

BOARD COMMITTEE REPORTS

Board Human Resources and Remuneration Committee Report

Composition of the Human Resources and Remuneration Committee

The Board appointed Human Resources and Remuneration Committee comprised of four (4) Non-Executive Directors as members and the Chairperson of the Committee is an Independent Director as set out below. The Chief Executive Officer (CEO) has been present at meetings subsequent to being invited by the Committee, other than in instances where matters relating to the CEO have been discussed.

As at 31 December 2015, the Committee comprised of the following:

| Name of the Board Sub Committee Member | Directorship Status | Membership Status |
|--|---------------------|-------------------|
| Mrs. W A I Sugathadasa | Independent | C |
| A K Pathirage | Non-Independent | M |
| T L F Jayasekera | Independent | M |
| Mrs. K Fernando | Independent | M |
| R Theagarajah | Non-Independent | I |

C – Chairman, M – Member, I – by invitation

Charter of the Human Resources and Remuneration Committee

The Human Resources and Remuneration Committee was formed in compliance with Section 3 (6) of Direction No. 11 of 2007, on the subject 'Corporate Governance for Licensed Commercial Banks in Sri Lanka', issued by the Monetary Board of the Central Bank of Sri Lanka under the powers vested in the Monetary Board, in terms of the Banking Act No. 30 of 1988. The composition and the scope of work of the Committee are in conformity with the provisions of the said Direction.

The Charter of the Human Resources & Remuneration Committee was approved by the Board of Directors and

is reviewed annually. As part of the annual review process, the Committee reviewed the charter in March 2015 and there were no material changes made.

As per the Charter, the scope of work includes the following:

- Determining and periodically reviewing the Remuneration Policy (salaries, allowances and other financial payments and perquisites) and remuneration payable relating to executive and/or Non-Executive Directors, the CEO and Key Management Personnel (KMP/s) of the Bank in terms of the Remuneration Policy/ Bank's Articles etc.
- Recommending to the Board the apportionment of the remuneration perquisites and benefits of the Non-Executive Directors, including the Chairman out of the total sum determined for the purpose by the shareholders in terms of the Bank's Articles.
- Reviewing and recommending to the Board in consultation with the Nominations Committee, personnel considered fit and proper for appointment to KMP positions of the Bank.
- Responsibility of setting and reviewing goals and targets for Directors, CEO and KMPs and determining their periodic revision.
- Evaluating the performance of the CEO and KMPs against the set goals and targets periodically and determining the basis for revising remuneration, benefits and other payments of performance based incentives.
- Considering the succession plans and proposals recommended by the Senior Management of the Bank for all existing KMP positions of the Bank and making necessary recommendations for the approval of the Board.
- Discussing and assessing with the Management, the overall remuneration expenditure on all staff and their distribution among different categories and obtaining information on the remuneration and benefits paid/given to consultants engaged by the Bank.
- Receiving information on the role and activities of the Human Resources Department and making recommendations for the strengthening of the role of the said department if necessary.
- Reviewing the recommendations made by the Senior Management on appropriate incentives/awards to achieve objectives such as rewarding performance and retaining KMPs, including the review/recommendation of share option schemes for employees of the Bank.
- Reviewing and recommending to the Board, any termination payments that are proposed to be paid to Directors, the CEO and/or KMPs in the event the same are deemed necessary and ensuring that such payments are in terms of the remuneration policy of the Bank and are approved in accordance with applicable statutes, rules and regulations.

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 KMPs.

- 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.

Committee Meetings

The Committee held four (4) meetings during the year under review. The attendance of committee members at meetings is stated in the table on page 135. The quorum for a meeting is three (3) members.

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

Methodology used by the Committee

The Committee acknowledged rewards as one of the essential components in influencing employee behaviour, thus 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 organizes 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 will be focused going forward with fresh talent which complements the Senior Management Team being brought from the external market. 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.

Summary of Activities

During the preceding year the Committee carried out the following:

- i. Comprehensively reviewed the performance of the KMPs of the Bank for the year 2014, against the set goals and targets and recommended to the Board of Directors of the Bank the increments, bonuses and promotions for the staff members including the KMPs in 2015.
- ii. Reviewed and recommended the restructuring of the designations of the employees of the Bank.
- iii. Critically reviewed the Organization Chart of the Bank and identified gaps and improvements.
- iv. Recommended remuneration and other benefits for newly appointed KMPs in 2015.
- v. Reviewed contractual details and terms of KMPs of the Bank.
- vi. Reviewed the benefits available to the staff and recommended changes.
- vii. Recommended the purchase of a new Human Resources Information System.
- viii. Revised the Charter of the Committee.
- ix. Recommended a revision of the pension payments.

Appreciation

The Committee wishes to convey its sincere gratitude to former Chairman S G Wijesinha and former members S Rajapakse and H A Siriwardena for their valuable contribution to the Committee over the years.



Mrs. W A I Sugathadasa
Chairperson

Human Resources and
Remuneration Committee

12 February 2016
Colombo