

Report of the Board Audit Review Committee

The Board Audit Review Committee (BARC) is appointed by the Board of Directors and comprises five Non-Executive Directors. The BARC has been reconstituted to comprise three Non-Executive Directors with effect from 1st January 2009. The Head of Internal Audit performs the role of Secretary to the Committee. The Director/Chief Executive Officer and the Deputy Chief Executive Officer attend the meetings by invitation. Other members of the Corporate Management attend as and when required.

FUNCTIONS OF THE COMMITTEE

The Committee independently examines and evaluates the activities of the Bank. It advises all levels of management and the Board of Directors on the Bank's system of internal controls and on management of risk. As and when required, it requests additional information from management in order to satisfy itself of the adequacy of the controls in place.

The minutes of Committee meetings are submitted for review to the Board of Directors. The Head of Internal Audit reports directly to the Chairman of the Committee, a practice that strengthens the independence of the position.

The role of the Board Audit Review Committee is:

1. To monitor the implementation of policies and strategies approved by the Board of Directors.
2. To evaluate the extent to which corporate objectives are achieved and to provide assurance to the Board that regulatory and statutory requirements have been adhered to.
3. Oversight of the presentation and adequacy of the disclosure in the Financial Statements of the Bank, in accordance with the Sri Lanka Accounting Standards.

4. To ensure that risks are identified and managed through an adequate, effective and efficient system of internal controls and procedures.
5. To make recommendations to the Board pertaining to the appointment, reappointment and removal of the External Auditors and to approve the remuneration and terms of engagement of the External Auditors.

ACTIVITIES OF THE COMMITTEE

During the year under review, the Committee met nine times and reviewed the internal audit reports on the Bank and its subsidiaries.

During the year, the Committee also:

- Reviewed forty-nine audit reports relating to branches, personal banking centres and the leasing branches;
- Reviewed forty-four departmental, process audit and investigation reports;
- Paid special attention to the adequacy of procedures and effectiveness of internal controls, recommended corrective action whenever necessary;
- Reviewed decisions taken by the Assets and Liabilities Committee (ALCO) of the Bank to ensure compliance with the risk management policies laid down by the Board;
- Reviewed the adequacy of the insurance cover of the various policies in force;
- Monitored Treasury activities and the customer-asset portfolio to ensure that credit quality and the inherent risks were addressed, with specific attention to ensure that preventive action was taken to minimise possible losses;
- Reviewed the control processes pertaining to the Central Operations, Finance, Credit Cards, Loan Processing and IT area and proposed modifications to be made in order to ensure that industry best practices were adopted;
- Reviewed and monitored the progress of the implementation of the IT audit recommendations;

- Discussed issues arising from the reports with the External Auditors, who attend Committee meetings by invitation;
- Reviewed the management letter sent by the Auditors and management's response thereto;
- Met with the External Auditors in the closed sessions of the BARC meetings thereby providing them with an opportunity to express their views independent of the Bank's management;
- Monitored compliance with requirements laid down by the regulatory authorities;
- Requested key business heads to present an overview of their area of control, with special emphasis on risk control and adopting audit recommendations;
- Ratified the quarterly Financial Statements prior to publication and submission to the Central Bank, the Colombo Stock Exchange and shareholders; and
- Reviewed and submitted the Internal Audit Manual for approval of the Board of Directors.

The Board Audit Review Committee is of the view that adequate internal controls and procedures are in place at the Bank and its subsidiaries to provide reasonable assurance that its assets are safeguarded and financial stability maintained. The Board Audit Review Committee has recommended to the Board of Directors that Messrs Ernst & Young be reappointed as Auditors for the financial year ending 31st December 2009 at the next Annual General Meeting.

A.R. Rasiah

Chairman

Board Audit Review Committee

17th February 2009