory capital is given below: <table><tr><th></th><th>LKR '000</th><th>%</th></tr><tr><td>Key Management Personnels (KMPs)</td><td>140,125</td><td>0.11</td></tr><tr><td>Subsidiaries</td><td>1,751,755</td><td>1.40</td></tr><tr><td>Associates</td><td>254,365</td><td>0.20</td></tr><tr><td>Government and Government-related entities (Refer definition in Note 57.4 of Financial Statements)</td><td>1,065,487,630</td><td>849.26</td></tr></table>		LKR '000	%	Key Management Personnels (KMPs)	140,125	0.11	Subsidiaries	1,751,755	1.40	Associates	254,365	0.20	Government and Government-related entities (Refer definition in Note 57.4 of Financial Statements)	1,065,487,630	849.26					
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	f. The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the bank with its Key Management Personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank.	Complied with. The aggregate amount of remuneration paid by the Bank and transactions with KMPs for the year 2017 are stated below: <table><tr><th></th><th>LKR '000</th></tr><tr><td>Short-term employment benefits</td><td>392,458</td></tr><tr><td>Post employment benefits</td><td>171,459</td></tr></table> In addition to above, the Bank has also paid non-cash benefits such as use of vehicles to KMPs in line with the approved benefit plan of the Bank. <table><tr><th></th><th>LKR '000</th></tr><tr><td>Loans</td><td>410,435</td></tr><tr><td>Overdrafts</td><td>11,666</td></tr><tr><td>Credit cards</td><td>9,215</td></tr><tr><td>Deposits</td><td>368,897</td></tr><tr><td>Debentures</td><td>7,626</td></tr><tr><td>Undrawn facilities</td><td>51,410</td></tr></table>		LKR '000	Short-term employment benefits	392,458	Post employment benefits	171,459		LKR '000	Loans	410,435	Overdrafts	11,666	Credit cards	9,215	Deposits	368,897	Debentures	7,626	Undrawn facilities	51,410
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	g. A confirmation by the Board of Directors in its Annual Corporate Governance Report that all the findings of the “Factual Finding Reports” of Auditors issued under “Sri Lanka Related Services Practice Statement 4750” have been incorporated in the Annual Corporate Governance Report provided that Auditors confirm to the Director of Bank Supervision to this effect.	Complied with. The Bank has obtained a certificate from the Auditor General in compliance with the Corporate Governance Direction No. 11 of 2007. All findings of the Auditors have been incorporated in this Corporate Governance Report and any recommendations will be dealt within 2018.																				

Section	Principle	Level of Compliance during the Year 2017
	<p>h. A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.</p>	<p>Complied with.</p> <p>The Statement of Directors' Responsibility for Financial Reporting on page 149 clearly sets out details regarding compliance with prudential requirements, regulations, laws and internal controls.</p>
	<p>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.</p>	<p>Complied with.</p> <p>There were no lapses which caused supervisory concern on the Bank's Risk Management Systems or non-compliance with these directions which led to them being pointed out by the Director of Bank Supervision of the Central Bank of Sri Lanka and which have caused the Monetary Board to give directions that they be disclosed to the public. Since there have been no such lapses or instances of non-compliance and since no such directions have been given by the Monetary Board, the issue of measures to be taken does not arise and there is nothing to disclose in this regard.</p>
3 (9) (i)	<p>Transitional and Other General Provisions</p> <p>Compliance with this Direction shall commence from 1 January 2008 onwards and all licensed commercial banks shall fully comply with the provisions of this Direction by or before 1 January 2009 except where extended compliance dates have been specifically provided for in this Direction.</p>	<p>Complied with.</p>
3 (9) (ii)	<p>In respect of the banks that have been incorporated by specific statutes in Sri Lanka, the Boards as specified in such statutes shall continue to function in terms of the provisions of the respective statutes, provided they take steps to comply with all provisions of this Direction that are not inconsistent with the provisions of the respective statutes.</p>	<p>Complied with.</p> <p>Bank of Ceylon has taken all possible measures to comply with all applicable provisions of this Direction that are not inconsistent with the provisions of Bank of Ceylon Ordinance No. 53 of 1938 and its amendments, the enabling enactment.</p> <p>Any instances of non-compliance and where Bank of Ceylon has continued to function in terms of the provisions of the statutes applicable to it has been specifically mentioned above against the relevant sections.</p>
3 (9) (iii)	<p>This Direction shall apply to the branches of the foreign banks operating in Sri Lanka to the extent that it is not inconsistent with the regulations and laws applicable in such bank's country of incorporation. The branch of a foreign bank shall also publish its parent bank's Annual Corporate Governance Report together with its Annual Report and accounts of the branch operations in Sri Lanka.</p>	<p>Not applicable.</p>
3 (9) (iv)	<p>In the event of a conflict between any of the provisions of this Direction and the Articles of Association (or Internal Rules) pertaining to any bank, the provisions of this Direction shall prevail. However, if the Articles of Association of an individual bank set a more stringent standard than that specified in this Direction, such provisions in the Articles of Association may be followed.</p>	<p>Not applicable.</p>
3 (9) (v)	<p>If for any reason such as ill health or any incapacity as provided in the Banking Act, the Monetary Board considers that exemptions referred to in Directions 3 (2) (ii) B, 3 (3) (i) A and 3 (3) (ii) A should not be availed of, such ground may be notified to the person by the Monetary Board, and after a hearing, the Monetary Board may limit the period of exemption.</p>	<p>Not applicable.</p>