

CORPORATE GOVERNANCE REPORT

INTRODUCTION

"Weak governance of banks reverberates throughout the economy with negative ramifications for economic development" (Ross Levine - Global Corporate Governance Forum, 2003).

"Given the important financial intermediation role of banks in an economy, their high degree of sensitivity to potential difficulties arising from ineffective corporate governance and the need to safeguard depositors' funds, corporate governance for banking organizations is of great importance ..." (BASEL Committee on Banking Supervision - February 2006).

For Seylan, the above words serve as a bleak reminder of the events which took place in December 2008 - the difficulties faced by the Bank precipitated by a series of withdrawals which commenced with the collapse of a company within the Ceylinco Group. Timely intervention by the Central Bank of Sri Lanka together with Management assistance from Bank of Ceylon and appointment of a strong and independent board of directors paved the way for the Bank to make a recovery unprecedented and unparalleled in the history of the banking sector in the country particularly when its occurrence was in the midst of the global financial crisis.

The implementation and enforcement of sound corporate governance principles have therefore become even more critical in this context.

The newly-appointed board comprising of all eminent professionals in their respective fields are firm in their resolve that both the board and the senior management team and staff should act at all times with integrity and honesty and function in an environment where the highest element of ethical business conduct is maintained. They have therefore pledged their commitment towards adoption and implementation of transparent and effective corporate governance practices within the

Bank with the view of enhancing business prosperity and corporate accountability and realising not only long-term shareholder value and acquiring and retaining the trust of its depositors but also safeguarding the interests of all its stakeholders.

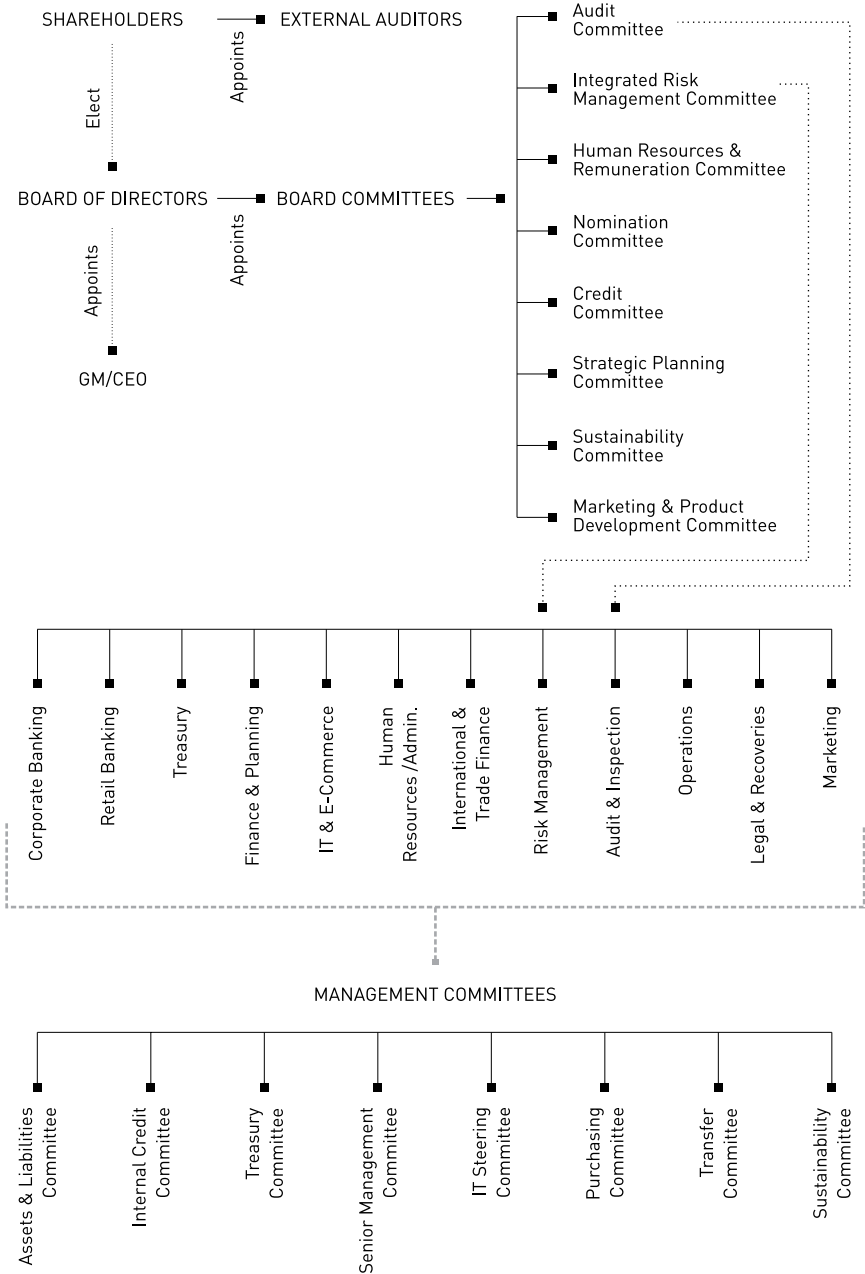
COMPLIANCE REQUIREMENTS

Pursuant to Seylan Bank board being re-constituted in December 2008, the new board commenced detailed compliance with Corporate Governance principles and guidelines with particular reference to the following during 2009:

- the Banking Act Direction No. 11 of 2007 (Corporate Governance for Licensed Commercial Banks in Sri Lanka) issued by the Monetary Board of the Central Bank of Sri Lanka including subsequent amendments there to (CBSL Code);
- the Colombo Stock Exchange rules on Corporate Governance (applicable on a voluntary basis for listed entities until 1st April 2008 and for banks until 31st December 2008) and mandatory thereafter.
- the Code of Best Practice of Corporate Governance jointly issued by the Securities & Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (ICASL).

The Bank is required to mandatorily comply with the Corporate Governance rules of the Code of Best Practice of Corporate Governance laid down as per Central Bank Direction No. 11 of 2007 as amended as aforesaid and also the Colombo Stock Exchange rules of Corporate Governance for listed entities which became mandatory for banks with effect from the financial year commencing January 2009. Compliance with the ICASL/SEC Code of Best Practice on Corporate Governance is on a voluntary basis.

CORPORATE GOVERNANCE STRUCTURE



The Bank's level of conformity to the Central Bank Code of Corporate Governance issued under Banking Act Direction No. 11 of 2007 (as amended) is given below:

For purposes of compliance with Section 3 (1) (xvi) of the Banking Act Direction No. 11 of 2007 (as amended) the disclosures made in the following two tables shall be deemed to be the Annual Corporate Governance Report of the Bank.

ANNUAL CORPORATE GOVERNANCE REPORT - CORPORATE GOVERNANCE DISCLOSURE REQUIREMENTS AS PER SECTION 3 (8):

Disclosure requirement	Level of compliance
<p>3(8)(i) 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</p> <p>(b) such Statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.</p>	<p>Complied.</p> <p>The Bank has made a balanced and fair assessment of its financial position for the year ended 31st December 2009 through the Audited Financial Statements contained in the Annual Report of 2009.</p> <p>The Bank has continuously published its Quarterly Financial Statements supplemented with the necessary explanatory notes and observations for the information of its shareholders and other stakeholders. Strict adherence is made to all accounting formats and other procedures laid down by regulatory authorities such as the Colombo Stock Exchange and the Central Bank in the disclosure and submission of such information. Financial Statements both audited and interim unaudited are prepared and published in accordance with the Sri Lanka Accounting Standards and other regulatory requirements inclusive of specific disclosures.</p> <p>Any other financial and non-financial information, which are price-sensitive or warrant the shareholders' and stakeholders' attention and consideration, are promptly disclosed to the public.</p> <p><i>Please also refer the Statement of 'Directors' Responsibility for Financial Statements' appearing on pages 134 and 135 of the Annual Report.</i></p>
<p>3(8)(ii) 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.</p> <p>Please refer the Statement of 'Directors' Responsibility for Financial Reporting'.</p>
<p>(b) A report by the board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.</p>	<p>Complied.</p> <p>Please refer the Statement of 'Directors' Responsibility for Financial Reporting'.</p>

Disclosure requirement	Level of compliance
<p>(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.</p>	<p>Pending auditing guidelines being issued by the ICASL in respect to the nature, extent and reporting formats for such certification, the Central Bank of Sri Lanka is considering deferment of this directive.</p> <p>However, the board has put in place processes and monitors the effectiveness of internal controls through the following board subcommittees:</p> <ul style="list-style-type: none"> • Audit Committee • Integrated Risk Management Committee
<p>(d) Details of directors, including names, fitness and propriety, transactions with the bank and the total of fees/remuneration paid by the bank.</p>	<p>Complied.</p> <p>Profiles of the board of directors and other details are provided on pages 228 to 229 of the Annual Report and also in the Annual Report of the Board appearing on pages 119 to 128 of the Annual Report.</p> <p>Details of directors' interest in contracts and related party transactions are given in Notes 42 and 43 of the Financial Statements and on pages 129 to 133 of the Annual Report.</p> <p>Aggregate remuneration paid to directors and accommodation granted are indicated in Note 7 and Note 42 to the Financial Statements.</p>
<p>(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.</p>	<p>Complied.</p> <p>Details of accommodation granted to related parties are disclosed on pages 129 to 133 and in Notes 42 and 43 of the Financial Statements.</p> <p>Net accommodation granted to related parties was 13.18% of the Bank's regulatory capital.</p>
<p>(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.</p>	<p>Complied.</p> <p>Please refer Notes 7 and 42 to the Financial Statements.</p>
<p>(g) The external auditor's certification of the compliance with these Directions in the annual corporate governance reports published after 1st January 2010.</p>	<p>The Central Bank of Sri Lanka is considering the deferment of this directive.</p>

Disclosure requirement	Level of compliance
(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 the Annual Report of the Board, Risk Management Report and Audit Committee Report. There were no material non-compliances. Please also refer 'Statement of Directors' Responsibility' for Financial Reporting'.
(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 lapses reported in the areas of risk management and non-compliance with Directions issued by the Central Bank which required disclosure to the public as directed by the Monetary Board.

ANNUAL CORPORATE GOVERNANCE REPORT ISSUED IN COMPLIANCE WITH SECTION 3 (1) (XVI) OF THE BANKING ACT DIRECTION NO. 11 OF 2007 (AS AMENDED)

CBSL Rule	Level/Extent of compliance
BOARD	
Responsibilities of the Board 3(1) (i) - ensuring the safety and soundness of the Bank 3 (1) (xiii) - Schedule of matters reserved for board's decision:	The board has taken relevant measures as necessary to ensure the safety and soundness of the Bank in terms of Section 3(1) (i) of the said Direction. Its responsibilities included the following:
<ul style="list-style-type: none"> • formulation of strategic objectives and implementation of overall business strategy • ensure identification and management of risks by implementation of risk policies and measurable goals • ensure effectiveness and adequacy of information and internal control systems • Ensure competency of CEO and key management personnel and implement succession strategy 	<ul style="list-style-type: none"> • Providing strategic direction by formulating and implementing of new Strategic Plan for the Bank. • Formulation of business policies and ensuring effective implementation of same. • Strengthening internal systems of control including formulation of overall risk policy for the Bank. Risk management procedures with measurable goals are currently being implemented. • Monitoring effectiveness of CEO and the corporate management. The board also carried out a substantial re-organisation exercise in the Bank; • Implementation of sound credit policies and ensuring high credit quality as well as approval of credit facilities exceeding the delegated limits of the Internal Credit Committee.

CBSL Rule	Level/Extent of compliance
BOARD	
<ul style="list-style-type: none"> • Ensuring compliance with legal and ethical standards • Ensure oversight of affairs of the Bank and fulfillment of other functions of the board. 	<ul style="list-style-type: none"> • Ensuring internal and external information flows and appropriate financial reporting • Approving annual budgets and corporate plan and approving annual and interim Financial Statements. • Ensuring adherence to legal and ethical standards. • Rationalisation of administrative and personal expenses and revisiting human resources and procurement policies.
3 (2) Composition of the Board	<p>As at present, the board comprises of ten directors whose profiles appear on pages 228 and 229 of the Annual Report. All directors are eminent professionals with extensive experience in the fields of banking, finance, law, insurance and other related fields. The board also has several members with financial acumen and experience.</p> <p>The board comprises of two Executive Directors viz. M/s. E. Narangoda (Chairman) and R. Nadarajah, the remaining eight being Non-Executive Directors.</p> <p>The Bank has identified three of the Non-Executive Directors viz. Messrs P.L.P. Withana, N.M. Jayamanne PC and Rear Admiral (Rtd.) B.A.J.G. Peiris as 'Independent' Directors within the meaning of Direction No. 3(2) (iv) of the Mandatory Code on Corporate Governance issued by the Central Bank of Sri Lanka (CBSL Code) and the Listing Rules of the Colombo Stock Exchange (CSE), thus conforming to the minimum number of Independent Non-Executive Directors required both as per the CBSL Code and the CSE Rules.</p> <p>Pursuant to the re-capitalisation of the Bank, four new directors were appointed during 2009 viz. Mr. P.G.S. Kariyawasam, Dr. N.H. Godahewa, M/s. A.L. Devasurendra and I.C. Nanayakkara. Mr. S.P.S. Ranatunge was appointed on 12th January 2010. There were no alternate directors appointed.</p> <p>The Bank's Executive and Independent Non-Executive Directors are duly disclosed in the Annual Report and in all corporate communications.</p>

CBSL Rule	Level/Extent of compliance
BOARD	
3 (3) Fitness and Propriety of Directors	<p>All directors have satisfied the 'fit and proper' criteria set out in Section 42 of the Banking Act No. 30 of 1988 (as amended) and have forwarded to the Bank Supervision Department of the Central Bank signed affidavits and declarations confirming their 'fit and proper' status to hold office as directors as required by Section 42 of the Banking Act and as per Clause 2(3) (i) of the Banking Act Direction No. 11 of 2007 (as amended).</p> <p>No directors hold office as a director of more than 20 companies/entities or institutions.</p>
3(1) (iii) & 3 (1) (xiii) Meetings Board meetings to be held regularly with active participation of members	<p>The board dedicated sufficient time for board meetings. Total meetings held during 2009 were 27 and the attendance at these meetings is given on page 84 of this Report. The directors have a formal schedule of matters specifically reserved to it for decision making. All 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) - (vi) Compliance with Board procedures	<p>Provision is made for all directors to place matters before the board relating to both the promotion of the business and management of risks. Due to board meetings being scheduled twice a month, directors are noticed of the date of the next meeting well in advance and board papers are circulated approximately 4-5 days prior to the date of the meeting.</p>
3(1) (vii) - (x) Company Secretary	<p>All directors have access to the advice and services of the Company Secretary who is a chartered secretary and attorney-at-law to ensure that board procedures and all applicable rules and regulations are followed. The Company Secretary is responsible for compliance with the provisions of the Companies Act, rules of the Colombo Stock Exchange and Banking Act provisions relating to shareholders and provisions of the Securities & Exchange Commission Act. Minutes of board meetings are also recorded by her in sufficient detail to enable a proper assessment to be made of the depth of deliberations at the meetings.</p>
3(1) (xi) Procedure for the Board to obtain Independent Advice	<p>The board seeks independent professional advice on any matters whenever required.</p>

CBSL Rule	Level/Extent of compliance
BOARD	
3(1) (xii) Directors to avoid conflict of interest	<p>1/3rd of the Bank's board comprise of Independent Non-Executive Directors and as such there is a strong independent element in the board. Directors avoid conflicts of interest with the Bank and any situation which involves or may reasonably be expected to involve, a conflict of interest with the Bank is disclosed promptly. Wherever a conflict of interest does arise, the said director abstains from voting on any such resolution.</p>
3 (4) Management Functions delegated by the Board of Directors	<p>The board has delegated matters pertaining to the affairs of the Company to the</p> <ul style="list-style-type: none"> • Board subcommittees comprising board members wherever applicable and to the • Chief Executive Officer, • Key management personnel and • line management whilst retaining and not derogating in any manner the final authority of the board. <p>The subcommittees function through the scope and authority delegated by the board and as per board approved terms of reference. Proper delegated authority limits have been set out to the CEO and the line Management to conduct their line functions within their lines of authority.</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.</p>
3(1) (ii) & 3 (5) Chairman & Chief Executive Division of responsibilities	<p>The positions of the Chairman and the CEO have been separated. However, the Chairman functions in an executive capacity (upon Seylan Bank board being reconstituted in December 2008).</p> <p>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.</p> <p>CEO</p> <p>The CEO of the Bank is not a member of the board. He heads the senior management team of the Bank and reports directly to the board of directors.</p>

CBSL Rule	Level/Extent of compliance
BOARD	<p>His main functions and responsibilities are the overall management and operations of the Bank. He also heads the Bank's Treasury Committee and the Assets & Liabilities Committee (ALCO).</p> <p>The authority over the function of credit administration has been delegated to the Board Credit subcommittee, Internal Credit Committee and levels of management, from the CEO down to the level of Branch Managers with limits being stipulated in accordance with the level of authority.</p> <p>The CEO also chairs the Internal Credit Committee, which approves credit facilities above his delegated credit authority limits upto a limit specified by the board.</p> <p>The functions and responsibilities of the Chairman and the Chief Executive are clearly set out in writing and approved by the board.</p>
3(5)(ii) Appointment of Senior Director - designate	<p>The board has appointed Mr. N.M. Jayamanne PC, an Independent Non-Executive Director of the Bank to function as the 'Senior Director' in order to bring in a greater independent element to the functioning of the board. Mr. N.M. Jayamanne PC functions in this capacity under board approved terms of reference.</p>
3(1) (xv) Capitalisation of the Bank	<p>A re-capitalisation process was carried out in 2009 with a view to meeting regulatory requirements with regard to capital adequacy. The Bank is compliant with regulatory and prudential requirements relating to capital adequacy.</p>
3(1) (xvii) Board to adopt a Scheme of Self-Assessment	<p>The board adopted a scheme of self-assessment based on their duties and responsibilities as set out on pages 79 and 80 of the Annual Report and also with regard to specific targets and objectives set out for implementation in respect of the year 2009.</p>

CBSL Rule	Level/Extent of compliance
BOARD	
3(6) Board appointed Committees	<p>The board subcommittees that were functional as at end 2009 include:</p> <ul style="list-style-type: none"> • Audit Committee • Integrated Risk Management Committee • Credit Committee • Remuneration Committee and • Nominations Committee <p>All subcommittees function within board-approved terms of reference and the details of same together with the attendance of the directors at meetings of subcommittees are given on pages 86 to 88 of the Annual Report. All subcommittees except the Credit Committee are chaired by Non-Executive Directors.</p> <p>In December 2009, two additional board subcommittees for Strategic Planning and Sustainability were formed but commenced its activities only from January 2010. A further subcommittee for marketing and product development was formed in January 2010.</p>
3 (7) Related Party Transactions	<p>The board has taken adequate measures to ensure that no conflict of interest arises from any transactions of the Bank with any 'related parties' within the definition in Section 3 (7) (i) of the CBSL Code.</p>

ATTENDANCE

The attendance of directors at the board meetings held during the year 2009 is given below:

	Executive/Non-Executive Capacity	Board meetings	
		Eligible to attend	Attended
Mr. E. Narangoda	Executive	27	27
Mr. R. Nadarajah	Executive	26	24
Mr. P.L.P. Withana	Independent Non-Executive	27	23
Mr. F.N. Goonewardena <i>(resigned on 3/12/09)</i>	Independent Non-Executive	24	24
Mr. N.M. Jayamanne PC	Independent Non-Executive	27	23
Rear Adm. (Rtd) B.A.J.G. Peiris	Independent Non-Executive	26	20
Mr. P.G.S. Kariyawasam <i>(Appointed w.e.f. 10/11/09)</i>	Non-Executive	04	03
Dr. N.H. Godahewa <i>(Appointed w.e.f. 10/11/09)</i>	Non-Executive	04	02
Mr. A.L. Devasurendra <i>(Appointed w.e.f. 24/11/09)</i>	Non-Executive	03	03
Mr. I.C. Nanayakkara <i>(Appointed w.e.f. 24/11/09)</i>	Non-Executive	03	03

Upon the re-constitution of the board on 30th December 2008, new board subcommittees were formed. However, upon the completion of the re-capitalisation process of the Bank and the subsequent appointment of new directors, the board subcommittees were further reconstituted on

3rd December 2009 and new Committees formed on 17th December 2009. The composition of the Committees both before and after the reconstitution is given below. Another subcommittee for Marketing & Product Development was formed on 19th January 2010.

Category		Audit Committee	Integrated Risk Management Committee	Credit Committee	HR & Remuneration Committee*	Nominations Committee	Strategic Planning Committee**	Sustainability Committee**	Marketing & Product Dev. Committee***
Mr. E. Narangoda	Executive			√ Δ			Δ	Δ	
Mr. R. Nadarajah	Executive			√ Δ			Δ	Δ	Δ
Mr. P.L.P. Withana	Independent Non-Executive	√ Δ	√ Δ		√ Δ		Δ		
Mr. F.N. Goonewardena (resigned on 03/12/09)	Independent Non-Executive	√	√			√			
Mr. N.M. Jayamanne PC	Independent Non-Executive	√ Δ			√ Δ	√ Δ	Δ	Δ	
Rear Admiral (Rtd.) B.A.J.G. Peiris	Independent Non-Executive				Δ	√ Δ	Δ		
Mr. P.G.S. Kariyawasam (Appointed w.e.f. 10/11/09)	Non-Executive	Δ	Δ		Δ		Δ		Δ
Dr. N.H. Godahewa (Appointed w.e.f. 10/11/09)	Non-Executive				Δ		Δ		Δ
Mr. A.L. Devasurendra (Appointed w.e.f. 24/11/09)	Non-Executive		Δ	Δ		Δ	Δ	Δ	Δ
Mr. I.C. Nanayakkara (Appointed w.e.f. 24/11/09)	Non-Executive			Δ			Δ		
Mr. S.P.S. Ranatunga (Appointed w.e.f. 13/01/10)						Δ	Δ		Δ

√ Represents committee members before reconstitution of committees.

Δ Represents committee members after reconstitution of committees.

* Formerly titled as Remuneration Committee.

** Strategic Planning and Sustainability Committees were formed in December 2009 and commenced activities in January 2010.

*** Marketing & Product Development Committee was formed in January 2010 and commenced activities thereafter.

The composition and scope/terms of reference of the board subcommittees which were functional

as at 31st December 2009 and their attendance at committee meetings during 2009 are given below:

Committee /Composition	No. of meetings		Scope/Terms of reference
	Eligibility to attend	Attended	
Audit Committee:			
Mr. P.L.P. Withana (<i>Chairman</i>)	7	7	The Audit Committee comprises three Non-Executive Directors (of whom two are independent) and is headed by Mr. Lalith Withana an Independent Director who possesses relevant financial experience and qualifications.
Mr. F.N. Goonewardena (<i>resigned on 3/12/09</i>)	7	7	
Mr. N.M. Jayamanne PC (<i>appointed w.e.f. 24/2/09</i>)	5	3	The Executive Director, CEO, Chief Financial Officer and DGM Internal Audit attend the Committee meetings by invitation. The External Auditors participate at the meeting whenever required and therefore has direct access to the Audit Committee to report on any matters independently to the board. The Committee has met seven times during 2009.
Mr. P.G.S. Kariyawasam (<i>appointed w.e.f. 3/12/09</i>)	N/A*	N/A	
			The Committee reviews Internal Controls, Information Technology governance activities and security and controls and reviews and monitors all audit activities and operations and the effectiveness of internal controls including IT/Information Systems control that are in place and the Bank's compliance with key statutory and regulatory requirements and industry best practices.
			The Report of the Audit Committee is set out on page 100 to 101 of the Annual Report.

* No Meetings were held after 3rd December 2009 until 31st December 2009

Committee /Composition	No. of meetings		Scope/Terms of reference
	Eligibility to attend	Attended	
Integrated Risk Management Committee			The Integrated Risk Management Committee comprises of three Non-Executive Directors and is headed by
Mr. F.N. Goonewardena <i>(Chairman)</i> <i>(resigned on 3/12/09)</i>	3	3	Mr. A.L. Devasurendra (consequent to the resignation of Mr. Naomal Goonewardena on 3rd December 2009)
Mr. P.L.P. Withana	3	3	The Executive Director, Mr. Nadarajah, the CEO, CFO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks attend the Committee meetings by invitation.
Mr. A.L. Devasurendra <i>(appointed to the Committee and as Chairman of the Committee w.e.f. 3/12/09)</i>	N/A*	N/A	The Committee met thrice during the year. The Committee's responsibilities include assessment of all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank through appropriate risk indicators and management information and review the adequacy and effectiveness of management-level committees set up to address specific risks and the Asset-liability Committee to address and manage such risks.
Mr. P.G.S. Kariyawasam <i>(appointed w.e.f. 3/12/09)</i>	N/A*	N/A	The Report of the Integrated Risk Management Committee is set out on page 102 of the Annual Report. A detailed Report on Risk Management is given on pages 63 to 74 of the Annual Report.
* No Meetings were held after 3rd December 2009 until 31st December 2009			
Credit Committee			The Credit Committee comprises of two Executive Directors and two Non-Executive Directors and is headed by the Chairman, Mr. E. Narangoda.
Mr. E. Narangoda <i>(Chairman)</i>	20	20	
Mr. R. Nadarajah	20	19	
Mr. A.L. Devasurendra <i>(appointed w.e.f. 3/12/09)</i>	3	2	The CEO and senior management personnel supervising credit and credit monitoring attend the meeting by invitation.
Mr. I.C. Nanayakkara <i>(appointed w.e.f. 3/12/09)</i>	3	1	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. 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 ensure that the credit portfolio does not exceed accepted levels of risk.

Committee /Composition	No. of meetings		Scope/Terms of reference
	Eligibility to attend	Attended	
Remuneration Committee			
Mr. N.M. Jayamanne PC <i>(Chairman)</i>	2	2	The Remuneration Committee during 2009 comprised of six Non-Executive Directors and was headed by Mr. Nihal Jayamanne PC, an Independent Non-Executive Director.
Mr. P.L.P. Withana	2	2	The General Manager/CEO attended the meeting by invitation wherever permissible.
Mr. F.N. Goonewardena <i>(resigned on 3/12/09)</i>	2	-	The mandate of the Committee is to determine the remuneration policies relating to directors, the Chief Executive Officer and the Key Management Personnel (KMPs) of the Bank; set goals and targets for the CEO and KMPs and evaluate their performance against these targets periodically to determine the basis of revising remuneration and other benefits paid.
Dr. N.H. Godahewa <i>(appointed w.e.f. 3/12/09)</i>			
Mr. P.G.S. Kariyawasam <i>(appointed w.e.f. 3/12/09)</i>	N/A*	N/A	The Committee met twice during the year.
Rear Admiral (Rtd.) B.A.J.G. Peiris <i>(appointed w.e.f. 3/12/09)</i>	N/A*	N/A	The Report of the Remuneration Committee including the Remuneration Policy is set out on page 103 of the Annual Report.
Mr. S.P.S. Ranatunga <i>(appointed w.e.f. 13/01/10)</i>	N/A	N/A	
* No meeting were held after 3rd December 2009 until 31st December 2009			
Nomination Committee			
Rear Admiral (Rtd.) B.A.J.G. Peiris (Chairman)	1	1	The Nomination Committee during 2009 comprised of four Non-Executive Directors and was headed by Rear Admiral (Rtd.) B.A.J.G. Peiris.
Mr. N.M. Jayamanne PC	1	1	The Chairman, Executive Director and the CEO attend the meeting by invitation wherever permissible.
Mr. F.N. Goonewardena <i>(resigned on 3/12/09)</i>	1	-	The Committee met once during the year.
Mr. A.L. Devasurendra <i>(appointed w.e.f. 3/12/09)</i>	N/A*	N/A	The Committee makes recommendations to the board on the selection, appointment of new directors and key management personnel, determine the qualifications, experience and competencies required by such personnel to hold office of the CEO or other key posts, determine their succession planning and recommend election of directors and review the composition and structure of the board of directors having due regard to the balance of skills required to be maintained on the board.
Mr. S.P.S. Ranatunga <i>(appointed w.e.f. 13/01/10)</i>	N/A*	N/A	
* No meeting were held after 3rd December 2009 until 31st December 2009			

COLOMBO STOCK EXCHANGE CORPORATE GOVERNANCE REPORT

The Colombo Stock Exchange rules on Corporate Governance became mandatory for all listed entities from the financial year commencing 1st April 2008

and for all licensed commercial banks which are listed entities, from the financial year commencing 1st January 2009.

The Bank's compliance with Rule 7.10 of the CSE Revised Rules of Corporate Governance from the financial year commencing 1st January 2009 is set out below:

Rule	Status /Remarks
<p>7.10.1 The Board of Directors</p> <p>(a) The board of directors should include at least 2 Non-Executive directors or 1/3rd of the total number of directors whichever is higher.</p> <p>(b) number of directors to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting.</p> <p>(c) Any change occurring to this ratio to be rectified within 90 days from the date of the change.</p>	<p>Complied</p> <p>As at 31st December 2009, the board comprised of 9 directors of whom 7 are Non-Executive Directors.</p> <p>On 12th January 2010, an additional Non-Executive Director was appointed to the board.</p> <p>Profiles of these directors appear on pages 228 to 229 of the Annual Report.</p>
<p>7.10.2 Independent Directors</p> <p>(c) Independent directors should be at least two Non-Executive Directors or one-third of the Non-Executive Directors appointed to the board, whichever is higher.</p> <p>(d) Each Non-Executive Director to submit a signed and dated declaration annually to the board of his/her independence or non-independence against the specified criteria.</p>	<p>Complied</p> <p>Three directors on the board viz. M/s. P.L.P. Withana, N.M. Jayamanne PC and Rear Admiral (Rtd.) B.A.J.G. Peiris are Independent Non-Executive Directors of the Company. Mr. F.N. Goonewardena who resigned from the board on 3rd December 2009 was also an Independent Non-Executive Director.</p> <p>Complied</p> <p>Signed and dated declarations have been provided by the directors confirming their independent non-executive status in compliance with the CSE Rules.</p>

Rule	Status /Remarks
7.10.3 Disclosure Relating to Directors	Complied
(a) Determination made by board annually as to the independence/non-independence of each Non-Executive Director based on such declaration and other information available to the board and set out names of the 'independent' directors in the Annual Report.	Based on declarations received from the directors by the year end, the independent status of M/s. P.L.P. Withana, N.M. Jayamanne PC, F.N. Goonewardena and Rear Admiral (Rtd.) B.A.J.G. Peiris is indicated on page 123 of the Annual Report.
(b) Where a Non-Executive Director does not qualify as independent but where the board is of the opinion he is nevertheless deemed to be 'independent', taking into account all other circumstances.	Not Applicable
(c) Publish a brief résumé of each director on its board in the Annual Report which includes information on the nature of his/her expertise in relevant functional areas.	Complied
(d) Provision of a brief résumé to the CSE of a new director appointed to the board and informing matters itemised above.	Complied
7.10.5 Remuneration Committee	
A listed company shall have a Remuneration Committee in conformity with the following:	
(a) Composition - comprise a minimum of two independent Non-Executive Directors or Non-Executive Directors, a majority of whom shall be independent, whichever is higher.	Complied
One Non-Executive Director shall be appointed as Chairman of the Committee by the board of directors.	The Remuneration Committee comprises six Non-Executive Directors of whom three are independent.
(b) Functions - the Remuneration Committee shall recommend the remuneration payable to the Executive Directors and Chief Executive Officer and/or equivalent position thereof to the board which will make the final determination.	Complied
(c) Disclosure in the Annual Report – set out the names of directors comprising the Remuneration Committee, contain a statement of the remuneration policy and set out the aggregate remuneration paid to Executive and Non-Executive Directors.	Mr. N.M. Jayamanne PC who is an Independent Non-Executive Director is the Chairman of the Committee.
	Complied
	Remuneration of the CEO and the emoluments of the directors are recommended by the Remuneration Committee.
	Complied
	Aggregate remuneration of directors and key management personnel is given in Note 7 to the Financial Statements. Please also refer the Remuneration Committee Report on page 103 of the Annual Report.
	Total remuneration paid to Executive and Non-Executive Directors including by way of fees as at 31st December 2009 amounted to Rs. 10.779 Mn. (2008 - Rs. 74.67 Mn.)

Rule	Status /Remarks
7.10.6 Audit Committee	
A listed company shall have an Audit Committee in conformity with the following:	
(a) Composition - should comprise a minimum of two independent Non-Executive Directors or Non-Executive Directors, a majority of whom shall be independent, whichever shall be higher.	Complied The Audit Committee consists of three Non-Executive Directors, of whom two are independent.
One Non-Executive Director shall be appointed as Chairman of the Committee by the board of directors.	Complied Mr. P.L.P. Withana, an Independent Non-Executive Director is the Chairman of the Committee.
Unless otherwise determined by the Audit Committee the Chief Executive Officer and the Chief Financial Officer of the listed company shall attend Audit Committee meetings.	Complied The CEO and CFO attend the Committee meetings by invitation.
The Chairman or one member of the committee should be a Member of a recognized professional accounting body.	Complied In 2009, two members of the Committee were members of recognised professional accounting bodies and the Chairman of the Committee was a member of The Institute of Chartered Accountants of Sri Lanka.
(b) Functions shall include -	
<ul style="list-style-type: none"> • Oversight of the preparation, presentation and adequacy of disclosures in the Financial Statements of a listed company in accordance with Sri Lanka Accounting Standards. 	Complied The Committee reviews all interim unaudited and audited Financial Statements prepared in conformity with Sri Lanka Accounting Standards.
<ul style="list-style-type: none"> • Oversight of the Company's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements. 	Complied Financial reporting requirements are strictly complied in line with the Companies Act, Sri Lanka Accounting Standards and regulatory requirements imposed by the Colombo Stock Exchange and the Central Bank.
<ul style="list-style-type: none"> • Oversight over processes to ensure Company's internal controls and risk management are adequate, to meet the requirements of the Sri Lanka Auditing Standards. 	Complied The Committee monitors and reviews the effectiveness of the internal audit systems which includes the internal audit and information system audit functions.
<ul style="list-style-type: none"> • Assessment of the independence and performance of the company's External Auditors. 	Complied The Committee monitors and reviews the independence of the External Auditors as part of its scope.
<ul style="list-style-type: none"> • To make recommendations to the board pertaining to appointment, reappointment and removal of External Auditors and to approve the remuneration and terms of engagement of the External Auditors. 	Complied

Rule	Status /Remarks
(c) Disclosure in the Annual Report –	
<ul style="list-style-type: none"> • Names of the directors comprising the Audit Committee to be disclosed in the Annual Report. 	Complied Members of the Audit Committee are listed on page 86.
<ul style="list-style-type: none"> • The committee shall make a determination of the independence of the Auditors and shall disclose the basis for such determination in the Annual Report. 	Complied The Committee has determined the independence of the Auditors and have disclosed the basis of their determination in page 128 of the Annual Report.
<ul style="list-style-type: none"> • The Annual Report shall contain a report by the Audit Committee, indicating the manner of compliance in relation to the above. 	Complied Audit Committee Report is given on page 100 to 101

BANK'S COMPLIANCE WITH THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE ISSUED JOINTLY BY THE SECURITIES & EXCHANGE COMMISSION OF SRI LANKA (SEC) AND THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA (ICASL)

The Bank commenced voluntary compliance of the above Code of Best Practice commencing from January 2009 and the level and nature of compliance with the Code are set out below:

A. Annual Report

Subject & Ref.	Corporate Governance Principle	Level of Compliance
Chairman & CEO A.2.1 & A.5.6	If Chairman and CEO is one and the same person, disclose the name of the Chairman/CEO and Senior Independent Director appointed and justification of the decision to combine the positions.	As outlined earlier, the positions of the Chairman and the CEO have been separated. The current Chairman, Mr. E. Narangoda was appointed as a director to the board on 30th December 2008 upon the re-constitution of the Bank in terms of Section 30(9) of the Monetary Law Act). In view of the exigencies of the situation the Bank was faced with, he was appointed as Chairman in an executive capacity by the new board of directors on 5th January 2009. The board has appointed Mr. N.M. Jayamanne PC, an Independent Non-Executive Director of the Bank to function as the Senior Director of the board.
Board Balance A.5.5	Should identify the Independent Non-Executive Directors.	Complied The board maintains the correct balance of Executive and Non-Executive Directors. Eight of the ten directors on the board are Non-Executive Directors whilst 1/3rd of the board comprise Independent Non-Executive Directors.

Subject & Ref.	Corporate Governance Principle	Level of Compliance
Appointment of New Directors A.7.3	<p>When new directors are appointed, the following details should be disclosed.</p> <ul style="list-style-type: none"> • a brief résumé of each such director; • the nature of his 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. 	<p>Complied</p> <p>Timely disclosure of details as required herein of new appointments made to the board are disclosed to the Colombo Stock Exchange and also in the Annual Report. Profiles of directors are given on pages 228 and 229.</p>
Nominations Committee A.7.1	<p>The Chairman and members of the Nominations Committee should be identified.</p>	<p>Chairman of the Committee is Mr. N.M. Jayamanne PC who is an Independent Non-Executive Director. Other members are Rear Admiral (Rtd.) B.A.J.G. Peiris, M/s. A.L. Devasurendra and S.P.S. Ranatunga (appointed w.e.f. 13th January 2010).</p>
Appraisal of Board Performance A.9.3	<p>Should disclose how performance evaluations have been conducted.</p>	<p>Complied</p> <p>The board's performance for 2009 was evaluated in January 2010 anonymously by the directors against the following criteria:</p> <ul style="list-style-type: none"> • Developing and monitoring implementation of strategy; • Level of business and financial acumen and experience and level of contribution to the board in driving business goals and formulating strategy and policies; • Ensuring robust and effective risk management; • Management of relations with stakeholders including Employee relations; • Ensuring effectiveness of internal control mechanisms; • Credit management and monitoring; • Effectiveness of board subcommittees; • Discharge of statutory and regulatory duties and other responsibilities of the board; • Corporate governance compliance; • Re-visiting Human Resources and Procurement policies; • Overall view of the management of the business.

Subject & Ref.	Corporate Governance Principle	Level of Compliance
Board Related Disclosures A.10.1	<p>The following details pertaining to each director should be disclosed.</p> <ul style="list-style-type: none"> • name, qualification and brief profile; • the nature of his/her expertise in relevant functional areas; • immediate family and/or material business relationship with other directors of the Company; • names of other listed companies in Sri Lanka in which the director concerned serves as a director; • names of companies in which the director concerned serves as a director and/or the fact that he/she holds other directorships in the Group Companies; • number/percentage of board meetings of the Company attended during the year; • names of the Committees in which the director serves as the Chairman or a member; and • number/percentage of committee meetings attended during the year. 	<p>Complied</p> <p>Directors' profiles giving their qualifications, areas of expertise etc. are given on pages 228 to 229.</p> <p>Details of directorships/other positions held, directors' interests in contracts and related party transactions are given on pages 129 and 133 and also disclosed in Notes 42 and 43 of the Financial Statements.</p> <p>Details of board meetings and board subcommittees, their composition, attendance by directors of meetings held during the year are given on pages 84 and 86 to 88 of the Annual Report.</p>
Disclosure of Remuneration B.3	<ul style="list-style-type: none"> • A Statement of Remuneration Policy and details of remuneration of the board as a whole. 	<p>Complied</p> <p>Please refer Remuneration Committee Report on page 103 and also Notes 7 and 42 of the Audited Financial Statements.</p>
Major Transactions C.2	<p>All major transactions entered into by the Company should be disclosed.</p>	<p>There were no major transactions entered into by the Company during the year under review which fell within the definition of Section 185 of the Companies Act No. 07 of 2007 which materially affected the asset base of the Company.</p>

Subject & Ref.	Corporate Governance Principle	Level of Compliance
Audit Committee D.3.4	<ul style="list-style-type: none"> Names of the members of the Audit Committee should be disclosed. Basis for determining the independence of auditors. 	<p>Complied</p> <p>Please refer the Audit Committee Report on page 100 to 101.</p> <p>Please refer page 128 of the Annual Report.</p>
Code of Business Conduct and Ethics D.4.1 & D.4.2	<ul style="list-style-type: none"> Should disclose whether the Company has a Code of Business Conduct & Ethics for directors and members of the senior management team. 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. 	<p>Complied</p>
Going Concern D.1.5	Should report that the Company is a going concern, with supporting assumptions and qualifications as necessary.	<p>Complied</p> <p>Please refer "Statement of Directors' Responsibility for Financial Statements"</p>

B. Remuneration Committee Report

Subject & Ref.	Disclosure	Remarks
Members of Remuneration Committee B.1.3	The names of the members of Remuneration Committee should be disclosed in the Remuneration Committee Report.	<p>Complied</p> <p>Please refer the Remuneration Committee Report on page 103 of the Annual Report and also page 124 of the Annual Report of the board of directors.</p>

C. Directors' Report

Subject & Ref.	Disclosure	Remarks
Directors' Report D.1.2	<p>Should contain the following declarations made by the directors</p> <ul style="list-style-type: none"> • The Company has not engaged in any activities, which contravenes laws and regulations; • The directors have declared all material interests in contracts involving the Company and refrained from voting on matters in which they were materially interested; • The Company has made all endeavours to ensure the equitable treatment of shareholders; • The business is a going concern with supporting assumptions or qualifications as necessary; and • They have conducted a review of internal controls covering financial, operational and compliance controls and risk management and have obtained reasonable assurance of their effectiveness and successful adherence herewith. 	<p>Complied</p> <p>Please refer pages 119 to 133 of the Annual Report of the board of directors.</p> <p>Please also refer the Audit Committee Report and the Risk Management Report set out on pages 100 to 101 and 63 to 74 respectively in the Annual Report.</p>

D. Financial Statements

Subject & Ref.	Disclosure	Remarks
Financial Statements D.1.3	<ul style="list-style-type: none"> • The board of directors should include a Statement of Responsibility for the preparation and presentation of Financial Statements. • Auditors should also have a statement about their reporting responsibility. 	<p>Complied</p> <p>Please refer pages 134 and 135 of the Annual Report.</p> <p>Please refer pages 136 to 137 of the Annual Report.</p>

E. Management Report

Subject & Ref.	Disclosure	Remarks
Management Report 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 Please refer pages 57 to 62 of the Annual Report.

F. Corporate Governance Report

Subject & Ref.	Disclosure	Remarks
Corporate Governance Report D.5.1	Should disclose the manner and extent to which the Company has complied with the principles and provisions of the Code.	Complied

G. Audit Committee Report

Subject & Ref.	Disclosure	Remarks
Audit Committee Report D.3.3.	Should set out the work carried out by the Committee.	Complied Please refer page 100 to 101 of the Annual Report for the Audit Committee Report.

OTHER MATTERS

Compliance

The Bank's Compliance Department is responsible for ensuring the Bank's compliance with banking regulations and the compliance requirements under specific statutes namely, the Prevention of Money Laundering Act, No. 5 of 2006, the Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005 and the Financial Transactions Reporting Act, No. 6 of 2006. The Bank has fully implemented the additional requirements in terms of Central Bank's regulations on Know Your Customer (KYC)

and Customer Due Diligence (CDD). Internal guidelines were formulated and circulated on KYC and CDD. External training and periodic extensive internal training programmes have been organised to educate and update the staff.

Monthly, quarterly and half yearly compliance reports are forwarded to the Central Bank confirming the Bank's compliance with the regulations under Banking Act and its amendments. The board is apprised of the status of compliance by the Bank on a regular basis whilst a detailed compliance report is submitted on a monthly basis.

INTERNAL CONTROL SYSTEMS

The establishment of an effective internal control system is a pre-requisite to conduct banking business in an orderly manner, safeguard its assets and secure as far as practicable the accuracy and reliability of records.

The two major internal control systems prevalent in the Bank include the internal audit and information system audit. The Internal Audit Department is an independent assurance function established within the Bank to examine and evaluate its activities. The Internal Audit Department of the Bank carries out regular reviews on the internal control system to assist members of the organisation, especially management and the board of directors, in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed and by promoting effective control at reasonable cost.

Through an effective internal audit mechanism, the risks associated with business decisions taken to improve productivity through enhanced customer services are closely monitored, assessed and wherever deemed necessary tools employed to manage risks are introduced and existing systems further strengthened. The process of identifying and evaluating and effectively managing risks associated with business processes and their supporting functions is reviewed by the board on a quarterly basis through the Audit Committee.

The Information Systems Audit (ISA) Department plays a key role in the Bank's internal control system and IT governance structure. ISA provides information system governance, assurance and risk management services to the Bank ensuring that the corporate information system assets are safeguarded and banking services are delivered in an efficient, reliable and effective manner whilst protecting stakeholders' interest. ISA Department is engaged in implementing IT Governance and Information Security Management Programmes that are in compliance with the industry standards such as Control Objectives for Information and

Related Technologies (COBIT), ISO 27001 and Generally Accepted Good Practice (GAGP). Recently the Business Continuity Management Plans have been prepared for the Bank as guided by the Central Bank and required structures and processes are in place to recover and resume its critical banking functions in a disaster situation.

CORRECTIVE ACTION /IMPROVEMENTS EFFECTED BY THE NEW BOARD

In view of the Bank not being fully compliant prior to 2009 with some of the provisions outlined above, the newly constituted board commenced adherence with the Central Bank Code of Corporate Governance from 2009.

Also with the CSE Rules of Corporate Governance becoming mandatory from the financial year commencing 1st January 2009, focus was given to both these regulations. The board also took cognisance of and became compliant with the Code on Corporate Governance issued jointly by the SEC and ICASL in October 2008 as outlined above.

The board which was appointed on 30th December 2008 (upon the Seylan Bank board being reconstituted) initially functioned with six directors two of whom were appointed as Executive Directors and four being Non-Executive Directors. The board is headed by an Executive Chairman. The board comprised the correct mix of Executive and Non-Executive Directors. The four Non-Executive Directors fell within the criteria specified for 'independent' directors within the meaning of both Section 3 (2) (iv) of the CBSL Code and Rule 7.10.4 of the CSE Rules. The Bank has further ensured that all directors fall within the 'fit and proper' criteria laid down by the Central Bank under Section 42 of the Banking Act No. 30 of 1988 (as amended).

The new board also formulated a three-year Strategic Plan for the Bank under which a major restructuring and reorganisation of the Bank took place. The Strategic Plan has already been rolled out and the results of same will be seen towards the latter part of 2010/early 2011.

The board focused much of their attention on the following during 2009 in order to revive the Bank's operations and bring it to a point of stability as well as to promote and promulgate a productive work culture within the Bank:

- (A) Re-evaluation of lending criteria in terms of credit appraisals, approvals, collateral, single borrower limits, monitoring and follow up.
- (B) Non-performing loan classification and income recognition: Strict compliance with CBSL guidelines, reversal of interest recognised, revaluation of collateral and loan loss provisions etc.
- (C) Reviewing and revising delegated authority of line Management for lending based on past loan failures and officers' credit expertise.
- (D) Setting out delegated authority for procurement, supplies and administration.
- (E) Human resources areas - comprehensive revamping of HR policies including implementation of Disciplinary Code, Staff Promotion and Transfer and Rotation Policy, Retention Policy, Recruitment Policy and other policies on performance, training and secondment.
- (F) Strategic Plan and reorganisation.

All the board subcommittees were reconstituted viz. Audit Committee, Credit Committee, Integrated Risk Management Committee and Nominations Committee. Terms of reference for each of the Committees were formulated/revised and approved by the new board.

New committees were also formed viz. Strategic Planning, Sustainability and Marketing and Product Development Committees which commenced their activities in 2010.

All subcommittees have met for a minimum of two meetings for the year except for the Nominations Committee. The Audit Committee has met 7 times during the year.

Upon the completion of the Central Bank assisted re-capitalisation process of the Bank, four additional directors were appointed to the board in November 2009 and one director in January 2010. With the appointment of the additional directors, the board restructured the board subcommittees. A Strategic Planning Committee of the board was also formed to give further impetus to the effective implementation of the Strategic Plan. All directors are members of this Committee which had its first meeting in January 2010.

OTHER ACTIONS TAKEN /IMPROVEMENTS TO BE EFFECTED IN FUTURE

All new appointments made to the board in 2009 were as a result of the re-capitalisation process undergone by the Bank which concluded in November 2009 and as such the Nominations Committee has not focused its attention during 2009 towards having a formal board approved procedure for the selection of/recommendation of new directors to the board. This will be put in place in 2010.

Further, in carrying out the board's responsibility of implementing succession strategy for the CEO and Key Management Personnel (KMPs), the Nominations Committee is currently in the process of working out a succession plan for the CEO and the KMPs of the Bank.

AUDIT COMMITTEE REPORT

COMPOSITION OF THE AUDIT COMMITTEE

The Board Audit Committee comprises of three Non-Executive Directors of the Bank, the majority of whom are independent. Consequent to the re-constitution of the board of directors, all subcommittees of the board were also re-constituted and the following directors were appointed to the Audit Committee in 2009. viz -

Mr. Lalith Withana (*Chairman*)

Mr. Naomal Goonewardena
(*resigned on 3rd December 2009*)

Mr. Nihal Jayamanne PC
(*appointed w.e.f. 24th February 2009*)

Mr. Pradeep Kariyawasam
(*appointed w.e.f. 3rd December 2009*)

The Chairman of the Committee is Mr. Lalith Withana, who is an Independent Non-Executive Director and a Fellow of The Institute of Chartered Accountants of Sri Lanka. Mr. Nihal Jayamanne PC is also an Independent Non-Executive Director, whilst Mr. Kariyawasam is a Non-Executive Director. Mr. Naomal Goonewardena, an Independent Non-Executive Director of the board and who is a Chartered Financial Analyst, Associate Member of The Institute of Chartered Accountants of Sri Lanka (ACA) and Associate Member of the Chartered Institute of Management Accountants (ACMA), U.K., functioned as a member of the Committee until his resignation on 3rd December 2009. The Executive Director Mr. Nadarajah, Chief Executive Officer, Chief Financial Officer and Deputy General Manager, Internal Audit attend committee meetings by invitation. The External Auditors attend the meetings whenever the Committee requires their presence. The Company Secretary functions as the Secretary to the Audit Committee.

MEETINGS

As per the Audit Committee Charter, the Committee is required to meet at least 4 times a year. However during the year under review, the Committee met seven times and reports of internal and external audits were discussed at these meetings. Attendance of the members at these Committee

meetings are given on page 86 of this Annual Report. The Minutes of the Committee were made available to the board of directors for information and necessary action.

TERMS OF REFERENCE

The new Charter of the Audit Committee that was approved by the board at the beginning of the year defines the role, responsibilities and powers of the Audit Committee and it ensures that the composition and the activities of the Audit Committee are in line with International Best Practices and Corporate Governance Rules as laid down in Section 3 (6) (ii) of the Banking Act Direction No. 11 of 2007, titled "Corporate Governance for Licensed Commercial Banks in Sri Lanka" and subsequent amendments thereto, Rule 7.10.6 of the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance jointly issued by the Securities & Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (ICASL).

MAIN RESPONSIBILITIES

The main objective of the Audit Committee is to assist the board of directors to effectively carry out its responsibilities relating to financials and other connected affairs of the Bank. The main responsibilities include -

1. Reviewing and monitoring the integrity of the Financial Statements, financial reporting, information databases and audit process.
2. Examining any matter relating to financial and other connected affairs of the Bank.
3. Monitor all internal and external audits and inspection programmes.
4. Review and take action on all internal and external audit reports and follow-up on the recommendations.
5. Review and monitor IT governance activities.
6. Review and monitor the systems of internal controls.
7. Review and monitor the system for approval and monitoring of expenses including capital expenditure.
8. Review and monitor statutory and regulatory compliance process.