

Corporate Governance Report

Chairman's Statement

Dear Stakeholder,

Your Bank witnessed another year of progression towards adopting sustainable corporate governance measures in compliance with the regulations, rules, guidelines and principles. Ever since Seylan Bank commenced functioning under a new Board of Directors in 2009, it has been firm in its resolve that the members of the Board, the senior management team and staff are all committed towards adoption and implementation of transparent and effective corporate governance practices within the Bank. Towards this end, we expect not only the Board of Directors and employees but also the external stakeholders, viz. auditors, consultants, customers and suppliers to act with honesty, integrity and fairness and ensure a high element of ethical business conduct. We, at Seylan Bank, are confident that such a culture will enhance business prosperity and realise long-term shareholder value by retaining the trust of its depositors whilst safeguarding the interests of all its stakeholders.

As Chairman, I believe promoting standards of exemplary corporate governance is central to my role. I, as well as my Board, believe that it is important to ensure that there are

good processes that underpin and enable the Board to maximise the effectiveness. As Chairman I strive to create an inclusive environment where open debate and constructive challenge is encouraged within the context of a unitary Board.

The Bank's Corporate Governance Report which follows confirms the Bank's commitment for compliance during the last three years and reflects the extent to which it has complied to date to the best of its ability with the regulations, rules, guidelines and principles as required under the Banking Act Direction No. 11 of 2007 (as amended) on Corporate Governance; the Colombo Stock Exchange Rules on Corporate Governance and the Code of Best Practice of Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

The External Auditors carried out an agreed upon procedure in respect of the Bank's compliance with the Banking Act Direction No. 11 of 2007 (as amended) in accordance with the Sri Lanka Related Services Practice Statement 4750 as well as a review/factual findings on the Board's Statement on Internal Controls relating to financial reporting system, based on Sri Lanka Standard on Assurance Engagement 3050 and the Examiners of the Department of Bank Supervision of the Central Bank of

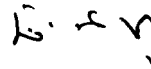
Sri Lanka carried out the periodic Statutory Examination in respect of the years 2009-2010 during the year 2011. Consequent to their engagements/examination, the Board and the Management positively reviewed their observations and took necessary steps to address their recommendations to the best of its ability which paved the way for increased compliance during 2011. I take this opportunity to thank the External Auditors, Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants and the Director of Bank Supervision and the Team of Examiners for their valuable observations and recommendations. My appreciation is also extended to the Management for their efforts and commitment towards taking the necessary steps to address the issues and further to all those staff members who assisted and supported the Management to carry out their functions.

I wish to extend my appreciation to the Board members who have been supportive and committed in their efforts in implementing and maintaining a good

governance culture within the Bank. Their contributions at Board and Board Sub-committee levels to uphold transparent governance practices have been immense.

Whilst introducing and endorsing this Corporate Governance Report, on behalf of the Board of Directors, I assure that we will continue to make further improvements deemed necessary to our corporate governance practices and sustain the best corporate governance values in Seylan Bank. I further wish to state that shareholder engagement is one key aspect of effective corporate governance. Therefore, we welcome your valuable feedback to carry them out and maintain them at its highest levels.

Yours sincerely,



Eastman Narangoda

Chairman

8th February 2012

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Corporate Governance Structure of Seylan Bank PLC

Compliance Requirements

Seylan Bank PLC, being a quoted, public, limited liability company with its principal activities being commercial banking is regulated by the Companies Act No. 7 of 2007, the Banking Act No. 30 of 1988 (as amended) and the Rules of the Colombo Stock Exchange. The Bank's compliance with Corporate Governance principles and guidelines revolves around the following:

- **Banking Act Direction No. 11 of 2007 (Directions on Corporate Governance for Licensed Commercial Banks in Sri Lanka)** issued by the Monetary Board of the Central Bank of Sri Lanka including subsequent amendments thereto. It is mandatory that Licensed Commercial Banks comply fully with these Directions.
- **The Colombo Stock Exchange (CSE) Rules on Corporate Governance.** It is mandatory that Companies listed on the CSE adhere to the CSE Rules, unless an exemption is sought by a Company and approved by the Board of Directors of the Exchange to waive off the requirement to comply with the CSE Rules either in full or part on the grounds that the said Company is required to comply by any other law/regulations applicable to such Company. However, the Bank has not sought for this exemption during

the year 2011 and hence has made the relevant disclosures. Furthermore, the Bank has also ensured compliance with the Continuing Listing Requirements of the CSE.

- **The Code of Best Practice of Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (ICASL).** Compliance with the SEC/ ICASL Code of Best Practice on Corporate Governance is carried out on a voluntary basis.

Internal Governance/Rules

The Bank is also internally governed mainly by its Articles of Association. The other internally established policies, codes and procedure/policy manuals enable the Bank to execute the required compliances effectively and sustain governance values in the Bank.

Delegation of Responsibilities

The Board has delegated certain of its responsibilities to be discharged by the Board appointed Sub-committees headed by Non-executive Directors who have adequate expertise/experience in the relevant areas. The Committees' fulfillment of responsibilities and compliances of the required corporate governance practices are explained in their respective reports and are also briefed in

the Corporate Governance Report that follows. The delegation of responsibilities does not detract the Board from its ultimate responsibilities towards the Bank.

Reconstitution of Board Sub-committees

The Board Credit Committee and the Board Sustainability Committee were reconstituted during the year to provide a greater balance of Non-Executive Directors in the Committees in accordance with the Corporate Governance principles. The Terms of Reference of the Board Credit Committee were amended to accommodate the increase in quorum required, consequent to the increase in membership.

Change of Status of Directors

Non-executive Director, Mr. S.P.S. Ranatunga was deemed and confirmed as an Independent Director with effect from 28th December 2011, whilst Chairman, Mr. E. Narangoda will function in a non-executive capacity with effect from 1st January 2012. Consequently, the Bank successfully fulfilled the Non-Executive and Independent Directors balance in the Board as required under the Banking Act Direction No. 11 of 2007.

Board's Effectiveness

The principles outlined in the Code of Business Conduct and Ethics for Directors

are intended to codify a standard of conduct by which the Directors are expected to abide; protect the business interests of the Bank; maintain the Bank's reputation for integrity, and foster compliance with applicable legal and regulatory obligations. The Board of Directors annually attest their familiarity with and adherence to the principles of this Code. The Company Secretary collated and tabled a summarised report on the individual and independent evaluations carried out by the Board Members on both Executive and Non-executive Directors' performance and effectiveness during 2011 for the Board members' review in February 2012. The evaluation confirmed the views of the Board and it was a good indicator of the openness that exists within the Board.

Ownership Structure

The Bank successfully completed a Rights Issue of its Ordinary Voting Shares and Ordinary Non-voting Shares on 16th June 2011, particulars of which are explained in the Report of the Directors and in the Notes to the Financial Statements. The Ownership structure of the Bank changed consequently with Brown & Company PLC subscribing to an increased stake in the voting capital of the Bank with the approval of the Monetary Board of the Central Bank of Sri Lanka as explained below*. Sri Lanka Insurance Corporation Limited retained the same

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stake of 15% by subscribing to the Rights provisionally allotted to them. The 10% holding of Bank of Ceylon was reduced to 7.5% as Bank of Ceylon did not subscribe to the Rights Issue.

* Pursuant to the Rights Issue, Brown & Company PLC and LOLC Investments Limited collectively hold 23.42% of the issued voting capital of the Bank. This joint shareholding limit has been approved by the Central Bank, subject to the following:

- i. Shareholding of Brown & Company PLC to be reduced from 13.87% to 9.55% within five years from 16th June 2011.
- ii. The joint holding of Brown & Company PLC and LOLC Investments Limited to be reduced from 23.42% to 15% within a period of 15 years from 13th October 2009.

The Employees' Provident Fund also increased its stake in the Bank from 5.03% to 8.26% during the year. Please refer 'Investors Information' pages for more information on the Bank's shareholding structure (both voting and non-voting share capital).

Strategic Plan - 2012/2015

The Board has formulated a new four year Strategic Plan for the Bank. As at the date of this Report, the implementation of the new Strategic Plan has already commenced with the objectives and values set within a revised Corporate Vision and Mission which are appended herein. The review of the Strategic Plan 2012/2015 has been declared as a main item on the Board Meetings' Agenda for 2012. The Board commenced reviewing its progress with effect from January 2012.

Vision

- To be Sri Lanka's leading financial services provider - as recognised by all our stakeholders.

Mission

- We provide our customers with financial services that meet their needs in terms of value, pricing, delivery and service
- We will do so through a team of Seylan Bankers who are recognised and rewarded for results orientation
- We will ensure that our efforts translate to meeting the expectations of our shareholders, whilst always acting as responsible corporate citizens.

Annual Corporate Governance Report

Seylan Bank PLC's Corporate Governance Report this year too states its compliances and the extent of compliances made to the best of its ability as required under the following three regulatory authorities' directions, rules, codes and principles.

Section One Directions of the Banking Act Direction No. 11 of 2007 on Corporate Governance

for Licensed Commercial Banks in Sri Lanka issued by the Monetary Board of the Central Bank of Sri Lanka under Section 41 (6) of the Banking Act No. 30 (as amended) including subsequent amendments to the said Directions.

The disclosures reflecting the Bank's compliance and the extent of its compliance under this Direction covers the following eight sub sections. The External Auditors have issued a Report certifying the disclosures made herein.

- The Responsibilities of the Board
- The Composition of the Board
- Fitness and Propriety of Directors
- Management Functions Delegated by the Board of Directors
- Chairman and Chief Executive
- Board Appointed Committees
- Related Party Transactions
- Disclosures

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in pages
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Section Two Section 7.10 of the Rules of the Colombo Stock Exchange (CSE) on Corporate Governance

Disclosures made include the following areas as required under the above Section.

- Non-Executive and Independent Directors
- Disclosures relating to Directors
- Human Resources and Remuneration Committee
- Audit Committee

Disclosed
in pages
147 and 148
of this
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Section Three Code of Best Practice on Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (ICASL)

The extent of compliance by the Bank of the above Code of Best Practice promulgated by ICASL and SEC are summarised under the following sub-headings. The Bank's compliance with this Code is on a voluntary basis.

- Directors
- Directors' Remuneration
- Relations with Shareholders
- Accountability and Audit
- Institutional Investors

Disclosed
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Section One

Statements of compliance under the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Monetary Board of the Central Bank of Sri Lanka under Section 41(6) of the Banking Act No. 30 (as amended) including subsequent amendments to the said Directions (hereinafter referred to as the Banking Act Direction on Corporate Governance).

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
3 (1) The Responsibilities of the Board		
3 (1) (i)	Processes and procedures carried out by the Board to ensure to strengthen the safety and soundness of the Bank	
a.	Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank.	<p>Complied with</p> <p>Bank's 3-year strategic plan 2009/11 and the budgets were presented to the Board and approved in 2009. Board regularly reviewed the progress on the strategic plan and the performance against budgets.</p> <p>The Board approved the 4-year Strategic Plan 2012/2015 and communicated the new strategic objectives and corporate values to the staff at a launch held on 15th December 2011.</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>Complied with</p> <p>The Strategic Plan approved in 2009 addressed the Bank's overall business strategy up to the year 2011.</p> <p>The Board approved the new 4-year Strategic Plan 2012/2015 on 12th December 2011 prior to its launch.</p>
c.	Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently.	<p>Complied with</p> <p>The Board has delegated these responsibilities to its Integrated Risk Management Subcommittee. The Committee ensures that the Bank's Chief Risk Officer/Risk Unit identifies principal risks and puts in place policies and guidelines to be reviewed and approved by the Committee.</p>
d.	Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers.	<p>Complied with</p> <p>A Stakeholder Engagement Policy has been approved and implemented.</p>

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
e.	Review the adequacy and the integrity of the Bank's internal control systems and management information systems.	Complied with Adequacy and integrity of the Bank's internal control systems and management information systems were reviewed by the Board Audit Committee. The decisions and/or actions taken are submitted for Board's information and/or action (if deemed necessary).
f.	Identify and designate key management personnel, as defined in the International Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management.	Complied with The Board has identified key management personnel who are in a position to influence and exercise control as mentioned herein and deemed as 'related parties' in order that necessary steps could be taken to abide by/comply with the relevant Banking Act Directions [Ref: 3 (7) of this report] and the SLAS disclosures on related party transactions.
g.	Define the areas of authority and key responsibilities for the Board of Directors themselves and for the key management personnel.	Complied with Directors' and key management personnel's responsibilities are defined and documented.
h.	Ensure that there is appropriate oversight of the affairs of the Bank by key management personnel, that is consistent with Board policy.	Complied with Communication of Board approved policies through circulars; decisions of the relevant key management personnel ensures this requirement.
i.	Periodically assess the effectiveness of the Board of Directors' own governance practices, including: <ul style="list-style-type: none"> <li data-bbox="169 1275 461 1360">i. the selection, nomination and election of Directors and key management personnel; <li data-bbox="169 1368 476 1421">ii. the management of conflicts of interests; and <li data-bbox="169 1430 527 1508">iii. the determination of weaknesses and implementation of changes where necessary. 	Complied with Effectiveness of the Board's own governance practices including (i), (ii) and (iii) specified herein are ensured. Evaluation of the Board performance including all governance practices are assessed by the Directors individually and collectively discussed/reviewed by the Board annually, including any matters that may indicate conflicts of interest.

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Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
j.	Ensure that the Bank has an appropriate succession plan for key management personnel.	Complied with The succession plan is reviewed by the CEO and the HR Division submits such reviewed plan to the Board's Nomination Committee for its review and/or concurrence annually or as deemed necessary.
k.	Meet regularly, on a needs basis, with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Complied with Key management personnel are co-opted and/or attend by invitation to the Board Subcommittees. Minutes of the subcommittees and action plans arising out of same are tabled at Board meetings for the Board's review and/or follow up. Key management personnel are also called by the Board as and when required to explain matters relating to their respective functions.
l.	Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators.	Complied with The Board is updated of the changes in the regulatory environment and maintains an effective relationship with regulators. The process is managed by the Compliance Officer.
m.	Exercise due diligence in the hiring and oversight of External Auditors.	Complied with The Board Audit Committee carries out this exercise and recommends for the concurrence of the Board.
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.	Consequent to the reconstitution of the Bank in December 2008, the Board operated during the last three years with an Executive Chairman. The functions and responsibilities of the Chairman and Chief Executive were defined and divided to the extent possible. To mitigate any adverse effects of same, the Board appointed a Senior Independent Non-Executive Director with Board approved terms of reference. Chairman functions in a non-executive capacity with effect from 1st January 2012.

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
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 meetings held monthly with special meetings held as and when required. 13 regular meetings and 6 special meetings were held during the year. These meetings were held with the required quorum which included the participation of majority Non-Executive Directors. Directors actively contribute to the Board proceedings. Resolutions by circulation are kept at a minimum and restricted to matters of a routine nature.</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>Board meetings are scheduled monthly and Directors are notified of the date of the next meeting well in advance enabling them to include matters and proposals in this regard. At Board meetings too Directors' propose and collectively agree on matters to be included in the Agenda of future Board Meetings.</p>
3 (1) (v)	The Board procedures shall ensure that notice of at least 7 days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice may be given.	<p>Complied with</p> <p>Notice of meeting, agenda and Board papers are circulated to the Directors 7 days prior to the meeting for regular meetings. Special meetings were called with much lesser notice period due to the urgency of the matters concerned.</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>Details of Directors' attendance in accordance with the Corporate Governance Code is set out on page 159 of this Annual Report. One Director was excused by the Board from attending three consecutive Meetings as he was indisposed.</p> <p>Only attendance at the regular Board meetings has been considered for this purpose as special Board meetings convened during the year were on very short notice.</p>

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Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
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 Board has appointed a Company Secretary who satisfies these provisions and requirements.</p> <p>The Company Secretary is responsible for inducting new Directors and assisting the Chairman in determining the Annual Board plan and guide the individual Directors about the Bank's procedures where necessary.</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 Directors have access to the advice and services of the Company Secretary who is a Chartered Secretary to ensure that Board procedures and all applicable rules and regulations are followed.</p>
3 (1) (ix)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	<p>Complied with</p> <p>Minutes of Board meetings are prepared and circulated to the Directors to enable them to peruse same and confirm/rectify and record any discrepancy at the next Board meeting. Minutes are maintained by the Company Secretary for inspection of any Director on reasonable notice.</p>
3 (1) (x)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the Minutes, as to whether the Board acted with due care and prudence in performing its duties. The Minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board meetings.	<p>Complied with</p> <p>Minutes of Board meetings are recorded by the Company Secretary in sufficient detail to enable a proper assessment to be made of the extent of deliberations at the meetings.</p> <p>The Minutes include the matters considered by the Board, discussions, risks, strategies and decisions.</p>

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
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>The Directors are permitted to seek independent professional advice on any matters whenever required. A Board approved procedure is in place.</p> <p>A Director can inform by writing to the Chairman or the Company Secretary to seek professional advice and based on written approval proceed to obtain such advice.</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>Directors avoid conflicts of interest with the Bank and any situation which involves, or may reasonably be expected to involve, a conflict of interest is disclosed promptly. Directors abstain from voting on any such resolution in which the Directors have related party interests or are interested by virtue of their directorships. The interested Directors are also not counted in the quorum for the relevant Agenda item.</p> <p>An approved procedure to determine, report, resolve and take action with regard to conflicts of interests will be implemented [refer comment on Direction No. 3 (7) (i)].</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>A schedule of matters reserved for Board's decisions is included in the agenda to ensure Board's contribution in the decision-making process and to make the ultimate decisions.</p>

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Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
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 Although this situation has not arisen, the Board has instructed that the Asset Liability Committee, the CEO and other officers responsible should monitor liquidity risks, events that could lead to such a situation and to promptly bring them to the notice of the Board to notify the Director of Bank Supervision.
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 Bank has duly complied with Capital Adequacy Ratio requirements. A Capital Augmentation Plan for 3 years (2011-2013) was approved by the Board during the year. The Board maintains and reviews compliance quarterly.
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 This Corporate Governance Report discloses the extent to which the Bank has complied with Direction 3 of the Banking Act Directions on Corporate Governance.
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 The Board has adopted an annual scheme of self-assessment. The self-assessment reports are tabled at Board meetings and are held in Company Secretary's custody.
3 (2) Composition of the Board		
3 (2) (i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	Complied with The Board comprises of 10 Directors.

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
3 (2) (ii)	<p>(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 01 January 2008 and,</p> <p>(B) Transitional provisions relating to the above.</p>	The present Directors are appointed to the Board on or after 30th December 2008.
3 (2) (iii)	<p>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.</p>	<p>Complied with</p> <p>The number of Executive Directors does not exceed one-third of the total number of Directors on the Board.</p>
3 (2) (iv)	<p>The Board shall have at least three Independent Non-Executive Directors or one-third of the total number of Directors, whichever is higher.</p>	<p>The Board comprised of three Independent Non-Executive Directors until 27th December 2011. Non-Executive Director, Mr. S.P.S. Ranatunga was declared and confirmed as an Independent Director with effect from 28th December 2011, thereby complying with the said requirement.</p>
3 (2) (v)	<p>In the event an Alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that applicable to the Independent Director.</p>	No Alternate Directors have been appointed.

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Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
3 (2) (vi)	Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	<p>Complied with</p> <p>The Non-Executive Directors of the Board are eminent personnel and their extensive experience in the fields of banking, finance, law, insurance, marketing and other related fields serves this purpose. Please refer section on 'Profiles of the Directors' for a brief profile of each of the Directors.</p>
3 (2) (vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one-half of the number of Directors present at such meeting are Non-Executive Directors.	<p>Complied with</p> <p>Required quorum was maintained from commencement to the conclusion of Board proceedings.</p>
3 (2) (viii)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The Bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual Corporate Governance Report.	<p>Complied with</p> <p>Please refer Composition of Board described in the schedule appended to this Report on page 159.</p>
3 (2) (ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	<p>Complied with</p> <p>A Board approved procedure is in place which addresses these requirements.</p>
3 (2) (x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	<p>Complied with</p> <p>Messrs A.M.M. De Alwis and P. Kudabalage were elected at the Annual General Meeting held on 30th March 2011 (the first general meeting after their appointment to the Board on 20th August 2010).</p>

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
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 procedure set out herein is followed. Shareholders are informed vide a letter to the Colombo Stock Exchange and through the Annual Report of the Bank published subsequent to resignation/removal.</p> <p>There were no resignations or removals during the year, 2011.</p>
3 (2) (xii)	<p>A Director or an employee of a Bank shall not be appointed, elected or nominated as a Director of another Bank except where such Bank is a subsidiary company or an associate company of the first mentioned Bank.</p>	<p>Complied with</p> <p>None of the employees or Directors of the Bank are Directors of other Banks.</p> <p>The Bank's policy on Directors' appointment provides for this preclusion.</p>
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>Complied with</p> <p>None of the present Directors fall within the ambit of this section.</p>
3 (3) (ii)	<p>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. Of such 20 companies/entities/institutions, not more than 10 companies shall be those classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.</p>	<p>Complied with - subject to the following Note:</p> <p>As per declarations submitted by Directors in March 2011, all Directors, except Messrs A.L. Devasurendra and I.C. Nanayakkara held office in less than 20 companies and in 10 or less than 10 specified business entities.</p> <p>However, Messrs A.L. Devasurendra and I.C. Nanayakkara had since complied with this Direction prior to the end of the year, 2011.</p>

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Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
3 (3) (ii) A	If any person holds posts in excess of the limitation as above, such person shall within a maximum period of 3 years from 1st January 2009 comply with the above- mentioned limitation and notify the Monetary Board accordingly.	Not applicable.
3 (4) Management Functions delegated by the Board of Directors		
3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	<p>Complied with</p> <p>The Board has delegated matters pertaining to the affairs of the Company to the Board subcommittees within the scope of the respective terms of reference as approved by the Board and also to the CEO and other key management personnel/ line management through approved delegated authority limits which are reviewed from time to time.</p> <p>The Board is empowered by the Articles of Association subject to the provisions in the Companies Act to delegate any of its powers to committees consisting of such member or members as the Board thinks fit. Any committee so formed shall in the exercise of the powers so delegated conform to any regulations that may be imposed on them by the Board.</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>Complied with</p> <p>The delegation process is reviewed by the Board from time to time so as not to hinder or reduce the Board's overall powers to effectively discharge its functions.</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.	<p>Complied with</p> <p>The delegation process to the Board subcommittees and to the CEO and line management is reviewed by the Board from time to time <i>vis-à-vis</i> taking into account any structural changes as approved by the Board from time to time.</p>

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Seylan Bank PLC's Status/Extent of Compliance

3 (5) Chairman and Chief Executive

- 3 (5) (i) The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.
- 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.
- 3 (5) (iii) The Board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.

Complied with

The positions of the Chairman and the CEO have been separated. However, the Chairman functioned in an executive capacity (pursuant to the Seylan Bank Board being re-constituted in December 2008). The Chairman functions in a non-executive capacity with effect from 1st January 2012.

Mr. E. Narangoda, Chairman of the Bank functioned in an executive capacity pursuant to the Board being re-constituted since December 2008.

In order to comply with this section, Mr. E. Narangoda will function in a Non-Executive capacity with effect from 1st January 2012 as unanimously agreed upon by the Board at its meeting held in December 2011.

In January 2010, Mr. N.M. Jayamanne PC, an Independent Non-Executive Director of the Bank was nominated and appointed by the Board as Senior Director under Board approved terms of reference.

Complied with

Relationships (if any) and/or nature of relationships are identified from the disclosures made by the Chairman and the Directors in their declarations of interest submitted to the Board periodically.

No relationship of any nature exists between the Chairman and the CEO.

The relationships among members of the Board in relevance to this section are as follows:

- Directors, Messrs A.L. Devasurendra and I.C. Nanayakkara hold common directorships and related party interests in companies within the LOLC Group and the Browns Group.
- Directors, Messrs A.M.M. De Alwis and P. Kudabalage represent the Bank's material shareholder, Sri Lanka Insurance Corporation Limited and hold executive directorships in the said Company.

The Bank has since adopted a process and obtained declarations in 2012 specifically confirming the nature of relationships (if any) as required in this Direction.

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Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
3 (5) (iv)	The Chairman shall: <ul style="list-style-type: none"> (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner. 	<p>Complied with</p> <p>The Chairman provides leadership to the Board and ensures that the Board effectively discharges its responsibilities and that all key issues are discussed and resolved.</p>
3 (5) (v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board Meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	<p>Complied with</p> <p>Drawing up of the agenda has been delegated by the Chairman to the Company Secretary. Papers submitted for inclusion in the Agenda are reviewed by the Chairman prior to forwarding them to the Company Secretary. The Agenda is finalised taking into account the items requested to be included in the agenda by any Director or the CEO with the approval of the Chairman.</p>
3 (5) (vi)	The Chairman shall ensure that all Directors are properly briefed on issues arising at Board Meetings and also ensure that Directors receive adequate information in a timely manner.	<p>Complied with</p> <p>Board papers covering adequate information of matters to be taken up for discussions are circulated with the Notice of Meeting at least 7 days prior to the Meeting.</p>
3 (5) (vii)	The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	<p>Complied with</p> <p>All Directors make an active contribution to the Board's affairs. Majority of the Directors chairs the Board Sub-committees and by virtue of their membership in the Committees contribute effectively in the best interests of the Bank.</p>
3 (5) (viii)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors.	<p>Complied with</p> <p>Please refer comment above.</p>

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
3 (5) (ix)	The Chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	The organisation structure in place ensures that all key management personnel report directly to the General Manager/Chief Executive except the Head of Audit and the Chief Risk Officer who report directly to the Board Audit Committee and the Board Integrated Risk Management Committee with administrative reporting to the GM/CEO. The Chairman in his capacity as Executive Director during the year supervised certain functions such as Human Resources and Marketing. He functions in a non-executive capacity with effect from 1st January 2012.
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.	<p>Complied with</p> <p>At general meetings, the shareholders are given the opportunity to take up matters for which clarifications are needed which are adequately clarified by the Chairman or any other Director, CEO or any other officer. The Bank has through its 'Seylanian Shareholder Privileged Scheme' provided concessions and benefits suggested by shareholders at these forums and through request letters. These concessions are reviewed by the Bank annually.</p> <p>The Company Secretariat ensures that all shareholder queries/requests pertaining to their shareholdings, dividend payments, etc. are duly addressed and responded as soon as possible. Any correspondence which requires the Board's attention are referred to the Board.</p> <p>Pursuant to requests made by many of the Preference Shareholders, the Chairman and the Board of Directors took necessary steps for the redemption of the said shares.</p>
3 (5) (xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the Bank's operations and business.	<p>Complied</p> <p>The GM/CEO of the Bank heads the senior management team of the Bank and reports directly to the Board of Directors. His main functions and responsibilities are the overall management and operations of the Bank.</p>

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Direction No. Banking Act Corporate Governance
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Seylan Bank PLC's Status/Extent of Compliance

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.

Complied with

The Board appointed Committees are as follows, which function within the Board approved Terms of Reference.

- Audit Committee
- Integrated Risk Management Committee
- HR and Remuneration Committee
- Nomination Committee
- Credit Committee
- Sustainability Committee
- Marketing and Product Development Committee

The Company Secretary functions as the Secretary to these Committees.

Minutes of the Meetings held and/or matters arising and Reports that need Board's attention and/or decision are tabled to the Board by the Secretary. The Reports of these Committees reviewed and approved by the Board are given on pages 163 to 173 of the Annual Report. Summarised write ups of Credit Committee, Marketing & Product Development Committee and Sustainability Committee are given at the end of this Report on pages 160 to 162.

3 (6) (ii) Audit Committee

The following rules shall apply in relation to the Audit Committee:

a. The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.

Complied with

Mr. P.L.P. Withana [MBA, BA (Hons), FCMA FCA] is the Chairman of the Committee. He is an Independent Non-Executive Director counting over 20 years experience including accounting and audit.

b. All members of the Committee shall be Non-Executive Directors.

Complied with

Directors, Messrs P.L.P. Withana, N.M. Jayamanne PC and P. Kudabaduge are Non-Executive Directors.

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
c.	<p>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</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>As per the terms of reference, the Committee has made the relevant recommendations in line with these guidelines, viz -</p> <ul style="list-style-type: none"> • The appointment of Messrs KPMG Ford Rhodes Thornton & Co., Chartered Accountants as the External Auditors for audit services in compliance with the relevant statutes. • Implementation of CBSL guidelines applicable to the Auditors. • Application of relevant accounting standards, particularly the adoption of IFRS from 01/01/2012. • The current Audit Partner has been engaged since 2009.
d.	<p>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>Complied with</p> <p>The Committee has obtained the representation from the External Auditor's on their independence and that the audit is carried out in accordance with the Sri Lanka Accounting and Auditing Standards.</p>
e.	<p>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>	<p>Complied with</p> <p>Further, in the instances where non-audit services are obtained from the External Auditor, prior approval is obtained from the Audit Committee in accordance with regulations. Audit Committee evaluates the Bank's requirement, nature of the non-audit service required by the Bank, fee structure, skills and the experience required to perform the said service of the Auditors. The Audit Committee reviews this process prior to awarding the assignment to the External Auditors to ensure independence is not impaired.</p>

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Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
	<p>I. whether the skills and experience of the audit firm make it a suitable provider of the non-audit services;</p> <p>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</p> <p>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>	
f.	<p>The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including -</p> <p>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;</p> <p>ii. the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations; and</p> <p>iii. the co-ordination between firms where more than one audit firm is involved.</p>	<p>Complied with</p> <p>The Committee has discussed and finalised the nature and scope of audit, with the External Auditors in accordance with SLAS. The letter of engagement has been tabled at the Audit Committee prior to the final approval of the Board.</p> <p>The Audit Committee has also shared this understanding of the Bank's Internal Control Mechanism and Compliance to Corporate Governance with the External Auditors.</p>

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
g.	<p>The Committee shall review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its annual report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the Bank's Annual Report and accounts and quarterly reports before submission to the Board, the Committee shall focus particularly on:</p> <ul style="list-style-type: none"> i. major judgmental areas; ii. any changes in accounting policies and practices; 	<p>Complied with Meetings of the Audit Committee are convened for this purpose and their reviews/comments and recommendations submitted to the Board for the final review and approval.</p>
	<ul style="list-style-type: none"> iii. significant adjustments arising from the audit; iv. the going concern assumption; and v. the compliance with relevant accounting standards and other legal requirements. 	
h.	<p>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 The Committee has met the External Auditors relating to any issue in absence of the Executive Management with relation to the audit.</p>
i.	<p>The Committee shall review the External Auditor's management letter and the management's response thereto.</p>	<p>Complied with External Auditor's management letter and management response thereto is reviewed by the Committee and appropriate guidance issued.</p>

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Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
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.	Complied with
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.	The appraisal of the performance (during 2011) of the Head of Audit carried out as per the Board's instructions will be submitted for the review of the Audit Committee in the 1st quarter of 2012.
IV.	Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function.	Complied with - Appointments have been recommended.
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;	Committee is appraised of senior staff resignations of the Internal Audit Department. The Committee will ensure that such persons will be provided an opportunity to submit reasons for resigning.
VI.	Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.	Complied with

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
k.	The Committee shall consider the major findings of internal investigations and management's responses thereto.	Complied with
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 Committee met the External Auditors twice during the year without the Executive Directors being present.
m.	The committee shall have: <ul style="list-style-type: none"> <li data-bbox="169 924 494 1012">i. explicit authority to investigate into any matter within its terms of reference; <li data-bbox="169 1024 530 1051">ii. the resources which it needs to do so; <li data-bbox="169 1063 458 1090">iii. full access to information; and <li data-bbox="169 1102 518 1218">iv. authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary. 	Complied with The Terms of Reference of the Board Audit Committee include these scope and responsibilities and the Committee exercises the authority accordingly.
n.	The committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied with Please refer Report of the Board Audit Committee published in this Annual Report.
o.	The Board shall disclose in an informative way, <ul style="list-style-type: none"> <li data-bbox="169 1460 494 1518">i. details of the activities of the audit committee; <li data-bbox="169 1531 470 1589">ii. the number of audit committee meetings held in the year; and <li data-bbox="169 1601 527 1651">iii. details of attendance of each individual director at such meetings. 	Complied with Please refer Report of the Board Audit Committee published in the Annual Report.

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Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
p.	The Secretary of the Committee (who may be the Company Secretary or the head of the internal audit function) shall record and keep detailed minutes of the Committee meetings.	Complied with The Company Secretary functions as the Secretary to the Committee.
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.	The Bank is in the process of formulating a Whistle Blower Policy which will be adopted and implemented during 2012.
3 (6) (iii) Human Resources and Remuneration Committee		
The following rules shall apply in relation to the Human Resources and Remuneration Committee:		
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.	Complied with Please refer Report of the Board HR and Remuneration Committee
b.	The Committee shall set goals and targets for the Directors, CEO and the key management personnel.	Goals and targets set for the CEO and key management personnel were approved by the Board and documented. The Board of Directors followed the goals set/marked in the Strategic Plan 2009/11 to a great extent.
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.	The performance against goals and targets/KPIs set in respect of the year 2011, for CEO and KMPs will be evaluated soon after the finalisation of audit.

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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) Nomination Committee		
The following rules shall apply in relation to the Nomination Committee:		
a.	The Committee shall implement a procedure to select/appoint new Directors, CEO and key management personnel.	Complied with The policies and procedures are approved and documented to cover the requirements set out in this Section.
b.	The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.	Complied with The Committee as well as the Board has recommended the re-election of the Non-Executive Directors, Messrs E. Narangoda, N.M. Jayamanne and A.L. Devasurendra who are due to retire by rotation in terms of Article 82 of the Articles of Association of the Bank at the next Annual General Meeting of the Bank taking into account their contribution to the Board's responsibilities. The Committee also recommended the re-election of Executive Director, Mr. R. Nadarajah for sake of good corporate governance, since he was lastly re-elected as a Director in 2009.
c.	The Committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions.	Complied with Procedures are documented and reviewed by the Committee.
d.	The Committee shall ensure that Directors, CEO and key management personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the Statutes.	Complied with Declarations and Affidavits issued in compliance with this Direction are reviewed and assessed by the Committee.
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.	Complied with Succession arrangements for key management personnel are reviewed periodically in line with organisational structural changes. Succession arrangements for Directors are guided by the approved policy on appointment of Directors.

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Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
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.	Complied with The Committee is chaired by Rear Admiral B.A.J.G. Peiris who is an Independent Director.
3 (6) (v)	Board Integrated Risk Management Committee The following rules shall apply in relation to the Board Integrated Risk Management Committee (BIRMC):	
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.	Complied with GM/CEO, Chief Risk Officer and CFO are co opted to the Committee and Heads overlooking Treasury, Credit, Operations, Operational Risk and IT are invited to attend the Committee meetings.
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.	Complied with The Risk Management Unit assesses all risks as required herein on a regular basis and reports to the respective Management Committees which are held frequently and updates the BIRMC at its quarterly meetings for necessary guidance. The Committee made an assessment of its only subsidiary in order to assess the risk on Group basis.
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.	Complied with The Committee assesses the adequacy of the Asset Liability Committee which is a non-board sub-committee. It does not review the Credit Committee since it being a Board sub-committee, the proceedings of same are reviewed by/ approved by the Board. However, reports based on the assessment and management of credit risk are submitted to the Committee by the Chief Risk Officer.

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
d.	The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the Bank's policies and regulatory and supervisory requirements.	Complied with The Risk Unit constantly monitors and reviews risks of this nature in order to take corrective action and wherever necessary submit to the Committee for its advise and decision.
e.	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied with Please also refer Report of the Board Integrated Risk Management Committee.
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.	The Internal Audit in the process of its risk based internal audit identifies lapses of this nature. An agreed upon procedure will be implemented by Head of Risk, Head of Internal Audit and Head of HR for compliance.
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 Presented/tabled at the monthly Board meeting that follows the Committee meeting.
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 appointed a Compliance Officer who is identified as a Key Person as defined in the Banking Act No. 30 of 1988 (as amended). The Compliance Officer submits the Compliance Reports to the Board at its meetings held monthly.

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Direction No. Banking Act Corporate Governance
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3 (7) Related Party Transactions

<p>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 who shall be considered as 'related parties' for the purposes of this Direction:</p> <ul style="list-style-type: none"> (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. 	<p>The Board takes necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with its related parties.</p> <p>The approved documented process/policy on Related Party Transactions and conflicts of interest will be put into due implementation during the year 2012.</p>
<p>3 (7) (ii) The type of transactions with related parties that shall be covered by this Direction shall include the following:</p> <ul style="list-style-type: none"> a. The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation, b. The creation of any liabilities of the Bank in the form of deposits, borrowings and investments, 	<p>Transactions are carried out with related parties in the normal course of business as disclosed in the Annual Report under Notes to the Financial Statements on 'Related Party Disclosures'.</p>

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	<ul style="list-style-type: none"> c. The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank, d. The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties. 	<p>The management officers who deal in these types of transactions are aware of the related party guidelines stipulated in that they take them into account in their evaluation of the related transaction and reports/submits same to the Board to avoid any conflict of interest.</p> <p>A formal process will be put in place to manage related party transactions and to avoid conflicts of interest.</p>
3 (7) (iii)	<p>The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties 'more favourable treatment' than that accorded to other constituents of the Bank carrying on the same business. In this context, 'more favourable treatment' shall mean and include treatment, including the:</p> <ul style="list-style-type: none"> a. Granting of 'total net accommodation' to related parties, exceeding a prudent percentage of the Bank's regulatory capital, as determined by the Board; b. Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counterparty; c. Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties; 	<p>The Board ensures to engage in any transactions with related parties subject to compliance with the clauses mentioned herein.</p> <p>An agreed upon process is in place wherein in the Company Secretariat provides periodic updates of Directors' disclosures to the Divisional Heads who deal in these type of transactions in order that they ensure that the directions are not violated.</p>

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<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>		
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> <p>Approval as required herein has been obtained for accommodation granted to related parties, and such accommodation are also duly secured.</p>
3 (7) (v)	<p>a. Where any accommodation has been granted by a Bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director. The Bank did not encounter any situation as specified herein during the year 2011.</p>	<p>Other than the following event which was regularised, the Bank did not encounter any situation during the year.</p> <ul style="list-style-type: none"> Security granted for facilities to a related concern of Director, Mr. I.C. Nanayakkara which was not regularised within the stipulated deadline (24th November 2010) was regularised in February 2011.

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
	<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 accommodation has been granted to employees on a favourable basis other than general schemes applicable to the staff such as staff loan facilities.</p>

Corporate Governance Report

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
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.	Complied with
3 (8) Disclosures		
3 (8) (i)	<p>The Board shall ensure that:</p> <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> <p>Interim (unaudited) Financial Statements as well as Audited Financial Statements are also submitted to the Colombo Stock Exchange (CSE). The Financials are made available in the websites of CSE as well as of the Bank for information of all those who are interested.</p> <p>The Financial Statements are prepared in accordance with SLAS and the formats prescribed by the Supervisory Regulatory Authorities.</p> <p>Annual Financial Statements are disclosed in the Annual Report and quarterly Financial Statements are published in the newspapers in all three languages.</p>
3 (8) (ii)	<p>The Board shall ensure that the following minimum disclosures are made in the Annual Report:</p> <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>Complied with</p> <p>The Financial Statements for the year ended 31st December 2011 are in conformity with all rules and regulatory requirements;</p> <p>Compliance with applicable accounting standards and regulatory requirements has been reported in the Directors' Responsibility Statement for Financial Reporting on pages 261 and 262.</p>

Direction No. Banking Act Direction on Corporate Governance
Description of the Direction/Guideline

Seylan Bank PLC's Status/Extent of Compliance

b. A report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.

Complied with

Please refer Directors' Statement on Internal Control.

c. The External Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3 (8)(ii) (b) above, in respect of any statements prepared or published after 31st December 2008.

Complied with

The Bank has obtained an Assurance Report on the internal controls over financial reporting based on the auditing framework issued by ICASL for this engagement. The External Auditors' Report on the internal control mechanism is reported on pages 105 and 106.

d. Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank.

Please refer Report of the Board of Directors for details on Directors and transactions with the Bank. Please refer Notes to the Financial Statements for particulars relating to fees/remuneration paid.

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.

Accommodation granted to related parties is given in Notes 45 and 46 to the Financial Statements on pages 339 to 355.

The net accommodation granted to each category of related parties is given below as a percentage of the Bank's regulatory capital.

Category of related party transactions	Amount (Rs.) (Mn.)	% of regulatory capital
• Credit Card balances outstanding from key management personnel	0.543	0.00315
• Facilities to KMP's	14.949	0.08675
• Loans and advances outstanding from Subsidiary	-	-
• Advance payments to Subsidiary	15.687	0.09104
• Transactions with concerns in which a Director of the Bank or material shareholder has a substantial interest. (Funded and Non-Funded)	1,696.389	9.84459

Corporate Governance Report

Direction No.	Banking Act Direction on Corporate Governance Description of the Direction/Guideline	Seylan Bank PLC's Status/Extent of Compliance
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.	Please refer Note 45 to the Financial Statements on related party transactions.
g.	The External Auditor's certification of the compliance with these Directions in the annual corporate governance reports published after 1st January 2010.	The Bank has obtained a certification of this factual finding report on annual Corporate Governance from the External Auditors. The findings reported in this Corporate Governance Report are in line with the matters reported by the Auditors to the Board of Directors in their Report dated 8th February 2012.
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.	Please refer Statement of Directors' Responsibility for Financial Reporting on pages 261 and 262.
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.	There were no significant supervisory concerns on lapses in the Bank's risk management system or non-compliance with these Directions that have been pointed out by the Director of the Bank Supervision Department of the Central Bank and requiring disclosure to the public.

Section Two

Statements of Compliance under Section 7.10 of the Rules of the Colombo Stock Exchange (CSE) on Corporate Governance.

CSE Section No.	Brief description of the Corporate Governance Rule of the CSE	Seylan Bank PLC's extent of Compliance and Comments
7.10.1	The Board of Directors Requirement for at least 2 Non-Executive Directors or 1/3rd of Board whichever is higher.	Complied with As at 31st December 2011, the Board comprised of 10 Directors of whom 8 were Non-Executive Directors.
7.10.2	Independent Directors Two or at least one-third of Non-Executive Directors to be independent against specified criteria.	Complied with Of the 8 Non-Executive Directors, Messrs P.L.P. Withana, N.M. Jayamanne PC, Rear Admiral B.A.J.G. Peiris and S.P.S. Ranatunga are determined to be Independent Non-Executive Directors. The Non-Executive Directors have submitted signed declarations declaring their independence/non-independence against the specified criteria described in 7.10.4 of the CSE Rules.
7.10.3	Disclosure Relating to Directors	Complied with The Board has made the determination of the independent/non-independent status based on declarations received from the aforementioned Directors as at 31st December 2011. Please refer section on 'Profiles of the Directors' for a brief profile of each of the Directors.
7.10.5	Remuneration Committee Composition; chairman to be non-executive, functions of the Remuneration Committee and Statement of Remuneration Policy.	Complied with The HR and Remuneration Committee comprises of four Non-Executive Directors of whom three are independent with the Chairman, Mr. Nihal Jayamanne, PC also being an Independent Non-Executive Director. The Committee determines and recommends the remuneration of the Directors, CEO and the key management personnel of the Bank <i>vis-à-vis</i> its other functions and responsibilities as specified in its Terms of Reference. Please refer 'Report of the Board HR and Remuneration Committee' in this Annual Report for more details.

Corporate Governance Report

CSE Section No.	Brief description of the Corporate Governance Rule of the CSE	Seylan Bank PLC's extent of Compliance and Comments
7.10.6	<p>Audit Committee</p> <p>Composition, chairman to be Independent Non-Executive with membership from accounting body; functions, ensuring internal control, independence of auditors.</p>	<p>Complied with</p> <p>The Audit Committee consists of three Non-Executive Directors of whom two are independent. The Committee is chaired by Mr. Lalith Withana who holds a Fellow Membership of the Institute of Chartered Accountants.</p> <p>The CEO, CFO, Head of Internal Audit and the External Auditors attend meetings of the Committee by invitation. The Committee functions within the scope of the Board approved Audit Charter.</p> <p>Please refer 'Report of the Board Audit Committee' for more details.</p>

Section Three

Statements of Compliance of the Principles under the Code of Best Practice of Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (ICASL) (hereinafter referred to as Principles of the Code of Best Practice - SEC/ICASL)

Code Ref.	Brief description of the Principle in the Code of Best Practice - SEC/ICASL	Seylan Bank PLC's Status/ Level of Compliance
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Board of Directors

A.1	Board - requirement for every company to be headed by an effective Board to direct and control the Company.	Complied with - The Board comprised of 2 executive and 8 Non-Executive Directors who are eminent professionals with extensive experience in the fields of banking, finance, law, insurance, marketing and other related fields.
A.1.1	Regular Board Meetings.	Complied with - Regular Board Meetings are held monthly and special Board Meetings are held as and when the need arises. The details of the Board Meetings and Board Sub-Committee Meetings and the attendance are reflected in the table provided at the end of this Report.
A.1.2	Board Responsibilities.	Complied with - The Board has taken relevant measures as necessary to ensure the safety and soundness of the Bank. Confirmations of the many compliances under the Banking Act Directions vouch for this statements.
A.1.3	Access to independent professional advice.	Complied with - The Board has approved a procedure enabling Directors to seek independent professional advice at the Bank's expense as and when such advice is required.
A.1.4	Advice and services of the Company Secretary.	Complied with - The members of the Board have access to the advice and services of the Company Secretary who is a Chartered Secretary to ensure that Board procedures and all applicable rules and regulations are followed.
A.1.5	Independent Judgement of Directors.	Complied with - Directors of the Bank bring forward their independent judgement to bear on Board proceedings and assist in strategy formulation and direction.
A.1.6	Dedication of adequate time and effort by the Board and Board Committees.	Complied with - Directors have devoted adequate time for Board meetings as well as Board sub-committee meetings during the year. The details of the Meetings held and their attendance are given in the schedule at the end of this Report.
A.1.7	Training for Directors.	Complied with

Corporate Governance Report

Code Ref.	Brief description of the Principle in the Code of Best Practice - SEC/CASL	Seylan Bank PLC's Status/ Level of Compliance
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Chairman and CEO

A.2	Chairman and Chief Executive Officer and Division of Responsibilities to ensure a balance power and authority, such that no one individual has unfettered powers of decision.	The positions of the Chairman and the CEO have been separated. However, the Chairman functioned in an executive capacity (pursuant to the Seylan Bank Board being re-constituted in December 2008). It has been since decided that the Chairman function in a non-executive capacity with effect from 1st January 2012.
A.2.1	Justification to combine the posts of Chairman and Chief Executive Officer.	The positions of Chairman and CEO are separate.

Chairman's Role

A.3.1	Role of the Chairman.	Complied with - The Chairman provides leadership to the Board and ensures that the Board members effectively discharge their responsibilities and make an active contribution to the Board's affairs. Under the Chairman's supervision, the agenda and matters to be taken up at the Board meeting are itemised and scheduled and the balance of power of the Board is maintained.
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Financial Acumen

A.4	Ensure availability of sufficient financial acumen to guide the Board on matters of finance.	Complied with - The Board has adequate number of Directors who have financial acumen and knowledge to contribute and offer guidance to the Board on matters of finance as evident from their profiles briefed in this Annual Report.
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Board Balance - have a balance of Executive and Non-Executive Directors

A.5.1 - Board Balance.		Complied with - The Board maintains the required balance of Executive and Non-Executive Directors on the Board. Board consisted 2 Executive Directors and 8 Non-Executive Directors of whom 4 are independent.
A.5.2		
A.5.3 - Board to determine annually as to the Independence or Non-Independence of Non-Executive Directors.		Complied with - The Board determines the independence and Non-Independence of the Non-Executive Directors, based on the declarations submitted by them and also based on the extent of independence as defined in the Banking Act Direction No. 3(2)(iv) on Corporate Governance.
A.5.5		
A.5.6 - Appointment of Senior Independent Non-Executive Director.		Complied with - The Board has appointed Mr. Nihal Jayamanne, PC as the Senior Independent Non-Executive Director who has made himself available for confidential discussions.
A.5.7		

Code Ref.	Brief description of the Principle in the Code of Best Practice - SEC/ICASL	Seylan Bank PLC's Status/ Level of Compliance
A.5.8	Meetings only with Non-Executive Directors.	Chairman performed in an executive capacity, during the year. Compliance with this section will be adhered to henceforth since Chairman functions in a non-executive capacity with effect from 1st January 2012.
A.5.9	Recording of concerns of Directors in Board minutes where they cannot be unanimously resolved.	Complied with - The Board Minutes include concerns raised by Directors and the ultimate unanimous decisions of the Board.
Supply of Information - Board should be provided with timely information of a quality which enables them to discharge its duties.		
A.6.1 - A.6.2	Supply of Information - Obligation of the Management to provide appropriate and timely information to the Board.	Complied with - Timely and adequate information is provided by the Management to the Board which is circulated to the Directors 7 days prior to the date of regular meetings. Reasonable notice of special/emergency meetings is also given to the Directors with the purpose duly briefed. The Management also make themselves available on call to respond to queries raised at Board meetings and to provide additional information as and when required by the Board Members.
Appointments to the Board - should be a formal and transparent procedure for appointment of new Directors.		
A.7.1 - A.7.2	Procedure for appointment of New Directors; Role of Nomination Committee and procedure for appointment of New Directors and details of newly appointed Directors.	Complied with - A Board approved procedure is in place. Please refer Section 3(6)(iv) of the Banking Act Direction for more details.
A.7.3	Details of new Directors to be disclosed when appointed including their profiles, nature of expertise in relevant functional areas; the names of companies in which the Director holds directorships or memberships in Board committees; and whether such Director can be considered independent.	Complied with - The Bank did not appoint new Directors during the year. Please refer Section on 'Profiles of the Directors' in this Annual Report for a brief profile of each of the Directors.

Corporate Governance Report

Code Ref.	Brief description of the Principle in the Code of Best Practice - SEC/ICASL	Seylan Bank PLC's Status/ Level of Compliance
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Re-election - All Directors should be submitted for re-election regularly or at least once in every three years

A.8.1 - Re-election of Directors.

A.8.2

Complied with - Re-election of Directors is carried out in accordance with the provisions of the Articles of Association. One-third of the Directors (excluding the Executive Directors) longest in office retires by rotation at the Annual General Meeting and are re-elected, if eligible.

The Nomination Committee of the Board has recommended the re-election of Directors, Messrs E. Narangoda, N.M. Jayamanne, PC and A.L. Devasurendra who are due to retire by rotation in terms of Article 82 of the Articles of Association of the Bank at the next Annual General Meeting. The Committee also recommended the re-election of Director, Mr. R. Nadarajah for sake of good governance as he was last re-elected in 2009.

Appraisal of Board Performance - Periodic appraisal of Board's performance to ensure that their responsibilities are effectively discharged.

A.9.1 - Appraisal of Board

A.9.3 performance.

Complied with- Evaluation of the Board performance including all governance practices are assessed by the Directors individually/independently and shared collectively by the Board annually. Directors have also submitted reports on their self-assessments based on the annual assessment of their performance and contribution to the Board's responsibilities. Please refer Section 3 (1) (xvii) of the Banking Act Direction for further details.

Disclosure of Information in respect of Directors - Shareholders to be advised of relevant details in respect of Directors

A.10.1 Disclosure of Information in respect of Directors.

Complied with

Information pertaining to Directors are disclosed in the following Sections of this Annual Report.

- i. 'Profiles of the Board of Directors' - present the qualifications, number of years and nature of expertise, etc.
- ii. 'Report of the Board of Directors on the state of affairs of the Company' - provides details pertaining to directorships held by the Directors in other entities (including listed companies); Directors' interest in contracts; in shares and debentures, etc.

Code Ref.	Brief description of the Principle in the Code of Best Practice - SEC/ICASL	Seylan Bank PLC's Status/ Level of Compliance
		<p>iii. Notes to the Financial Statements - carry details of related party transactions.</p> <p>Details of Directors' interest in contracts and related party transactions are given in Notes 45 and 46 of the Financial Statements.</p> <p>Attendance at Board and Sub-Committee meetings - please refer page 159 of the Annual Report.</p>
Requirement for Board to at least annually assess the performance of the CEO.		
A.11.1 - Appraisal of Chief Executive		Mr. Kapila Ariyaratne, the present General Manager/Chief Executive Officer assumed office in March 2011. The Board will carry out the appraisal of his performance in 2012.
A.11.2 Officer.		

Directors' Remuneration

B.1 Remuneration Procedure - Requirement to establish a formal and transparent procedure for developing policy on executive remuneration and fixing remuneration packages for individual Directors. The Code further specifies that no Director should be involved in deciding his/her own remuneration.

B.1.1	Establishment of a Remuneration Committee.	Complied with The responses/extent of compliance in respect of Banking Act Direction No. 3 (6) (iii) and the CSE Section No. 7.10.5 provide the necessary details.
B.1.2	Remuneration Committee to comprise of only Non-Executive Directors.	Complied with - All four members of the Committee are Non-Executive Directors.
B.1.3	Membership to be disclosed.	Complied with - Disclosed in the Board HR and Remuneration Committee Report published in this Annual Report.
B.1.4	Board to determine remuneration of Non-Executive Directors.	Complied with
B.1.5	Consultation with Chairman for remuneration proposals and access to professional advice.	Complied with - The Chairman is consulted on proposed/ revisions to compensation packages and independent advice is also resorted to, as deemed necessary.

Level and make up of Remuneration - Requirement that the level and make up of both Executive and Non-Executive remuneration be sufficient to attract and retain the Directors. Proportion of Executive Directors' remuneration should be linked to corporate and individual performance.

Corporate Governance Report

Code Ref.	Brief description of the Principle in the Code of Best Practice - SEC/ICASL	Seylan Bank PLC's Status/ Level of Compliance
B.2.1 -	- Level and make up of	Executive Directors' remuneration is reviewed periodically. A
B.2.9	remuneration of Executive Directors including performance related elements in pay structure.	performance-based element in remuneration package has not been introduced to date. No share options have been offered to Executive Directors.
	- Remuneration packages to be in line with industry practices	Non-Executive Directors' remuneration packages were reviewed and revised in January 2011 in recognition of their commitment and contribution towards the overall decision making process of the Board and providing independent advice and assistance in achieving the strategic objectives of the Bank.
	- Executive share option	
	- Non-Executive Directors' remuneration	

Disclosure of Remuneration - Requirement for Annual Report to contain a Statement of Remuneration Policy and details of Board's remuneration as a whole.

B.3.1	Annual Report to give details of the Remuneration Committee, statement of remuneration policy and aggregate remuneration payable to Executive and Non-Executive Directors.	Complied with - Disclosed in the Board HR and Remuneration Committee Report published in this Annual Report. Aggregate remuneration paid during the year to Executive and Non-Executive Directors is disclosed in the Notes to the Financial Statements.
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Relations with Shareholders

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

Requirement that Board uses the Annual General Meeting to communicate with shareholders and encourage their participation.

C.1.1	Counting of proxy votes	Complied with - Proxy votes are separately counted and declared at the outset of the Annual General Meeting and also recorded in the Minutes. An automated process is in place to count two-way proxies received.
C.1.2	Separate resolution to be proposed for each item.	Complied with
C.1.3	Heads of Board sub-committees to be available to answer queries.	Complied with - In the absence of the Chairman of the respective Committee, a co-member will attend to queries raised.

Code Ref.	Brief description of the Principle in the Code of Best Practice - SEC/ICASL	Seylan Bank PLC's Status/ Level of Compliance
C.1.4	Notice of Annual General Meeting to be sent to shareholders with other papers as per statute.	Complied with - Requisite notice together with the form of proxy and a copy of the Annual Report complying with the provisions of the Companies Act No.07 of 2007, CSE Rules and the Bank's Articles of Association are despatched to all shareholders. This provides an opportunity to all shareholders to attend the AGM and obtain clarifications on issues of concern relating to the Bank.
C.1.5	Summary of procedures governing voting at General meetings to be informed.	Complied with - Notice of Annual General Meeting and proxy form carries required instructions for shareholders as to the voting procedure.

Major Transactions - Disclosure of proposed major transactions to shareholders

C.2.1	Disclosure to shareholders of all material facts concerning any proposed transaction involving acquisition, sale or disposition of greater than half of the net value of the Company's assets or of its subsidiary.	There were no major transactions warranting disclosure of this nature.
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Accountability and Audit

Financial Reporting - Requirement for Board to present a balanced and understandable assessment of the Company's financial position, performance and prospects.

D.1.1	Proper disclosure of interim and other price-sensitive and statutorily mandated reports to regulators.	Complied with - Please refer confirmation provided in Banking Act Direction No. 3 (8) (i) - (ii).
D.1.2	Should contain the following declarations made by the Directors: <ul style="list-style-type: none"> • The Company has not engaged in any activities, which contravene laws and regulations; • Declaration of all material interests in contracts; • Equitable treatment of shareholders; 	Complied with - Declarations/confirmations pertaining to this Principle are disclosed in the 'Annual Report of the Board on the state of affairs of the Company'.

Corporate Governance Report

Code Ref.	Brief description of the Principle in the Code of Best Practice - SEC/ICASL	Seylan Bank PLC's Status/ Level of Compliance
	<ul style="list-style-type: none"> ● Company is a going concern with supporting assumptions or qualifications as necessary; and ● Effectiveness of internal controls. 	
D.1.3	Annual Report to set out Statement of Directors' responsibilities for preparation & presentation of Financial Statements.	Complied with - Please refer the "Statement on Directors' Responsibility for Financial Reporting".
D.1.4	Should include a 'Management Discussion and Analysis Report' discussing at least the following issues: <ul style="list-style-type: none"> ● industry structure and developments; ● opportunities and threats; ● risks and concerns; ● internal control systems and their adequacy; ● social and environmental protection activities carried out by the Company; ● financial performance; ● material developments in human resources/industrial relations; and ● prospects for the future. 	Complied with - Please refer report on 'Management Discussion and Analysis' published in this Annual Report.
D.1.5	Board should report that the business is a going concern with all the supporting assumptions and qualifications.	Complied with - Reported in the 'Annual Report on the state of affairs of the Company' published in this Annual Report.
D.1.6	Remedial action at Extra-ordinary General Meeting if net assets fall below 50% of value of shareholders' funds.	This situation has not arisen

Code Ref.	Brief description of the Principle in the Code of Best Practice - SEC/ICASL	Seylan Bank PLC's Status/ Level of Compliance
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Internal Control - Requirement for Board to maintain a sound system of internal control to safeguard shareholders' investments and company's assets.

D.2.1	Annual review of effectiveness of system of internal control.	Complied with - The Board's Statement on the effectiveness of the Bank's internal control mechanism as reviewed by the Board Audit Committee is presented under the caption 'Directors' Statement on Internal Control' in this Annual Report. The Bank also received External Auditors' assurance report in this regard pursuant to the independent audit conducted by them in accordance with the Sri Lanka Standard on Assurance Engagements SLSAE 3050 - Assurance Report for Banks on Directors' Statement on Internal Control.
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D.2.2	Internal audit function.	Complied with - A fully-fledged internal audit department is functional within the Bank which reports to the Board Audit Committee and the Board.
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Audit Committee - formal and transparent arrangements to be in place for application of accounting policies, financial reporting and internal control principles and maintaining appropriate relationship with the Company's auditors.

D.3.1 - D.3.4	Audit Committee composition, terms of reference, duties and responsibilities and disclosure requirements.	Complied with - Disclosure relating to these is presented in the 'Report of the Board Audit Committee'.
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Code of Business Conduct and Ethics - Requirement to adopt a Code of Business Conduct and Ethics for Directors and members of senior management with due disclosures of waivers.

D.4.1	Disclosure whether the Company has a Code of Business Conduct & Ethics for Directors and members of the senior management team with an affirmative statement of the Chairman. Should also disclose an affirmative declaration that they have abided by such Code. The Chairman must certify that he/she is not aware of any violation of any of the provisions of this Code.	Complied with - Separate Board approved Codes of Business Conduct and Ethics one of which is adhered to by the Directors and the other by the staff members. A declaration to the effect that they are aware of and will abide by the Code of Business Conduct and Ethics for Directors has been issued by the Chairman and the Directors. <i>The Chairman's certification of there being no violation of the provisions of both Codes.</i>
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Corporate Governance Report

Code Ref.	Brief description of the Principle in the Code of Best Practice - SEC/ICASL	Seylan Bank PLC's Status/ Level of Compliance
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Corporate Governance Disclosures - Requirement to disclose the extent to which the Company adheres to established principles and practices of good corporate governance.

D.5.1	Disclosure of extent to which the Company has complied with principles and provisions of the SEC/ICASL Corporate Governance Code.	Complied with - Compliance with the Principles of the Code of Best Practice of SEC/ICASL is as provided hereinbefore (Section Three of the Annual Corporate Governance Report).
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Institutional Investors

Section 2: Shareholders

E.1 Institutional Investors - Shareholder voting - Institutional shareholders to make use of their votes to encourage that their voting intentions are translated into practice.

E.1.1	Regular dialogue to be maintained with shareholders and the Chairman to communicate shareholders' views to the Board.	Complied with - The Annual General Meeting/Extraordinary General Meetings are forums utilised by the Board as well as the shareholders of the Bank to have an effective dialogue with one another. In addition, the Bank has institutional shareholder representation (of three of its major shareholders) on the Board consequent to its re-capitalisation process in 2009.
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Evaluation of Governance Disclosures

E.2	Due weight to be given to Board structure and composition by institutional shareholders.	Complied with
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Other Investors - Investing/Divesting Decision and Shareholder Voting

F.1	Encourage individual shareholder participation at General Meetings.	Complied with - The Bank has a healthy participation rate of individual ordinary voting shareholders at its General Meetings.
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Board of Directors/Board Subcommittees Composition and Directors'/Committee Members' Attendance at Board and Board Sub-committee Meetings during 2011

Name of Director and Executive/Non-Executive/Independent Capacity	Board of Directors			Board Audit Committee			Board Integrated Risk Management Committee			Board HR and Remuneration Committee			Board Nomination Committee			Board Credit Committee***			Board Sustainability Committee***			Board Marketing & Product Development Committee		
	E	A	S	E	A	S	E	A	S	E	A	S	E	A	S	E	A	S	E	A	S	E	A	S
Mr. E. Narangoda Executive Director (Chairman)	13	13							Bl		3	Bl		1	C**	40	33	C**	3	3	Bl		1	
Mr. R. Nadarajah Executive Director	13	13	Bl		7				Bl		3	Bl		1	M	40	36	M	3	2		3	1	
Mr. P.L.P. Withana Independent Director	13	12	C	10	10	M	6	4	M	6	3	M	7	6										
Mr. N.M. Jayamanne PC Independent Director	13	09	M	11	7				C	6	5	M	7	5							Bl		1	
Rear Adm. B.A.J.G. Peiris Independent Director	13	11							M	6	5	C	7	7	M	35	24				Bl		1	
Mr. A.L. Devasurendra Non-Executive Director	13	09				C	6	4				M	7	5	M	40	18	M	3	2		3	1	
Mr. I.C. Nanayakkara Non-Executive Director	13	09													M	40	15	M**	3	2	Bl		1	
Mr. S.P.S. Ranatunga Non-Executive Director	13	13							M	6	5	M	7	7				**	1	0		3	3	
Mr. A.M.M. de Alwis Non-Executive Director	13	12				M	6	6							M**	35	28					3	3	
Mr. P. Kudabalage Non-Executive Director	13	10	M	11	10																Bl		1	

*S - Status of the Director in the Respective Committees

*E - Eligibility to Attend; *A - Attendance

C - Chairman of Committee; M - Member of the Committee
Bl - By invitation

** Mr. A.M.M. de Alwis was appointed as Chairman of the Board Credit Committee and Mr. I.C. Nanayakkara was appointed as Chairman of the Board Sustainability Committee with effect from 29th June 2011 in place of Mr. E. Narangoda in keeping with the Corporate Governance principle that Board Subcommittees shall be Chaired by Non-Executive Directors.

Mr. S.P.S. Ranatunga was appointed to the Sustainability Committee with effect from 29th June 2011.

*** The number of members of the Credit Committee was increased to 6 (from 4) during the year and the number of members of the Sustainability Committee was increased to 5 (from 4) in order to maintain majority membership of Non-Executive Directors.

Corporate Governance Report

The composition and scope/terms of reference and key activities carried out by Board sub-committees other than those specified by the Banking Act Direction No. 11 of 2007 (and amendments thereto) on Corporate Governance which were functional as at 31st December 2011 are given below:

Committee/Composition	No. of Meetings		Scope/Terms of Reference
	Eligibility to attend	Attended	
Board Credit Committee			
Mr. A.M.M. de Alwis <i>(Non-Executive Director)- Chairman of the Committee</i>	35	28	At the beginning of the year 2011, the Board Credit Committee comprised of two Executive Directors and two Non-Executive Directors headed by Executive Chairman, Mr. E. Narangoda. However, in order to give a greater balance to Non-Executive Directors' membership in the Committee and due to the frequency of the meetings being held (an average of three meetings per month) the number of Non-Executive Directors was increased to four with the appointment of Rear Admiral B.A.J.G. Peiris, Independent Non-Executive Director and Mr. A.M.M. de Alwis, Non-Executive Director. Mr. A.M.M. de Alwis was appointed as the Chairman of the Committee with effect from 29th June 2011 in keeping with the Banking Act Direction on Corporate Governance. Mr. E. Narangoda continued to be a Member of the Committee. General Manager/CEO and senior management personnel supervising credit, credit monitoring and risk attend the meetings by invitation. The Head of Recoveries and Head of Treasury too attend the meetings as observers. The Committee's responsibilities include formulating credit policies and credit strategies for the Bank towards maintaining a healthy credit portfolio and credit discipline within the Bank.
Mr. E. Narangoda <i>(Executive Chairman) - Member</i>	40	33	
Mr. R. Nadarajah <i>(Executive Director) - Member</i>	40	36	
Mr. A.L. Devasurendra <i>(Non-Executive Director) - Member</i>	40	18	
Mr. I.C. Nanayakkara <i>(Non-Executive Director) - Member</i>	40	15	
Rear Admiral B.A.J.G. Peiris <i>(Independent Non-Executive Director) - Member</i>	35	24	

Committee/Composition	No. of Meetings		Scope/Terms of Reference
	Eligibility to attend	Attended	
			<p>The Committee approves the credit facilities above the delegated authority limits of the Internal Credit Committee subject to a specified limit and recommends facilities to the Board in excess of the said limit. The Committee also formulates policies/reviews existing policies on credit risk management, monitors recoveries and formulates recovery strategies and ensures that the credit portfolio does not exceed accepted levels of risk. Regulatory changes and proposed regulatory changes relating to advances and credit from time to time are brought to the attention of the Committee for its review and decisions/advice.</p> <p>Consequent to the structural changes during the year, the Board approved the revised delegated lending authority as recommended by the Committee.</p>
Board Marketing & Product Development Committee			
Mr. S.P.S. Ranatunga (Non-Executive Director) - Chairman of the Committee	3	3	The Board Marketing & Product Development Committee comprises of 3 Non-Executive Directors and an Executive Director. The Committee met thrice (03) during the year.
Mr. R. Nadarajah (Executive Director) - Member	3	1	The Committee reviews the overall Marketing plans of the Bank to ensure that the plans aim at optimising value creation for the Bank and support the Strategic goals. The Committee also assesses its deposit, lending and investment products and pursues new product opportunities with the aim of achieving business growth.
Mr. A.L. Devasurendra (Non-Executive Director) - Member	3	1	
Mr. A.M.M. de Alwis (Non-executive Director) - Member	3	3	<p>General Manager/CEO and the Head of Marketing are co-opted to the meeting, whilst other Board members attend on invitation.</p> <p>During the year 2011, the Committee reviewed the marketing strategy and the marketing budget and its recommendations were reviewed and approved by the Board.</p>

Corporate Governance Report

Committee/Composition	No. of Meetings		Scope/Terms of Reference
	Eligibility to attend	Attended	
Sustainability Committee			
Mr. I.C. Nanayakkara <i>(Non-Executive Director)</i> - <i>Chairman of the Committee</i>	3	2	The Board Sustainability Committee comprised of two Executive Directors and two Non-Executive Directors at the beginning of the year 2011 headed by Executive Chairman, Mr. E. Narangoda. However, in keeping with the Banking Act Direction on Corporate Governance, Mr. I.C. Nanayakkara was appointed as Chairman of the Committee and Mr. S.P.S. Ranatunga was appointed as a Member of the Committee with effect from 29th June 2011 to have a greater balance of Non-Executive Directors membership in the Committee. Mr. E. Narangoda continued to be a Member of the Committee.
Mr. E. Narangoda <i>(Executive Chairman) - Member</i>	3	3	
Mr. R. Nadarajah <i>(Executive Director) - Member</i>	3	2	
Mr. A.L. Devasurendra <i>(Non-Executive Director) - Member</i>	3	2	
Mr. S.P.S. Ranatunga <i>(Independent Director)</i>	1	0	The Committee met thrice (03) during the year. General Manager/CEO and Team Leaders of the Management Sustainability Committee attend the Committee Meetings by invitation to report on the progress made on the various sustainability projects undertaken. The Committee determines and reviews the overall Sustainability Policy of the Bank and ensures that it is current, relevant, practical and effective and functions in line with the GRI (Global Reporting Initiative) Sustainability Reporting Guidelines. It also ensures that the Bank's business principles, policies and activities meet and support sustainability criteria.