

# ANNEX 2: GOVERNANCE

## ANNEX 2.1: COMPLIANCE WITH BANKING ACT DIRECTION

The Banking Act Direction No. 11 of 2007 and subsequent amendments thereto on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank of Sri Lanka

Section	Principle, compliance, and implementation	Complied
<b>3 (1)</b>	<b>Responsibilities of the Board</b> The Board has strengthened the safety and the soundness of the Bank in the following manner:	
<b>a.</b>	<b>Setting strategic objectives and corporate values</b> The Bank's strategic objectives and corporate values are determined by the Board as set out on page 28. These are communicated to all levels of employees through structured meetings and reinforced monthly at team meetings which review performance <i>vis-à-vis</i> strategic goals. The corporate values are included in the Code of Conduct and Business Ethics which is communicated to all employees in hard copy, via the Bank's intranet, through orientation programmes and reinforced at meetings.	
<b>b.</b>	<b>Approving overall business strategy including risk policy and management</b> The Board provides direction and guidance for preparation of the five year Corporate Strategic Plan from 2017-2021 which was approved by the Board after discussing related issues in detail with the Corporate Management. It is aligned to the overall Risk Strategy of the Bank through involvement of the Independent Risk Management Committee. The risk appetite of the Bank is embedded throughout the corporate plan in allocation of capital, adoption of risk matrix to measure the risk levels and in defining key performance indicators which include both quantitative and qualitative criteria. Additionally, governance and compliance are embedded into the Bank's Risk Management Policy Framework and included in the strategic goals.  The Bank's Strategic Plan for 2018-2022 was approved on December 22, 2017 by the Board.	
<b>c.</b>	<b>Risk management</b> The BIRMC is 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. Managing Risk: An Overview on pages 154 to 158 and the Report of the BIRMC on pages 127 and 128 provide further insights on risk management policies and processes of the Bank.	
<b>d.</b>	<b>Communication with all stakeholders</b> The Board has approved and implemented the following communication policies: <ul style="list-style-type: none"> <li>• <b>Shareholders</b> – The Shareholder Communication Policy of the Bank explicitly provides for effective and timely communication to shareholders of material matters and performance. Interim Financial Statements are made available to shareholders within 45 days for the first three quarters and within two months for the last quarter from the end of the relevant quarter and a quarterly press release is issued providing a review of the Bank's performance on a quarterly basis. Performance of the Bank is set out in the Annual Report of the Bank which is circulated to shareholders 15 working days prior to the AGM. The AGM is the key forum for contact with shareholders and the Bank has a history of well attended AGMs where shareholders take an active role in exercising their rights. Additionally, the Investor Relations page on the Bank's website contains the Interim Financial Statements and Annual Reports together with key disclosures on risk management. The Bank also provides information to equity analysts to facilitate high quality information in research reports which are made available to investors by the stockbrokers.</li> <li>• <b>Customers</b> – Customers include <i>inter alia</i> depositors and borrowers. The Bank's Customer Complaint Handling Policy has been printed in all three languages and disseminated to all customer contact points of the Bank. This document outlines the complaints handling policy of the Bank, provides contact numbers of the Bank for this purpose and also of the Financial Ombudsman. There is a 24-hour trilingual customer hotline set up for this purpose and reports are reviewed by the BIRMC.</li> <li>• <b>Staff</b> – Employees and representatives of the trade unions are given unrestricted access to the Management to discuss their concerns. The Deputy General Manager – Human Resource Management coordinates communication between the Board and the employees.</li> </ul>	
<b>e.</b>	<b>Internal control system and management information systems</b> The Board is assisted in this regard by the BAC who reviews the adequacy and the integrity of the Bank's internal control system and management information system. The BAC has reviewed reports from the Internal Audit Department and the External Auditors in carrying out this function and also reviewed management responses on same during the year.	