

How We Govern

Bank's approach to governance

Commercial Bank firmly believes in and values good corporate governance - the system of rules, practices and processes that guides corporate behaviour – which leads to a disciplined approach to making decisions and executing them with the interests of all stakeholders at heart. Its relevance to maintaining public trust and confidence in an institution that is entrusted with the fiduciary duty of accepting and deploying vast sums of uncollateralised public funds which has resulted in the Bank gaining domestic systemically important bank (D-SIB) stature, which cannot be overemphasised. It is in fact the bedrock of 100 years of existence and sustainable value creation of the Bank.

Good corporate governance is a necessary condition above and beyond the legal and regulatory requirements. It is the foundation for financial integrity, sustainable performance and investor confidence. It is a risk management tool and also enables the Bank to exploit opportunities. Accordingly, the Bank is committed to good corporate governance, conducting its affairs with the

utmost intellectual honesty, integrity and diligence, being mindful of its obligations to the society and the environment. A culture that resonates such values prevails across the Bank.

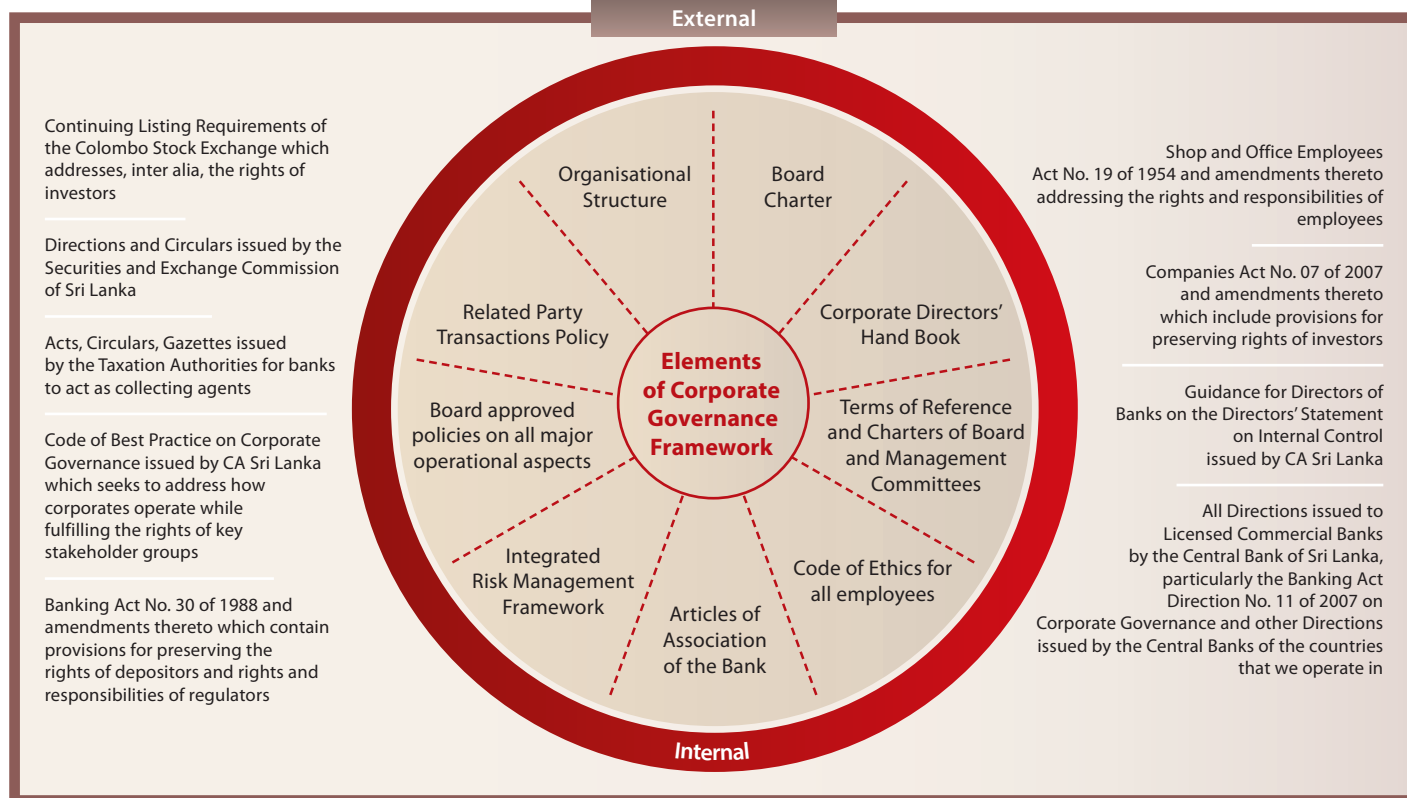
A time-tested corporate governance framework is in place in the Bank. It is being regularly reviewed and updated in line with the evolving regulations and best practice, to guide the Board, Board Committees, Management and staff in performing their stewardship roles. This framework is underpinned by governance principles of leadership, integrity, effectiveness, accountability, transparency, sustainability and shareholder engagement. These principles guide the Bank in all its decisions relating to Board oversight, delegation of authority, division of responsibilities, resource allocation, risk management, compliance, performance appraisal and compensation, related party transactions, and financial reporting. It is this commitment to good corporate governance that enabled the Bank to accomplish many an achievement.

The Bank's corporate governance system is structured to ensure the following;

- Roles and responsibilities are distributed among the Board, Management and Committees
- Establishing clear reporting lines and frequency of reporting
- Legitimate needs, interests and expectations of all the stakeholders are taken into consideration
- Upholding the highest degree of fairness, transparency and accountability
- Creating value sustainably for all stakeholders over the short, medium and long term
- Minimising negative externalities to the society and the environment
- Making the Bank more stable, resilient and future ready
- Living by the claims made and values associated with the Bank's brand reputation

Key regulatory requirements and voluntary codes relevant to the Bank and its Corporate Governance Framework are depicted in Figure 14 below:

Key regulatory requirements, voluntary codes, and Corporate Governance Framework elements Figure – 14



Annual Corporate Governance Report

The annual corporate governance report of the Bank included on pages 62 to 109 elaborates the structure, overarching principles and components of the Bank's corporate governance framework, as required to be published as per the Banking Act Direction No. 11 of 2007 on Corporate Governance (Direction). Messrs Ernst & Young, External Auditors of the Bank, following a review of the Bank's compliance in line with the Direction, have submitted their Assurance Statement thereon to the Central Bank of Sri Lanka (CBSL).

Extent of compliance in line with the Direction and the Code of Best Practice on Corporate Governance (Code) of CA Sri Lanka is given in Annex 2.1 on pages 306 to 316 and Annex 2.2 on pages 317 to 321, respectively. Further, the Bank has complied with all disclosure requirements under the prescribed format issued by the CBSL for publication of Annual Financial Statements and a comprehensive disclosure statement is given in Annex 2.3 on pages 322 to 326. As the Bank is fully compliant with all the applicable requirements of the Direction, the Colombo Stock Exchange (CSE) has exempted the Bank from disclosure of compliance with the regulations stipulated in Section 7.10 of the Continuing Listing Requirements on Corporate Governance.

The Bank has complied with all the applicable laws, rules, regulations, and codes with integrity to the letter as well as in the true spirit of good governance.



The Bank has in place the Board approved "Internal Rules applicable on the Bank share purchases/disposals by employees of the Bank" which govern the transactions on the Bank's shares by employees. In addition, the Code of Ethics issued to all the employees also include guidelines with regard to insider dealing in securities.

With a view to motivate employees to commit to long term value creation, improve overall performance and increase staff retention while raising equity funding, the Bank has structured many Employee Share Option Plans (ESOPs) since 1997. This entitles the eligible employees to buy a fixed number of shares at a price to be determined based

on pre-agreed formula over the vesting period. Bank has duly obtained approval of the shareholders for all these ESOPs at Extraordinary General Meetings (EGMs).

Governance structure

The Board, Board Committees, Management and Management Committees with well-defined roles and responsibilities, greater accountability and clear reporting lines form the bedrock of the governance structure of the Bank. The Board and Board Committees, assisted by consultants where necessary, are responsible for setting strategy, defining risk appetite and exercising oversight while Management and Management Committees are responsible for executing strategy and driving performance. Responsibility and accountability for conducting operations and assuming risk under the purview of the Management lies with the strategic business units and support functions.

An overview of the governance structure of the Bank is given in Figure 15 on page 75.

Board of Directors

The Board of Directors plays a pivotal role in demonstrating good corporate citizenship, ethical behaviour, transparency and accountability and in warding against all forms of corporate malfeasance. The Board of Directors, the highest decision-making authority with responsibility for the sustainability of the Bank, provides leadership by setting strategic direction, defining risk appetite and approving strategies. Under the due diligence and oversight of the Board, Corporate Management is responsible for the day-to-day operations and for implementing an effective system of internal control. Board and the Corporate Management have a clear mutual understanding of their respective roles, delegations and boundaries. Based on trust and respect, the Board and the Management work within a productive and harmonious relationship which is a pre-requisite for good corporate governance and organisational effectiveness.

At end of 2019, the Board comprised of eleven Directors who are all eminent professionals in their respective fields with the skills and expertise necessary to constructively challenge the Management and enrich deliberations on matters set before the Board. They understand and appreciate the dynamism and complexity of the Bank's operations, particularly in the

wake of emerging global developments threatening to challenge conventional business models. Nine of the Directors are Independent Non-Executive Directors (INEDs), ensuring more autonomy. Directors act in the best interest of the shareholders avoiding any conflicts of interest.

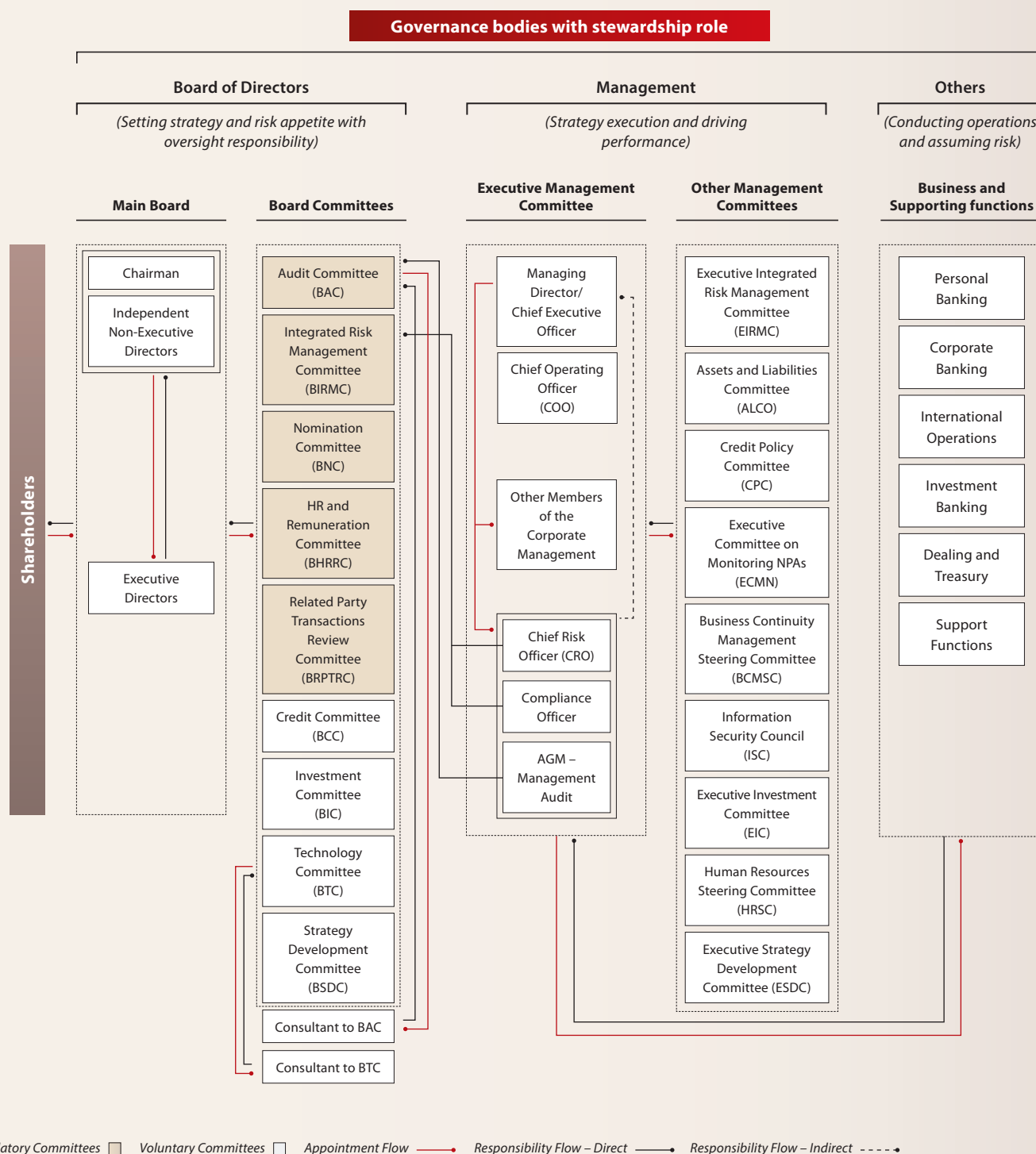
The Board of Directors comprises of members with expertise in accounting, banking and finance, economics, engineering, information technology and law. Having risen to the highest echelons of Government institutions or commercial organisations, they bring their independent judgement to bear on matters reserved for the Board. Bringing together banking, entrepreneurial, investor and regulatory perspectives, our Board is able to explore matters from diverse points of view to facilitate long-term value creation. The Company Secretary assists the Board in discharging its responsibilities.

Profiles of Board members including their qualifications, memberships in Board Committees and other significant appointments and the profile of the Company Secretary are given on pages 64 to 67.

Board process

The Board agrees on a schedule of meetings at the beginning of each year and meets at least once a month. Additional meetings are also convened if the circumstances so require. The Chairman is responsible for determining and preparation of the agenda for the meetings in consultation with the Managing Director/Chief Executive Officer and with the assistance of the Company Secretary. Board members too can request items to be included in the agenda for discussion. The agenda is circulated to the members of the Board by the Company Secretary together with the accompanying Board papers one week in advance of the meetings, allowing adequate time for Board members to study, call for additional information if required, and be prepared for productive deliberations. Directors regularly attend the meetings and actively participate in deliberations. Urgent Board papers are submitted at short notice or tabled at the meetings on an exceptional basis. Board members typically spend at least seven days a month on Board-related matters. Details of attendance at Board meetings are given in the Table 12 on page 76.

The diversity in the composition of the Board has enabled to bring unique perspectives

Governance structure Figure – 15

to the boardroom, enhancing dynamics and effectiveness while promoting healthy and constructive exchange of views, leaving no room for groupthink. Minutes of deliberations and decisions made at the meetings are maintained in sufficient detail. Members of the Corporate Management are invited for meetings on a need basis. Members of the Board are allowed to seek independent professional advice, if necessary, at the Bank's expense. The Bank has taken a Directors' and Officers' Liability Insurance Policy.

Conflicts of interest

Members of the Board avoid any conflict of interest by declaring such interest and withdrawing from taking part in deliberations on/exercising influence over matters where there is conflict of interest or the appearance of conflict of interest and these actions are appropriately minuted. Affiliations and transactions of Directors are regularly reviewed to ensure that there are no conflicts or relationships that might impair Directors' independence. Any banking facilities provided to the Directors, their close family members and entities in which the Directors hold directorships are as permitted by the rules and regulations of the CBSL and within the terms and conditions such facilities are provided to other customers of

the Bank. Such facilities, if any, are reviewed and recommended by the BCC and are submitted to the Board for approval. Once approved, details of such facilities are tabled at the immediately following meetings of the BRPTRC for information. Directors at the time of joining and annually declare their interests and necessary procedures are in place to ensure that there are no conflicts of interest that will compromise independence of the members. The Bank maintains a register of such interests declared which is available for inspection by shareholders or their authorised representatives as required by Section 119 (1) (d) of the Companies Act No. 07 of 2007 and amendments thereto.

Board meetings

During 2019, the Board held fourteen scheduled meetings of which one meeting was devoted exclusively to deliberations on strategy with all members of Corporate Management being present. Twelve meetings were devoted to matters including large and material transactions, review of performance, review of policy frameworks, strategy and risk. Another meeting was held for reviewing the composition of the Board committees subsequent to election/re-election of Directors at the AGM. Meetings provided an effective forum for discharging the oversight responsibility of the Board.

Board continued to play an active role in strategy formulation, providing directions to the Management for the preparation of the Bank's five-year strategic plan. The plan was then reviewed and approved at a meeting specifically convened for the purpose. Board explored and evaluated alternative strategies prior to approval and allocation of resources for execution of same. Board continued to give prominence to the capital management strategy in the wake of the ever-increasing capital requirements of banks and to support growth. One of the regular agenda items at the monthly Board meetings is to review performance against the strategic plans with sufficient attention and time being devoted to reviewing progress made and identifying areas of concern requiring further attention of the Board. The views of Directors on issues under consideration are ascertained and a record of such deliberations reflected in minutes. Further, Board paid heightened attention to credit quality and resolving distressed credit facilities. Proceedings of the Board Committees were regularly reported to the Board and any concerns identified in relation to specialised areas too were referred to them for their oversight.

Composition of the Board during and at the end of the year and attendance of members at Board meetings during the year are given below:

Composition of the Board and attendance Table – 12

Name of Director	Age (Years)	Membership		Meeting attendance		
		Status		DOA	Eligible to attend	Attended
Mr K G D D Dheerasinghe (Chairman)	67	NED	ID	20.12.2011	14	14
Mr M P Jayawardena (Deputy Chairman)	67	NED	ID	28.12.2011	14	14
Mr S Renganathan (Managing Director/CEO)	57	ED	NID	17.07.2014	14	14
Mr S Swarnajothi	69	NED	ID	20.08.2012	14	14
Prof A K W Jayawardane	59	NED	ID	21.04.2015	14	14
Mr K Dharmasiri	66	NED	ID	21.07.2015	14	14
Mr L D Niyangoda	63	NED	ID	26.08.2016	14	14
Ms N T M S Cooray	61	NED	ID	19.09.2016	14	14
Mr T L B Hurulle	67	NED	ID	05.04.2017	14	13
Justice K Sripavan	67	NED	ID	26.04.2017	14	13
Mr S C U Manatunge	49	ED	NID	27.07.2018	14	13
Mr G S Jadeja*	60	NED	NID	19.09.2016	04	04

* Resigned with effect from April 1, 2019

Status

ED – Executive Director, NED – Non-Executive Director, ID – Independent Director, NID – Non-Independent Director, DOA – Date of Appointment

Composition (as at 31.12.2019)	No.
Executive Directors	2
Non-Executive Directors	9
Independent Directors	9
Non-Independent Directors	2
Male	10
Female	1
Age – below 50 years	1
Age – above 50 years	10

Board Committees

Nine Board Committees have been appointed with delegated authority to strengthen governance and to deal with/decide on certain subject-specific and specialised matters. The Board, however, retains responsibility for Committee decisions. Four out of five mandatory Committees were formed as required by the Direction, while the Board Related Party Transactions Review Committee was formed as required by the provisions of the Securities and Exchange Commission of Sri Lanka (SEC). The other four voluntary Board Committees have been established considering the business, governance and risk management needs of the Bank as permitted by the Bank's Articles of Association. Constituted with Board-approved terms of reference, these Committees hold regular meetings and report proceedings to the Board for information/approval.

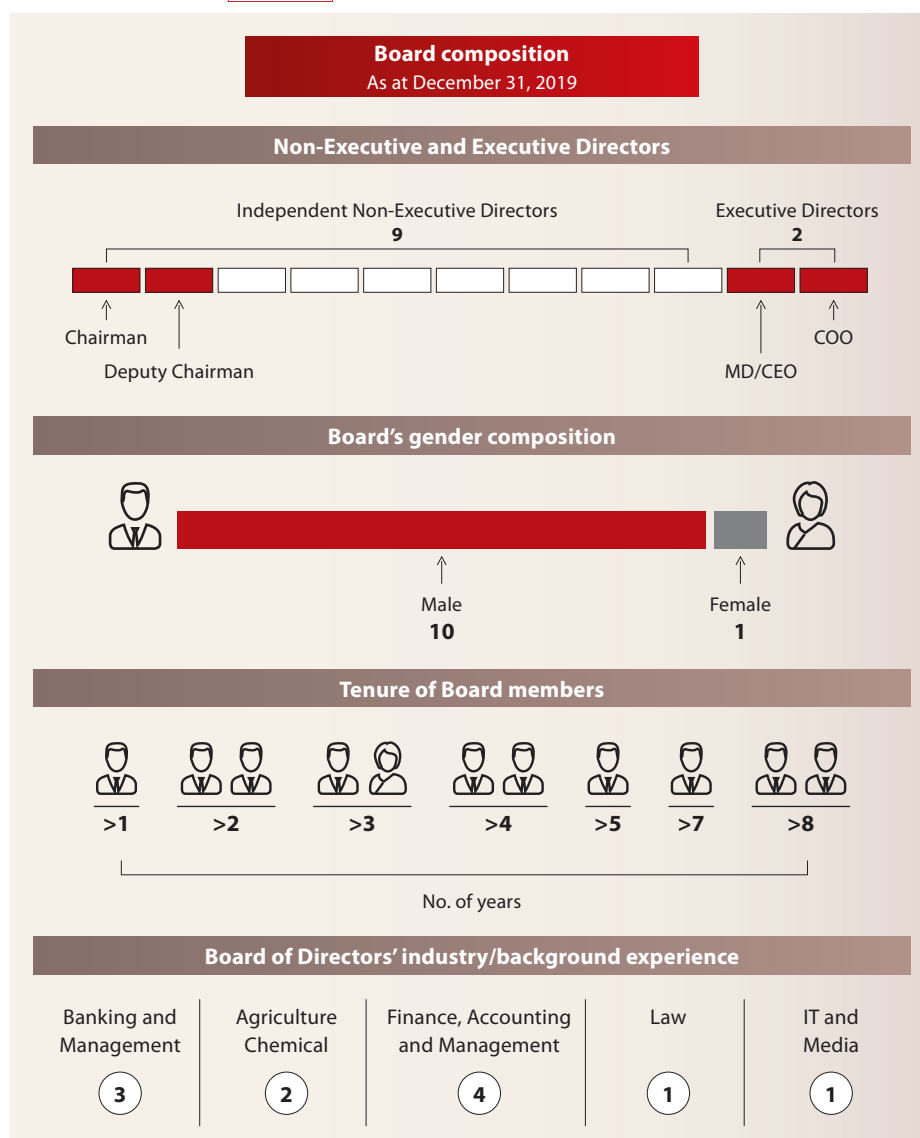
During the year, Board Committees sought guidance and advice of external consultants on several occasions. Each of the Directors serves in a minimum of two Committees.

The composition, areas of oversight responsibility, and activities in 2019 and attendance of members at the Board Committee meetings are given in the respective Board Committee reports on pages 83 to 96.

Executive Management Committee

All members of the Corporate Management including the Managing Director/Chief Executive Officer and the Chief Operating Officer who are the two EDs are members of the Executive Management Committee (EMC). Qualifications and experience of the EMC members are given in the section on Corporate Management and Profiles on pages 68 to 69. The primary responsibility of the EMC is to implement the strategy as approved by the Board under the leadership of the Managing Director/Chief Executive Officer and deliver on the performance objectives while ensuring that the risks undertaken by the Bank are within the risk profile approved by the Board. The EMC lays down policies, makes operational decisions, monitors and manages financial performance, allocates capital, manages risk and solves operational and customer issues. It also reviews and deliberates on information to be submitted to the Board ensuring that all material information is shared with the Board in a timely manner to effectively fulfil their obligations as Directors.

Board composition Figure – 16



The meetings of the EMC provide an opportunity for all members of the Executive Management to gain a 360° view of the Bank's operations.

Names of the members of the Senior Management of the Bank's operations in Sri Lanka, Bangladesh, the Maldives and Myanmar are given on pages 70 to 72.

Other Management Committees

In addition to the Board Committees and the EMC, several other Management Committees have been constituted under delegated authority from the Managing Director/Chief Executive Officer on specific subjects to facilitate decision-making in relation to the execution of the Board-approved strategies. During 2019, the Bank formed the Executive

Strategy Development Committee to monitor and oversee the overall strategy of the Bank to ensure that business strategies are in line with vision and mission of the Bank.

Based on approved terms of reference, these Management Committees operate under a structure and process similar to the Board Committees. Secretaries of each of the Committees record minutes of the proceedings in sufficient detail which are submitted to the Managing Director/Chief Executive Officer for approval. These Committees undertake extensive deliberations, co-operate across departments and debate on matters considered critical for the Bank's operations as described in the Figure 17 given on page 78.

Other management committees Figure – 17

Executive Integrated Risk Management Committee (EIRMC) <p>Purpose and tasks Monitors and reviews all risk exposures and risk-related policies and procedures affecting credit, market and operational areas in line with the directives from the BIRMC.</p> <p>Composition Managing Director/Chief Executive Officer, Chief Operating Officer and key members of Integrated Risk Management, Personal Banking, Corporate Banking, Treasury, Inspection, Compliance, and Finance Divisions.</p>	Assets and Liabilities Committee (ALCO) <p>Purpose and tasks Optimises the Bank's economic goals whilst maintaining liquidity and market risk within the Bank's predetermined risk appetite.</p> <p>Composition Managing Director/Chief Executive Officer, Chief Operating Officer and key members of Treasury, Corporate Banking, Personal Banking, Integrated Risk Management, and Finance Divisions.</p>	Credit Policy Committee (CPC) <p>Purpose and tasks Reviews and approves credit policies and procedures pertaining to the effective management of all credit portfolios within the lending strategy of the Bank.</p> <p>Composition Managing Director/Chief Executive Officer, Chief Operating Officer and key members of Corporate Banking, Personal Banking, Integrated Risk Management, Inspection, Credit Supervision and Recoveries, and Branch Credit Monitoring Divisions.</p>
Executive Committee on Monitoring NPAs (ECMN) <p>Purpose and tasks Reviews and monitors the Bank's Non-Performing Advances (NPAs) above a predetermined threshold to initiate timely corrective actions to prevent/reduce credit losses to the Bank.</p> <p>Composition Managing Director/Chief Executive Officer, Chief Operating Officer and key members of the Corporate Banking, Personal Banking, Credit Supervision and Recoveries, and Integrated Risk Management Divisions.</p>	Business Continuity Management Steering Committee (BCMSC) <p>Purpose and tasks Directs, guides, and oversees the activities of the Business Continuity Plan of the Bank in accordance with the Bank's strategy.</p> <p>Composition Key members of the Bank's Corporate Management covering all business lines.</p>	Information Security Council (ISC) <p>Purpose and tasks Focuses continuously on meeting the information security objectives and requirements of the Bank in line with emerging technology and Bank Strategy.</p> <p>Composition Key members of Integrated Risk Management, Information Systems Audit, Operations, and IT Divisions.</p>
Executive Investment Committee (EIC) <p>Purpose and tasks Oversees investment activities by providing guidance to the management on significant investment decisions and reviews performance.</p> <p>Composition Managing Director/Chief Executive Officer, Chief Operating Officer and key members of Investment Banking, Treasury, and Finance Divisions.</p>	Human Resources Steering Committee (HRSC) <p>Purpose and tasks Setting guidelines and policies on any matter that may affect the Human Resource Management of the Bank and make recommendations on policy matter to the BHRRC and/or address any issues that may need to be reviewed at Board level.</p> <p>Composition Managing Director/Chief Executive Officer, Chief Operating Officer, and key members of Human Resource Management, Personal Banking, Corporate Banking and Finance Divisions.</p>	Executive Strategy Development Committee (ESDC) <p>Purpose and tasks Based on overall insights provided by the BSDC, formulates strategies geared for the sustainable development of the Bank. Monitors the implementation of the approved strategic plan and the progress made against strategic milestones and goals.</p> <p>Composition Managing Director/Chief Executive Officer, Chief Operating Officer and key members of Human Resource Management, Marketing, Personal Banking, Corporate Banking, Treasury, Finance and Planning Divisions.</p>

Roles, responsibilities and powers of the Board

The role of the Board of Directors and their responsibilities are set out in the Board Charter which includes a schedule of powers reserved for the Board as detailed below:

Role of the Board

- To represent and serve interests of shareholders by overseeing and appraising the Bank's strategies, policies and performance
- To provide leadership and guidance to the Management for the execution of strategies
- To optimise performance and build sustainable value for shareholders in accordance with the regulatory framework and internal policies
- To establish an appropriate governance framework
- To ensure regulators are apprised of the Bank's performance and any major developments

Key responsibilities

- Selecting, appointing, and evaluating the performance of the Managing Director/ Chief Executive Officer

- Setting strategic direction and monitoring its effective implementation
- Establishing systems of risk management, internal control, and compliance
- Ensuring the integrity of the financial reporting process
- Developing a suitable corporate governance structure, policies and framework
- Strengthening the safety and soundness of the Bank
- Appointing and overseeing the External Auditors' Responsibilities
- Approving Interim and Annual Financial Statements for publication

Powers reserved for the Board

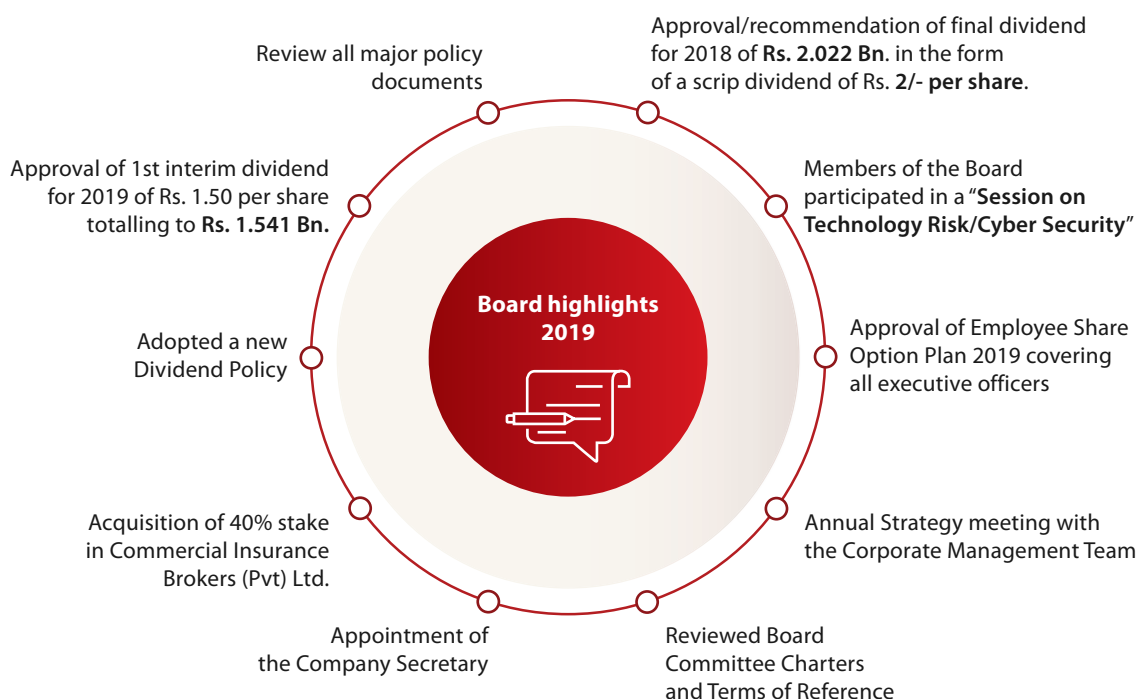
- Approving major capital expenditure, acquisitions and divestitures and monitoring capital management
- Appointing the Board Secretary in accordance with Section 43 of the Banking Act No. 30 of 1988
- Seeking professional advice in appropriate circumstances at the Bank's expense
- Reviewing, amending and approving governance structures and policies

Board's role in risk management

Being the highest decision making authority of the Bank, the Board is responsible for implementing an effective risk management function in the Bank. In this regard, the Board with the support of the BIRMC has devised an effective risk management framework, which set the risk appetite and tolerance limits and enabling monitoring the risk profile on a regular basis, through risk reports submitted to it. Risk management was one of the key and regular agenda items of all Board and Committee deliberations. Clarifications were sought from the Management for any deviations from the agreed risk profile and necessary guidance was given for taking mitigatory action. Risks related to the business strategies were carefully reviewed at the special Board meeting held to deliberate on the strategic plan [refer Risk Governance and Management on pages 110 to 128 for further details].

A synopsis of the important matters deliberated and decided upon by the Board during the year 2019 is given below:

Board highlights 2019 Figure – 18



Segregation of roles of Chairman and Chief Executive Officer

Adhering to the best practice in Corporate Governance, the positions of Chairman and Chief Executive Officer are separated, facilitating balance of power and authority. The Chairman is a Non-Executive Independent Director while the Chief Executive Officer is an Executive Director appointed by the Board. Their respective roles are clearly set out in an approved Board paper and in the Board Charter of the Bank.

Accordingly, as set out in the said Board paper and the Board Charter, clear and effective separation of accountability and responsibility has made the role of the Chairman distinctive. The Chairman promotes good corporate governance and the highest standards of integrity and probity throughout the Group by providing leadership to the Board, preserving order and facilitating the effective discharge of its duties. The Chairman ensures that the Board receives all information necessary for making informed decisions by the Board in discharging its responsibilities. He also ensures the effective participation of all Directors in Board deliberations and maintains open lines of communication with members of Corporate Management, acting as a sound Board on strategic and operational matters.

As set out in the Board Charter, the role of the Chief Executive Officer is to conduct the management functions as directed by the Board. Corporate objectives for the Chief Executive Officer and boundaries of his authority are set by the Board while his duties and responsibilities are jointly developed.

The Chief Executive Officer leads the Management team in the day-to-day operations and implements strategies, plans, and budgets approved by the Board. The Chief Executive Officer conducts the affairs of the Group upholding good corporate governance and the highest standards of integrity and probity as established by the Board.

The Chairman and the Managing Director/ Chief Executive Officer regularly meet to set the Board agenda, to deliberate on current and future developments and any material issues impacting the Bank.

Role of Independent Non-Executive Directors

The Bank has a strong element of independence on the Board, with nine of the eleven Directors as at December 31, 2019 being independent NEDs. Directorships constitute the only connection of the independent Directors with the Bank and with other Companies in the Group and therefore their judgement is unlikely to be influenced by external considerations. The presence of independent NEDs is expected to complement the skills and experience of the other members of the Board by conveying an objective and independent view on matters, challenging the Board and the Management constructively using their expertise and assisting in providing guidance on strategy.

Role of the Company Secretary

The Company Secretary plays a vital role in facilitating good Corporate Governance and his primary responsibilities are summarised below:

- Assisting the Chairman for conducting the Board Meetings, AGMs and EGMs in accordance with the Articles of Association, the Board Charter of the Bank, and relevant legislation;
- Maintaining statutory registers;
- Communicating promptly with the regulators;
- Maintaining cordial relationships with share and debenture holders;
- Filing statutory returns in time;
- Facilitating best practice of Corporate Governance including assisting the Directors with respect to their duties and responsibilities;
- Facilitating access to legal and independent professional advice in consultation with the Board, where necessary;
- Keeping the electronic support system and the Induction Pack for Directors up to date;
- Monitoring that all Board Committees are properly constituted and are having clearly defined Terms of Reference.

The appointment and removal of the Company Secretary is a matter for the Board as a whole.

Appointments/retirements and resignations of Directors

The Bank has in place a formal and transparent procedure formulated by the BNC for nomination of candidates for appointment as Directors. The resume of potential candidates are carefully evaluated by the BNC before making its recommendation to the Board for their consideration as Non-Executive Directors. Such nominations may include an interview with the candidate. The appointment of new Directors is based on an annual assessment of the combined knowledge, experience and diversity of the Board in relation to the Bank's strategic plans in order to identify added perspectives to ensure its effectiveness at all times.

A similar process is followed when appointing Executive Directors except that candidates are selected from amongst the members of the Corporate Management of the Bank.

As required by the Listing Rules, appointments of new Directors to the Board are promptly communicated to the CSE through announcements subsequent to obtaining approval from the CBSL for their Fitness and Propriety. The announcements typically include a brief resume of new Directors, relevant expertise, key appointments, shareholdings and status of independence.

There was no change in the composition of the Board of Directors during the year 2019, except the resignation of Mr G S Jadeja, with effect from April 1, 2019.

Re-election of Directors

In terms of the Articles of Association of the Bank, the two longest serving NEDs are required to offer themselves for re-election at each Annual General Meeting (AGM) in rotation with the period of service being considered from the last date of re-election or appointment. If there are more than two Directors who qualify for re-election, the Directors may decide amongst themselves after considering the contents of the affidavits and declarations submitted by them and all other relevant issues or draw lots to determine the Directors who will offer themselves for re-election. Accordingly, Mr M P Jayawardena and Mr L D Niyangoda, the two longest serving Directors since last re-election will be seeking re-election at the

forthcoming AGM to be held on March 30, 2020. If a Director has been appointed as a result of a casual vacancy that has arisen since the previous AGM, that Director will offer himself/herself for election at the immediately succeeding AGM. No appointments were made to the Board subsequent to the AGM held in March 2019.

Induction and training of Directors

On appointment, Directors are provided with an induction pack which comprises the Articles of Association, Banking Act Directions, Corporate Directors' Handbook published by the Sri Lanka Institute of Directors, Code of Best Practice on Corporate Governance issued by CA Sri Lanka, the Bank's organisational structure, Board Charter and the most recent Annual Report of the Bank and the access to the electronic support system which has archived minutes of meetings for the past six years. All Directors are encouraged to obtain membership of the Sri Lanka Institute of Directors which conducts useful programmes to support Directors. It is mandatory for the Directors to attend Director Forums organised by the CBSL. Members of the Corporate Management and external experts make regular presentations with regard to the business environment in relation to the operations of the Bank which enables newly appointed directors to get familiarised on banking operations.

Remuneration and Benefits Policy

The Remuneration and Benefits Policy seeks to provide a distinctive value proposition to current and prospective employees that attracts and retains people with capabilities and values in line with the business needs of the Bank. It also provides a framework for the employer to design, administer, and evaluate effective reward programmes, inspiring and motivating desired behaviours.



Directors' and Executive remuneration

The BHRRC which comprises entirely of NEDs who also meet the criteria for independence as set out in the relevant regulations on corporate governance, is responsible for making recommendations to the Board regarding the remuneration of the Directors and executives.

They consult the Chairman and the Chief Executive Officer regarding the same and also seek professional advice whenever it is deemed necessary. Remuneration for EDs is set out with reference to the Remuneration and Benefit Policy while the remuneration for NEDs is set by the Board as a whole. These processes ensure that no individual Director is involved in determining his or her own remuneration. The Board and the BHRRC engage the services of HR professionals on a regular basis to assist in the discharge of their duties in this regard.

The level and make up of remuneration

It is the responsibility of the BHRRC to ensure that the remuneration of both EDs and NEDs is sufficient to attract eminent professionals to the Board and retain them for driving the performance of the Bank. The Bank has remuneration policies that are attractive, motivating and capable of retaining high performing, qualified and experienced employees at the Bank.

The total remuneration of EDs and other members of the Corporate Management includes three components – guaranteed remuneration (the fixed component), annual performance bonus (a variable component) and the ESOP (a variable component). Special emphasis is paid to make the basis of granting ESOPs and their features transparent prior to seeking approval from the shareholders. The EDs, being employees of the Bank, are also eligible for these ESOPs. The BHRRC structures the remuneration packages and benchmarks it with the market on a regular basis with the assistance of professionals to ensure that total remuneration levels remain competitive in order to attract and retain key talent whilst balancing the interests of the shareholders. The Bank's two employee associations – the Association of Commercial Bank Executives and the Ceylon Bank Employees' Union (CBEU) with whom a regular dialogue is maintained – are also consulted when necessary.

Guaranteed remuneration comprises the monthly salary and allowances determined with due reference to the qualifications, experience, levels of competencies, skills, roles and responsibilities of each employee which are reviewed annually and adjusted for such factors as promotions, performance and inflation. The annual performance bonus is determined based on the degree of achievement of a multi-layered performance criteria matrix which is clearly communicated to the employees in relevant categories at the beginning of each year. Details of the ESOPs and the eligibility criteria are given in Note 54 to the Financial Statements on "Share-based Payment" on pages 237 to 239 respectively.

Employment contracts do not contain any commitments for compensation or early terminations. There were no instances of early termination during the year that required compensation.

Board and Board Committee evaluations

As set out in the Direction, Code and the other applicable regulations, the Board and Board Committees annually appraise their own performance to ensure that they are discharging their responsibilities satisfactorily in accordance with the Board Charter. This process requires each Director to fill a Board Performance Evaluation Form which incorporates all criteria specified in the Board Performance Evaluation Checklist of the Governance Code. The responses are collated by the Company Secretary and submitted to the BNC for consideration and are subsequently discussed at a Board meeting. Board evaluations for 2018 and 2019 were taken up at the January 2019 and February 2020 Board meetings, respectively.

Appraisal of the Chief Executive Officer

The Board with the assistance of the BHRRC assesses the performance of the Chief Executive Officer annually, based on criteria agreed with the Chief Executive Officer at the beginning of each year which consist of short, medium and long-term objectives with financial and non-financial targets, while taking into account the changes in operating environment. The Chairman discusses the evaluation with the Chief Executive Officer and provides him with formal feedback. Chief Executive Officer's responses to the appraisal are given due consideration prior to same being approved. This exercise is finalised within three months from the financial year end.

Shareholder engagement and voting

The Bank actively engages with shareholders and potential investors as a part and parcel of good corporate governance and has put in place a structured process to facilitate same. Provision of meaningful information to the shareholders on a timely basis plays an important role in this regard. Accordingly, a Board approved Shareholder Communication Policy is in place to ensure that there is effective and timely communication of material matters to shareholders. The Bank maintains a number of communication channels with the shareholders which includes the Annual Report, AGMs and EGMs, Interim Financial Statements, Announcements to the CSE, press releases, Bank's website, shareholder surveys as well as the Investor Feedback form in the Annual Report. During the year shareholders were notified of quarterly results, dividend declarations, resignation of a Director, retirement of the Company Secretary and the appointment of a new Company Secretary through announcements made to the CSE and in the media, where applicable. The Bank's website also has an area dedicated to investors which includes Interim Financial Statements and Annual Reports with the most recent Report being offered in both a PDF format as well as an interactive format, giving a choice of mediums to the reader. The Interactive Report also has a tab for investor feedback. The Board is fully committed to treat all shareholders equitably, recognise, protect, and facilitate the exercise of their rights through open communication.

The Bank always encourages shareholders to participate at the AGMs and EGMs and exercise their votes. In this regard, the Bank arranges to circulate clear instructions on procedures governing voting along with every notice of AGM/EGM. Shareholders play a key role in the re-election of Directors and the External Auditor and vote on all matters for which Notice is given including the adoption of the Annual Report and Accounts. A total of 242 Voting and 130 Non-voting shareholders attended the Fiftieth AGM held on March 28, 2019 while a further 104 Voting shareholders and 15 Non-voting shareholders exercised their right to vote through proxy.

A summary of the details of attendance of the shareholders at AGMs during the past five years is given in the Table below:

Attendance at AGMs Table – 13

AGM of the year	Voting shareholders (including proxies)			Non-voting shareholders (including proxies)		
	Number of attendees	Shareholding	% of total shareholding	Number of attendees	Shareholding	% of total shareholding
2019	346	703,703,954	73.21	145	12,048,304	18.18
2018	317	713,801,082	75.52	119	14,344,030	22.06
2017	387	688,571,770	81.41	126	5,694,130	9.80
2016	653	694,342,969	83.40	131	3,430,841	6.00
2015	348	634,680,194	77.49	127	4,334,271	7.70