

Board Audit Committee Report

Composition of the Audit Committee

The Board appointed Audit Committee, comprised of six (6) Non-Executive Directors and is inline with the composition requirements specified in the Direction. The Chairman of the Audit Committee T L F Jayasekera, is an independent Non-Executive Director and a Fellow Member of The Institute of Chartered Accountants of Sri Lanka, in line with the direction. The other members of the Committee are also from a specialist financial background.

The following members serve/ served on the Audit Committee during the year:

Name of the Board Sub Committee Member	Directorship Status	Membership Status
T L F Jayasekera	Independent	C
D S P Wikramanayake	Non-Independent	M
Mrs. K Fernando	Independent	M
Mrs. W A I Sugathadasa	Independent	M
Mrs. D M A Harasgama (Appointed w.e.f. 22 April 2015)	Non-Independent	M
K D W Ratnayaka (Appointed w.e.f. 13 May 2015)	Independent	M
S Rajapakse (Resigned w.e.f. 30 March 2015)	Non-Independent	M
Ms. G D C Ekanayake (Resigned w.e.f. 11 March 2015)	Non-Independent	M

C – Chairman, M – Member

The profiles of the members are given on pages 108 to 115.

The Head of Group Audit functions as the Secretary of the Committee.

Charter of the Audit Committee

The Audit Committee Charter clearly defines the Terms of Reference of the Committee and is periodically reviewed and revised with the concurrence of the Board of Directors. This process

ensures that new developments and concerns are adequately addressed. The Audit Committee Charter was last reviewed and approved by the Board of Directors in the second quarter of 2015.

The Audit Committee is responsible to the Board of Directors and reports on its activities regularly. The functions of the Audit Committee are geared to assist the Board of Directors in its general oversight on financial reporting, internal controls and functions relating to internal and external audits.

The roles and functions of the Committee, are further regulated by the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' and its subsequent amendments (hereinafter referred to as the 'Direction'), 'Rules on Corporate Governance under Listing Rules of the Colombo Stock Exchange' and 'Code of Best Practice on Corporate Governance' issued jointly by The Institute of Chartered Accountants of Sri Lanka and the

Securities and Exchange Commission of Sri Lanka.

Committee's Guiding Principles

The Committee functions are structured in accordance with the guidelines issued in Banking Act Direction, Code of Corporate Governance and the Code of Best practice on Corporate Governance.

Audit Committee Meetings

The Audit Committee met nine (9) times during the year. Attendance of the Committee members for each of these meetings is given on page 135. The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

The Chief Executive Officer, Group Chief Financial Officer, Head of Operations, Head of Group Audit normally attends meetings unless the BAC decides otherwise. On the invitation of the Committee, the Bank's External Auditors, Messrs.' Ernst & Young attended all meetings during the year. Other members of the Senior Management were invited to attend the meetings on a need basis. The Chairman of the Bank, being an optional invitee, attended five (5) meetings during the year.

The Audit Committee met the External Auditors twice during the year, without the presence of CEO and the Corporate Management, to ensure that the Auditors had the independence to discuss and express their opinions on any matter and also for the Committee to have the assurance that the management has fully provided all information and explanations requested by the Auditors.

Methodology used by the Committee

- Review the Interim Financial statements and the Bank's annual Financial Statements in order to monitor the integrity of such statements prepared for disclosure, prior to submission to the Board of Directors.
- Examine any matter relating to the financial and other connected affairs of the Bank.
- Ensure that efficient and sound financial reporting systems are in place and are well managed in order to provide accurate, appropriate and timely information to the Board of Directors, Regulatory Authorities, the Management and Other Stakeholders.
- Ensure the Bank has adopted and adhere to policies which firmly commits the Bank to achieve the highest standards of good corporate governance practice.
- Review the quality and the appropriateness of Accounting policies and their adherence to statutory and regulatory compliance requirements and applicable Accounting Standards.
- Review internal audit reports and liaise with Management in taking precautionary measures to minimise control weaknesses, procedure violations, frauds and errors.
- Review External Audit and Statutory inspection reports and follow up on their findings and recommendations.

Summary of Activities

Financial Reporting

The Committee assists the Board to discharge their responsibility in the preparation of Financial Statements that evidence a true and fair view on the financial position and performance in accordance with the Bank's

accounting records and as per the stipulated requirements of the Sri Lanka Accounting Standards.

The Committee Reviews;

- The adequacy and effectiveness of the Internal Control Systems and Procedures to provide reasonable assurance that all transactions are accurately and completely recorded in the books of account.
- The effectiveness of the Financial Reporting Systems in place to ensure reliability of the information provided to the stakeholders.
- The Bank's Financial Statements and Accounting Policies and practices.
- The processes by which compliance with Sri Lanka Accounting Standards (SLFRS/LKAS) and other regulatory provisions relating to financial reporting and disclosures are ensured.
- The Annual Report and Accounts and the Interim Financial Statements prepared for publication together with the press releases prior to submission to the Board.

The Committee is conscious of the need to keep its knowledge up to date and engages External Auditors from time to time to make presentations to the Committee members on relevant topics.

System of Internal Controls

During the year, the Committee reviewed the effectiveness of the Bank's Internal Control System and the CEO's quarterly confirmation on the internal control environment. Additionally, the Committee also assessed the effectiveness of the Bank's internal controls over financial reporting as of 31 December 2015, as required by the Banking Act Direction No. 11 of 2007, Corporate Governance

for Licensed Commercial Banks in Sri Lanka, Subsection 3 (8) (ii) (b), based on the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued by The Institute of Chartered Accountants of Sri Lanka. The result of the assessment is given on pages 206 and 207, in the "Directors' Statement on Internal Control" in the Annual Report. The External Auditors have also issued an Assurance Report on Directors' Statement on Internal Controls. The report is given on page 208 of the Annual Report.

Internal Audit

During the year, the Internal Audit Department revamped their audit methodology with Board approval to a top-down risk-based auditing approach enhancing the Risk-Based Auditing Process covering best practices. This helped to establish a complete Audit Universe that could be transparently reconciled with the financial records, which will be audited annually, at determined intensities based on the risk assessment covering the entire group. The Audit Committee also reviewed the independence, objectivity and performance of the internal audit function and the adequacy of its resources.

The Audit Committee reviewed the findings of the internal audits completed and their evaluation of the Bank's internal control systems. The Committee also reviewed updates on audit activities and the adequacy of coverage of the approved audit plan, the results of all audits including any unsatisfactory audits, the action plans given to address the issues and the implementation status.

Compliance with the Revised Sri Lanka Accounting Standards

The adoption of the revised Sri Lanka Accounting Standards (SLFRS/LKAS) and the impact of the same on the Bank's Financial Statements have been independently validated by the External Auditors during their year-end audit and the process was continuously reviewed by the Committee.

Regulatory Compliance

The Internal Audit performs verifications, covering applicable regulatory requirements during their process audits ensuring that systems and procedures are in place to ensure compliance with such requirements.

Internal Audit Charter and Audit Manual

The internal audit function is governed by the Internal Audit Charter which defines the mission, authority, responsibility, independence, reporting, commitment and access that assist and direct/guide the Internal Audit department to discharge its function independently. The Internal Audit Charter and the Audit Manual was revised during the year under the revamped audit methodology and approved by the Board.

External Audit

The Audit Committee undertook the annual evaluation of the independence and objectivity of the External Auditor and the effectiveness of the audit process. During the audit, the External Auditor presented to the Committee their audit approach and procedures, including matters relating to the scope of the audit and Auditors' independence.

The Committee reviewed the Audited Financial Statements with the External Auditor, who is responsible for expressing an opinion on its conformity with the Sri Lanka Accounting Standards.

The Committee reviewed the Management Letter issued by the External Auditor and the management responses thereto.

The Audit Committee was of the view that the Non-Audit Services provided by the External Auditor were not within the category of services identified as prohibited under:

1. The guidelines issued by the Central Bank of Sri Lanka for External Auditors, relating to their statutory duties in terms of Section 39 of Banking Act No. 30 of 1988 and amendments thereto.
2. The guidelines for Listed Companies on Audit and Audit Committees issued by the Securities and Exchange Commission of Sri Lanka.

In carrying out the overseeing responsibilities, the Committee adopted the overview principles of the External Audits of Banks, as recommended by the Basel Committee on Banking Supervision, issued in March 2014.

Re-appointment of External Auditor

The Audit Committee performed an evaluation of the External Auditor, based on certain defined criteria and recommends the reappointment of Messrs.' Ernst & Young, Chartered Accountants as their External Auditor to the Board of Directors for the financial year ending 31 December 2016, subject to the approval of the shareholders at the next Annual General Meeting.

Good Governance and Whistleblowing

The Bank's Whistleblowing Policy was also revised in November 2015. The Policy is intended to serve as a channel of corporate fraud risk management. The policy will encourage any team member who has a legitimate concern on an existing or potential "wrong doing", done by any person within the Bank, to come forward voluntarily, and bring such concern to the notice of an independent designated authority. Concerns raised are investigated and the identity of the person raising the concern is kept confidential. A process has been established to track such whistleblowing and take necessary action.

Evaluation of the Audit Committee

The Audit Committee carried out a formal self-evaluation/appraisal on the effectiveness of the Committee and reported the results of the same to the other members of the Board. The Board concurred that the Committee had carried out its responsibilities in an effective and satisfactory manner.

Appreciation

The Committee wishes to convey its gratitude to former members S Rajapakse and Ms. G D C Ekanayake for their valuable contribution to the Committee over the years.



T L F Jayasekera
Chairman

Audit Committee
12 February 2016
Colombo