

POLICY GUIDELINES ON COMPLIANCE FUNCTIONS

1. Introduction

Bank of Ceylon is a Government Bank, fully owned by the Government of Sri Lanka, established under the Bank of Ceylon Ordinance and having its Head Office at Colombo and having various branches in Sri Lanka, India, United Kingdom and the Republic of Maldives. These guidelines are framed exclusively for its overseas branches functioning in India and this will be applicable for all the branches, to be opened in India. Bank of Ceylon – Chennai has to perform its banking operations, which shall be governed by the statute of two countries viz, India and Sri Lanka and subject to monitoring by two Regulatory Authorities viz, Reserve Bank of India and Central Bank of Sri Lanka. Carrying out its banking operations as per the statutes, directives of the Regulatory Authorities, norms prescribed by the Monetary Authorities, rules and regulations framed by the Governments, Local Bodies are referred to, as the compliance functions of the Bank. Hitherto, the compliance functions have been carried out in an un-organised manner, which has been rectified, by formulating this policy guideline for discharge of compliance functions.

2. Definitions

Unless and otherwise, it is contrarily expressed, in any context

2.1. The expression “**BOARD**” means, the Board of Directors, constituted at Head Office, Colombo of Bank of Ceylon.

2.2. The expression “**LAB**” means, the Local Advisory Board, constituted under the instructions of Reserve Bank of India

2.3. The expression “**COUNTRY MANAGER**” means, any person designated as the Principal Officer of Chennai branch, by Head Office, who is not below the rank of Assistant General Manager, for the time being.

2.4. The expression “**COMPLIANCE OFFICER**” means, the person having the overall responsibility of discharging the banking operations, as per the stipulated rules and regulations, norms and directives, procedures and instructions.

2.5. The expression “**BANK**” means, Bank of Ceylon, as a whole.

2.6. The expression “**COMPLIANCE COORDINATOR**” shall mean, the person designated to assist the Compliance Officer and who should normally coordinate with the Compliance Executing Assistants, in discharging the banking operations, as per the laid out rules and regulations, norms and directives, procedures and instructions.

2.7. The expression “**COMPLIANCE EXECUTING ASSISTANTS**” shall mean, the heads of each departments, who are carrying out the banking operations relating to their department, as per the prescribed rules and regulations, norms and directives, procedures and instructions.

3. Authorities entrusted with the function of framing of Rules and Regulations :

Branches of Bank of Ceylon, functioning in India, shall have to abide the rules and regulations, norms and directives, procedures and instructions, prescribed by various authorities in India, as well as Sri Lanka. The following are the important, such rule framing bodies.

- Acts passed by the Government of Sri Lanka and the Government of India, from time to time.

- Rules and Regulations framed by the Administrative and Local Bodies
- Directives and Norms prescribed by the Regulatory Authorities (Central Bank of Sri Lanka and Reserve Bank of India)
- International statutes, governing the banking operations in India
- Rules, Guidelines and Norms prescribed by the BOARD
- Recommendatory Norms, if any, prescribed by the LAB

4. Compliance Monitoring Authorities

Branches of Bank of Ceylon operating in India, shall be monitored, whether they are complying with the laid out rules and regulations, norms and directives, procedures and instructions, prescribed by the following authorities

4.1. Internal Authorities

- Internal Authorities refers to the Inspection, Audit, Investigating officials from BOC – Head Office, Colombo
- Overseeing Deputy General Managers at Head Office, vis-à-vis Corporate & Off-Shore Banking, International, Recoveries, Finance and Planning, Inspection/ Audit, Legal Department etc.

4.2 External Authorities

- Concurrent Auditors
- External Auditors
- RBI Inspectors
- Other Governmental and Quasi-Governmental officials entrusted with the law enforcing powers.
- Central Bank of Sri Lanka
- Auditors General Department of Sri Lanka

5. Compliance Advisory Bodies

The following are the officials, who performs the functions of advisory in nature to the Compliance Officer.

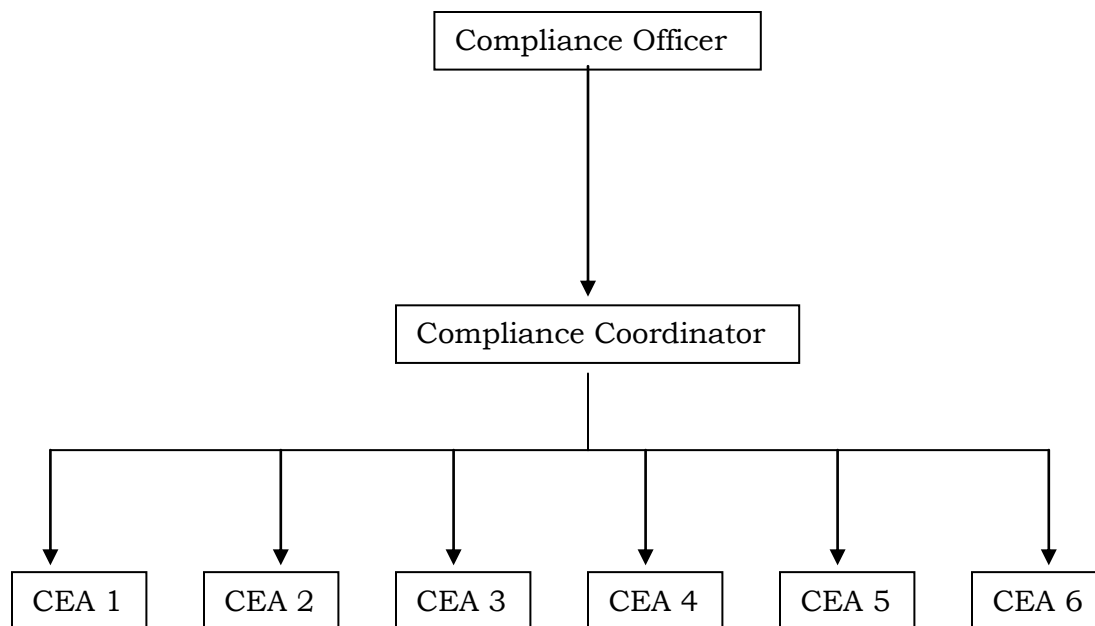
Local Advisory Board

Panel of Lawyers

Panel of Valuers

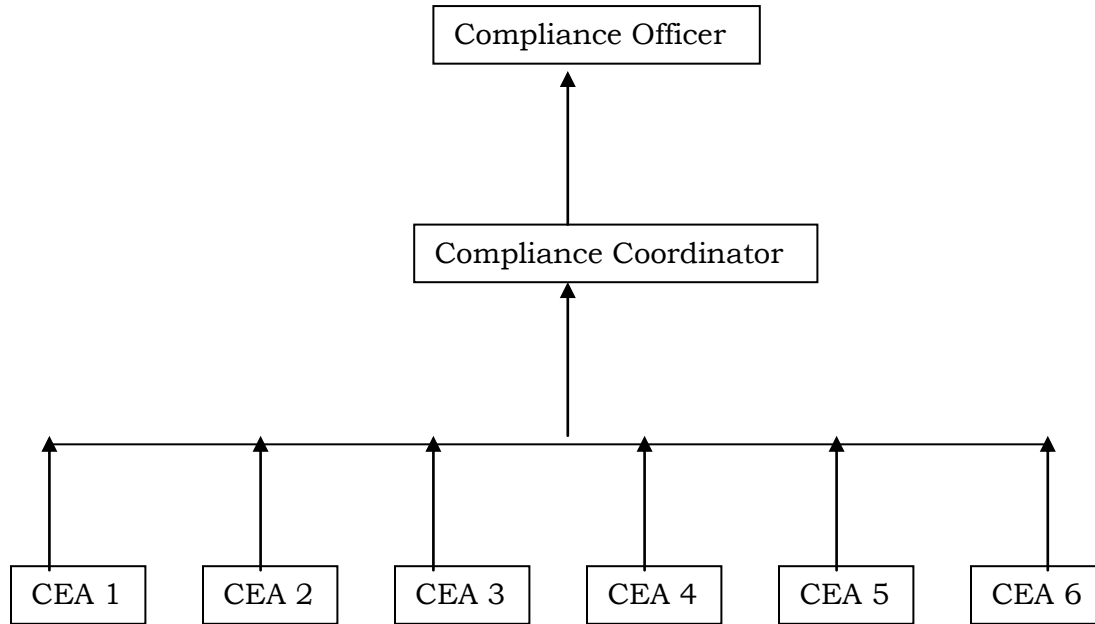
Independent Recovery Organisations, if any.

ORGANISATIONAL STRUCTURE OF COMPLIANCE FUNCTIONARIES



| | |
|-------|--------------------------------|
| CEA 1 | Deputy Manager |
| CEA 2 | Head of Treasury |
| CEA 3 | Vice President (Trade Finance) |
| CEA 4 | Vice President (Credit) |
| CEA 5 | Assistant Vice President |
| CEA 6 | Operations-in-Charge |

REPORTING STRUCTURE



- | | |
|-------|--------------------------------|
| CEA 1 | Deputy Manager |
| CEA 2 | Head of Treasury |
| CEA 3 | Vice President (Trade Finance) |
| CEA 4 | Vice President (Credit) |
| CEA 5 | Assistant Vice President |
| CEA 6 | Operations-in-Charge |

6. Duties and Responsibilities of the Compliance Officer

6.1. It is the primary duty of the Compliance Officer, to ensure that the functioning of the branches in India, are carried out, as per the laid out rules and regulations, norms and directives, procedures and instructions. He will be held as the collective responsibility of compliance and as such, he is answerable and accountable to the BOARD, which has deputed him for this purpose. Deviations from the laid out rules and regulations, norms and directives,

procedures and instructions, if any, shall be immediately brought to the notice of the BOARD, through appropriate channels, so that, redressal measures and damage controls, could be initiated immediately.

6.2. Failure to disclose or inform the material deviations by any of the officials of the Bank's branches in India, to the appropriate authorities, would attract personal liability of the Compliance Officer. He is designated as the Disciplinary Authority for initiating disciplinary proceedings, up to the level of the officers in the rank of Senior Vice President, for the time being. As such, he should exercise his quasi-judicial functions judiciously, to prevent any miscarriage of justice, while enforcing the compliance functions.

6.3. He shall be assisted by the Compliance Coordinator, who will coordinate with the Compliance Executing Assistants. The Compliance Coordinator should have the banking experience of not less than 10 years and having a wide knowledge about the rules and regulations, norms and directives, procedures and instructions in India.

6.4. Disciplinary Authority for Compliance Officer

In case, if the Compliance Officer fails to, or neglects to, or refuse to comply with the laid out rules and regulations, norms and directives, procedures and instructions and thereby, the bank is put to any monetary loss, or loss of reputation, or loss of any other nature, he shall be dealt with the disciplinary proceedings formulated by the BOARD and the person designated by the BOARD, shall be the Disciplinary Authority for the Compliance Officer.

7. Duties and Responsibilities of the Compliance Coordinator

He is the key official, who would normally be assisting the Compliance Officer in discharging the compliance functions.

His primary duties are to :

7.1. Coordinate with the Compliance Monitoring Authorities and to identify the deviations of compliance, if any, in all departments of the branch/ branches.

7.2. Interact with the Compliance Executing Assistants and bring to the knowledge, about the deviations made in their respective departments and to discuss with them, for taking apposite redressal measures and to submit a consolidated report to the Compliance Officer, about the rectification process undergoing.

7.3. The Compliance Coordinator should educate the Compliance Executing Assistants, about the changes of rules and regulations, norms and directives, procedures and instructions, whenever they are expected, in time, so that, there will not be any deviations from the laid our rules and regulations, norms and directives, procedures and instructions, in the conduct of the business.

7.4. He should collect the Deviations Rectifying Reports (Compliance Reports) from the concerned Compliance Executing Assistants and consolidate them for submission to the appropriate authorities, within the prescribed time limit. If, in case, any delay is caused by any of the functionaries, it should be immediately brought to the attention of the Compliance Officer, so that, alternative steps can be initiated for the submission of the same in time.

7.5. Dis-obeyance of any of the instructions in submission of Compliance Reports, by any of the Compliance Executing Assistants is noticed, it shall be referred to the Compliance Officer, for initiating apposite disciplinary proceedings.

7.6. While discharging his function as the Compliance Coordinator, he can call for relevant informations from any of the Compliance Executing Assistants and he should ensure that strict confidentiality and secrecy is maintained, wherever it is warranted.

7.7 Accountability on Compliance Coordinator

The Compliance Coordinator will be held accountable for any of the lapses due to his failure to carry out the duties, referred above in para 7 and if the bank is put to any monetary loss, or loss of reputation, or loss of any other nature, due to his negligence, or dis-obeyance or deviations, apposite disciplinary proceedings will be taken against him, according to the disciplinary proceedings laid down by the BOARD and the Country Manager designate is the Disciplinary Authority to initiate the disciplinary proceedings, against the Compliance Coordinator and the BOARD shall be the Appellate Authority for the disciplinary proceedings.

8. Duties of the Compliance Executing Assistants

The functions of the branch has been divided into various departments vis-à-vis Trade Finance, Credit Department, Treasury, Back Office, Operations and General Administration. For the time being, the following are designated as the departmental heads respectively.

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|------------------------|--------------------------|
| General Administration | Deputy Manager |
| Treasury | Head of Treasury |
| Trade Finance | Vice President |
| Credit Department | Vice President |
| Back Office | Assistant Vice President |
| Operations | Junior Executive – III |

8.1 It is the primary duty of the Compliance Executing Assistants, to ensure that the day-to-day operations of the bank, are carried out as per the laid out rules and regulations, norms and directives, procedures and instructions. Wherever deviations from the laid out rules and regulations, norms and directives, procedures and instructions are pointed out by the Compliance Monitoring Authorities, they should take utmost care in rectifying the same and such rectification process, should be well within the prescribed time limit and a detailed rectification report, wherever warranted, should be submitted to the Compliance Coordinator, to enable him to submit the consolidated report to the Compliance Officer.

8.2 The Compliance Executing Assistants are provided with adequate subordinate officers/ junior level officers, to provide necessary assistance to the Compliance Executing Assistants, in discharging the normal functions of the bank and it is the duty of the respective Compliance Executive Assistants to educate, to train, to implement the laid out rules and regulations, norms and directives, procedures and instructions, in discharging the functions of the bank. Any sort of wilful deviations on the part of the junior officers/ subordinates, shall be brought to the notice of the Compliance Officer immediately, to initiate apposite disciplinary proceedings.

8.3 Accountability

If any of the Compliance Executing Assistants, deviates from the laid out rules and regulations, norms and directives, procedures and instructions, in discharging their duties, they will be held personally accountable for the monetary loss, loss of reputation or loss of any other nature to the bank. Country Manager is the competent Disciplinary Authority, to initiate apposite disciplinary proceedings, against those Compliance Executing Assistants, for their lapses.

9. General Guidelines

9.1 The compliance functions of Bank of Ceylon's branches operating in India are subject to the rules and regulations, norms and directives, procedures and instructions laid out in two countries and hence, it is necessary that the Compliance Officer should keep him abreast of the changes in the rules and regulations, norms and directives, procedures and instructions, laws in both the countries, issued from time to time. Changes in the rules and regulations, norms and directives, procedures and instructions, that are taking place in Sri Lanka, shall be advised to him, by the appropriate authorities at Head Office and failure to pass any information by Head Office, will absolve the responsibilities of the Compliance Officer, for the deviations if any, due to such changes. However, he should keep himself abreast of the rules and regulations, norms and directives, procedures and instructions applicable in India, as he has already been provided with the required advisory bodies and omission of any nature on his part, in this regard, shall not absolve him from his responsibilities.

9.2 Wherever, any of the rules and regulations, norms and directives, procedures and instructions in India are contradictory to that of Sri Lanka, the rules and regulations, norms and directives, procedures and instructions, prevailing in India alone, will supercede any other instructions, as for as the branches of Bank of Ceylon in India are concerned.

9.3 Wherever, the bank is put to monetary loss, loss of reputation, or loss of any other nature, due to the lapses on the part of any officials of the bank, such officials shall be held personally accountable for their lapses. However, if the Compliance Officer, who has been designated as the Disciplinary Authority, feels that such lapses and omissions have occurred, beyond the control of such officials and the discharge of the

functions have been taken after a reasonable care, without any malafide intention, he may, take a lenient view for such lapses, after recording the reasons for his decision.

9.4 In case, if any of the deviations of any officials of the bank would attract criminal proceedings and the law enforcing authorities are proceeding against any individual, upon any criminal offences, the bank would not interfere in any of the attempts, to save such offender, but, to cooperate with the law enforcing authorities.

9.5 In every action of all the officials connected with compliance, there should be transparency and fair play, wherever it is needed and there should be strict confidentiality and secrecy, wherever they are warranted.

10. Liaisoning and Communication

10.1 As for as liaisoning works with Compliance Enforcing Authorities, Compliance Monitoring Authorities and Compliance Advisory Authorities, liaisoning would be made only by the Compliance Officer and in exceptional cases, with the permission of the Compliance Officer, the Compliance Coordinator may have liaison with them. However, all the correspondences initiated to them, should invariably be signed by the Compliance Officer and Compliance Officer alone.

The above broad guidelines are issued to reiterate all the officials that, they should endeavour to discharge their functions diligently and subject to the compliance of the laid down rules and regulations, norms and directives, procedures and instructions. These guidelines are coming in force, with effect from 1st April 2006, subject to the post-facto approval by the competent authorities at Head Office.
