

Composition of the Remuneration and Human Resources Committee of the Board

The Board appointed Remuneration and Human Resources Committee comprised of a minimum of five Board members as set out below and the Chief Executive Officer (CEO) has been present at meetings by invitation of the Committee except when matters relating to the CEO were discussed.

Chairman Mr Hemaka Amarasuriya was the Chairman of the Committee until his retirement on 30 November 2013
Mr Sunil G Wijesinha is the current Chairman of the Committee

Members Mr Ashok Pathirage, Mr Sujeewa Rajapakse, Mrs Kimarli Fernando, Mr Anura Siriwardena, Mr Trevine Jayasekara and Mrs Indrani Sugathadasa

Brief profiles of each member are given on pages 79 and 81.

Charter of the Board Remuneration and Human Resources Committee

The Committee carries out the following duties and responsibilities:

- The Committee determines and periodically reviews the Remuneration Polity (salaries, allowances and other financial payments and perquisites) relating to executive and/or Non-Executive Directors, the CEO and Key Management Personnel (KMPs) of the Bank.
- The Committee recommends to the Board the apportionment of the remuneration perquisites and benefits of the Non-Executive Directors including the Chairman out of total sum determined for the purpose by the shareholders in terms of the Bank's articles.
- The Committee recommends to the Board the remuneration payable to the Executive Director(s) and CEO of the Bank in terms of the Remuneration Policy/the Bank's Articles.
- The Committee reviews and recommends to the Board in consultation with the Nomination Committee, personnel considered fit and proper for appointment to KMP positions of the Bank.
- The Committee sets and reviews goals and targets for the Directors, CEO and KMPs, and evaluates the performance of the CEO and KMPs against the goals and targets set, and determines their periodic revision.
- The Committee considers the succession plans and proposals recommended by the Senior Management of the Bank for all existing KMP positions of the Bank and makes necessary recommendations for the approval of the Board.
- The Committee discusses and analyzes with the Management the overall remuneration expenditure on all staff and their distribution among different categories and obtains information on the remuneration and benefits paid/given to consultants engaged by the Bank.

- The Committee receives information on the role and activities of the Human Resources Department and makes recommendations for the strengthening of the role of the said department if necessary.
- The Committee reviews the recommendations made by the Senior Management on appropriate incentives/awards to achieve objectives such as rewarding performance and retaining KMPs of the Bank.
- The Committee reviews and recommends to the Board in the event termination payments are proposed to be paid to Directors, the CEO and/or KMPs and ensures that such payments are in terms of the remuneration policy of the Bank and are approved in accordance with applicable statutes, rules and regulations.

Board Remuneration and Human Resources Committee Guiding Principles

The Overall focus of the Committee:

- Setting guidelines and policies to formulate compensation packages, which are attractive, motivating and capable of retaining qualified and experienced employees in the Bank. In this regard, the Committee sets the criteria such as qualifications, experience, skills and competencies required which are to be considered for appointment or promotion to the post of CEO and to Key Management Positions.
- Setting guidelines and policies to ensure that the Bank upholds and adheres to the provisions of the Laws of the Land, particularly those provisions of the Banking Act No. 30 of 1988, including the Directions issued by the Monetary Board/Director of Bank Supervision in accordance of the provisions of such Act.
- Providing guidance and policy direction for relevant matters connected to general areas of Human Resources Management of the Bank.
- Ensuring that the performance related element of remuneration is designed and tailored to align employee interests with those of the Bank and its main stakeholders which ensure sustainable growth.
- Structuring remuneration packages of KMPs to ensure that a significant portion of the remuneration is linked to performance which builds a pay for performance culture.
- Promoting a culture of regular performance reviews to enable staff to obtain feedback from their superiors in furtherance of achieving their objectives and development goals.
- To develop a robust pipeline of rising talent capable and available to fill key positions in the Bank.

Board Remuneration and Human Resources Committee Meetings

The Committee held four meetings during the year under review. The attendance of Committee members at meetings is stated in the table on page 90. The quorum for a meeting is three (3) members.

The Committee may invite such officers, directors, employees of the Bank or professionals from outside, from time to time, if the need arises, to attend meetings of the Committee and/or to assist the Committee in its deliberations.

The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

Methodology used by the Board Remuneration and Human Resources Committee

The Committee recognized rewards as one of the key drivers influencing employee behaviour, thereby impacting business results. Therefore, the reward programmes are designed to attract, retain and to motivate employees to deliver results by linking performance to demonstrable performance based criteria. In this regard, the Committee evaluates the performance of the CEO and KMPs against the pre-agreed targets and goals that balance short and long-term financial and strategic objectives.

The Bank's variable (bonus) pay plan is determined according to the overall achievements of the Bank and pre-agreed individual targets, which are based on various performance parameters. The level of variable pay is set to ensure that individual rewards reflect the overall performance of the Bank, the particular business unit and individual performance. The Committee makes appropriate adjustments to the bonus pool in the event of over or under achievement against predetermined targets. In this regard, the Committee can seek external independent professional advice on matters falling within its purview.

The Committee has as a practice ensured that the Bank organises and takes part in compensation surveys every two years and has utilized such feedback to ascertain that compensation practices are benchmarked to the 'best practices' and are relevant and current as far as possible. Moreover, the Committee also ascertains the engagement levels of staff through Staff Engagement Surveys.

For the Committee broadening the leadership base in the Bank is a strategic priority. Development areas were focused, having followed up from the '360-degree Evaluation' done previously for the leadership team of the Bank. This intervention was to ensure the Bank's leadership is adequately developed to face current and future challenges and to build a broader leadership capacity and a deeper pipeline of leaders. The Bank is also focusing on a competency-based approach to leadership to make better-informed decisions in hiring, developing and promoting leaders.

Further, the Committee reviewed the succession plans and the talent management process in respect of the senior management of the Bank. Succession planning within the Bank also incorporates diagnostic tools and methods for assessing the developmental readiness of employees for particular experiences and roles.

The Committee also advised the management to identify a set of customer service competencies and train the front line staff, based on those competencies. Among the other activities of the Committee during this period, the Committee:

- (a) reviewed the existing Equity Linked Compensation Plan scheme;
- (b) reviewed the Human Resource Strategy to ensure the Human Resource Organisation is positioned to create value and deliver strategically relevant business capabilities;
- (c) advised to review options to identify and implement a new Human Resource Information System to support the Bank's strategy;
- (d) reviewed a Performance Development System;
- (e) reviewed and recommended a Remuneration Policy for Directors and KMPs.



Sunil G Wijesinha

Chairman - Board Remuneration and Human Resources Committee

13 February 2014