

HOW WE GOVERN

The Bank's Corporate Governance framework which includes governance structures and policy frameworks explicitly define how the Bank will conduct business in responding to the myriad opportunities and threats presented by our business environment whilst maintaining the right balance between rights and obligations of stakeholders. It defines how we conduct business, shaping the Bank's culture to ensure that we are competitive and future ready whilst maintaining our core values of integrity, accountability and equity for key stakeholders. This is reinforced by sound processes for measuring and monitoring key areas of concern including performance, providing objective information to support policy formulation and strategic decision making.

The structures, frameworks and processes are reviewed regularly to identify areas for improvement to ensure that all elements of our governance framework are fit for the purpose, enabling value creation and growth.

As we are operating in a highly regulated industry, perhaps the most regulated among all industries world over, with increasing regulation to strengthen stability of financial markets, sound Corporate Governance is key to sustainable value creation, compliance and managing business and reputational risk of the Bank.

Key regulatory requirements and voluntary codes relevant to the Bank and elements of the Corporate Governance Framework of the Bank are depicted below:

Banking Act No. 30 of 1988 and amendments thereto which contain provisions for preserving the rights of depositors and rights and responsibilities of regulators

All Directions issued for Licensed Commercial Banks by the Central Bank of Sri Lanka (CBSL), particularly the Direction No. 11 of 2007 on Corporate Governance and other Directions issued by the Central Banks of the countries that we operate in

Inland Revenue Act No. 10 of 2006 and amendments thereto and other regulatory Acts which are applicable as a collecting agent for regulatory bodies

Shop & Office Employees Act No. 19 of 1954 and amendments thereto addressing the rights and responsibilities of employees

- Articles of Association of the Bank
- Board Charter
- Organisational Structure
- Terms of Reference and Charters of Board and Management Committees
- Integrated Risk Management Framework
- Code of Ethics for all employees
- Corporate Directors' Hand Book
- Board approved policies on all major operational aspects

Continuing Listing Requirements of the Colombo Stock Exchange (CSE) which addresses, inter alia, the rights of investors

Companies Act No. 07 of 2007 which includes provisions for preserving rights of investors

Code of Best Practice on Corporate Governance issued jointly by the The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and Securities & Exchange Commission of Sri Lanka (SEC) – the Governance Code – which seeks to address how corporates operate while fulfilling the rights of key stakeholder groups

Code of Best Practice on Related Party Transactions (RPTs) issued by the SEC and the CSE, which stipulates procedures and processes required for identifying, capturing, monitoring and disclosing RPTs



Compliance with the Banking Act Direction No.11 of 2007 and the Code of Best Practice on Corporate Governance of the CA Sri Lanka and the SEC are given in Annex I and II on pages 354 to 371, respectively.

As Commercial Bank is fully compliant with all requirements of the Banking Act Direction No. 11 of 2007 set out on pages 354 to 366, the CSE has exempted the Bank from disclosure of compliance with the Directions stipulated in Section 7.10 of the Continuing Listing Requirements on Corporate Governance.

In this segment we introduce our Board of Directors and provide an insight to our governance structures, policy frameworks and how we measure up against external benchmarks for governance.

The Bank's compliance with the aforesaid Direction has been reviewed by Messrs KPMG, our External Auditors and they have provided Assurance Statement to the CBSL on same.

A Proficient Board

The Board of Directors is the highest decision making authority of the Bank and is responsible for leading, directing and controlling the Bank. It comprises ten Directors of whom seven are Independent Non-Executive Directors (NEDs) who are eminent professionals in their respective fields with the skills and expertise necessary to constructively challenge management and enrich deliberations on matters set before the Board. Directors' profiles are given on page 11 to 13 together with their membership of Board Subcommittees and other significant appointments. The Board is

assisted by the Company Secretary, Mrs. Ranjani Gamage, Attorney-at-law, whose profile is also given on page 13. Collectively they combine expertise in economics, banking and finance, accounting, law, information technology, engineering and, having risen to the highest echelons of Government institutions or commercial organisations, bring their independent judgment to bear on matters reserved for the Board. Bringing together regulatory, banking, investor and entrepreneurs' perspectives, our Board is able to explore matters from diverse points of view to facilitate long-term value creation.

Governance Structure

An organisational structure must facilitate efficient operations while ensuring sufficient checks and balances to safeguard the assets of the Bank and ensure compliance with regulatory requirements and internal policies. Figure 28 provides an overview of the organisation structure of the Bank.

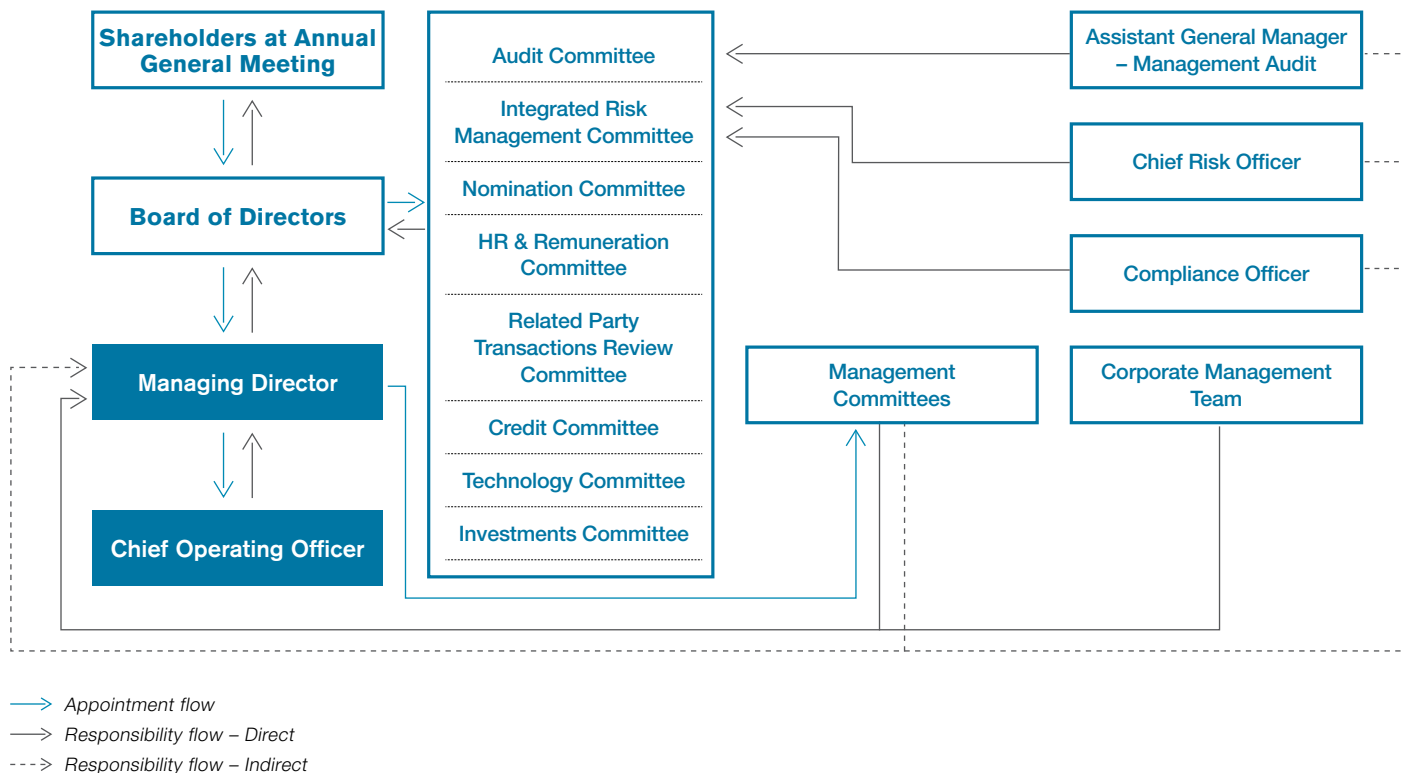


Figure 28

The Board has established eight Board Subcommittees of which five are mandatory while the others have been established considering the business, governance and risk management needs of the Bank. Their areas of oversight and executive support together with composition and attendance at meetings are summarised in the Table 21 and Table 22 on pages 126 to 129.

Board and Board Subcommittees – Areas of Oversight and Executive Support

Board Subcommittee	Areas of Oversight	Executive Support
Mandatory Subcommittees		
Board Audit Committee (BAC)	Financial Reporting, Internal Controls, Internal Audit and External Audit. <i>BAC Report is given on pages 140 to 142</i>	The Managing Director/CEO, Chief Operating Officer (COO), Chief Financial Officer, Chief Risk Officer, Compliance Officer and the Assistant General Manager – Management Audit attend the meetings by invitation together with other relevant Key Management Personnel (KMPs). The Committee is supported by the Inspection Department and the Assistant General Manager – Management Audit serves as the Secretary to the Committee.
Board Integrated Risk Management Committee (BIRMC)	Risk appetite, risk governance, risk policy frameworks, risk monitoring and compliance, risk management. <i>BIRMC Report is given on pages 143 & 144</i>	Chief Risk Officer attends meetings by invitation. The Committee is supported by the senior staff of the department handling credit, market and operational risks. The Chief Financial Officer serves as the Secretary to the Committee.
Board Nomination Committee (BNC)	Selection and appointment of Directors and KMPs, Succession planning, evaluating the effectiveness of the Board and its Committees. <i>BNC Report is given on pages 145 & 146</i>	Executive support is provided by the Human Resources Department whenever required. The Company Secretary serves as the Secretary to the Committee.
Board Human Resources and Remuneration Committee (BHRRC)	Remuneration of Managing Director and KMPs, HR Policies including Remuneration Policy, Organisational structure, HR systems including performance evaluation. <i>BHRRC Report is given on pages 147 & 148</i>	Executive support is provided by the Human Resources Department whenever required. The Deputy General Manager – Human Resource Management serves as the Secretary to the Committee.
Board Related Party Transactions Review Committee (BRPTRP)	Related Party Transactions Policy and processes, market disclosures on Related Party Transactions to the Securities and Exchange Commission (SEC), quarterly and annual disclosures of Related Party Transactions. BRPTRC Report is given on page 149	The Assistant General Manager – Finance serves as the Secretary to the Committee.
Voluntary Subcommittees		
Board Credit Committee (BCC)	Credit policy and lending guidelines, credit risk control measures including pricing of credit risk, performance of credit risk indicators. BCC Report is given on page 150	The Committee is supported by the Credit Risk Unit of the Risk Management Division. The Assistant Company Secretary of the Bank serves as the Secretary to the Committee.

Board Subcommittee	Areas of Oversight	Executive Support
Board Investment Committee (BIC)	Review of economic climate, capital markets activity and economic and monetary policy direction, Bank's investment policy, Review Bank's investment portfolios and their performance. BIC Report is given on page 151	Head of Global Treasury, Chief Financial Officer, Head of Global Markets, Assistant General Manager – Corporate & Investment Banking and Chief Risk Officer attend meetings by invitation. The Committee is supported by the Head of Global Treasury who serves as the Secretary to the Committee.
Board Technology Committee (BTC)	Bank's technology strategy, significant procurements of technology, emerging trends and their potential BTC Report is given on page 152	Deputy General Manager – Marketing and Assistant General Manager – Information Technology attend meetings by invitation. The Committee is also supported by the IT Department of the Bank. Assistant General Manager – Information Technology serves as the Secretary to the Committee.

Table 21

Board and Board Subcommittees: Composition and Attendance at Meetings

Composition of Board/Board Subcommittee	Name of Director	Membership					Meeting Attendance	
		Status	DOA	Eligible to Attend	Attended			
Main Board								
Executive Directors	2 Mr. K.G.D.D. Dheerasinghe	C	NED	ID	20.12.2011	15	15	
Non-Executive Directors	8 Mr. M.P. Jayawardena	M	NED	ID	28.12.2011	15	15	
Independent Directors	7 Mr. J. Durairatnam	M	ED	NID	28.04.2012	15	15	
Non-Independent Directors	3 Mr. S. Swarnajothi	M	NED	ID	20.08.2012	15	15	
Male	9 Mr. S. Renganathan	M	ED	NID	17.07.2014	15	14	
Female	1 Prof. A.K.W. Jayawardane	M	NED	ID	21.04.2015	15	15	
Age below 50 years	Nil Mr. K. Dharmasiri	M	NED	ID	21.07.2015	15	15	
Age above 50 years	10 Mr. L.D. Niyangoda	M	NED	ID	26.08.2016	6	6	
	Ms. N.T.M.S. Cooray	M	NED	ID	19.09.2016	5	5	
	Mr. G.S. Jadeja	M	NED	NID	19.09.2016	5	3	
	Mr. H.J. Wilson(*)	M	NED	ID	03.07.2014	10	8	
Mandatory Subcommittees								
Board Audit Committee (the BAC)								
Executive Members	Nil Mr. S. Swarnajothi	C	NED	ID	24.08.2012	11	11	
Non-Executive Members	4 Prof. A.K.W. Jayawardane	M	NED	ID	29.04.2015	11	9	
Independent Members	4 Mr. K. Dharmasiri	M	NED	ID	28.08.2015	11	11	
Non-Independent Members	Nil Ms. N.T.M.S. Cooray	M	NED	ID	30.09.2016	3	1	
Male	3							
Female	1							
Age below 50 years	Nil							
Age above 50 years	4							

Composition of Board/Board Subcommittee		Name of Director	Membership				Meeting Attendance	
			Status		DOA	Eligible to Attend	Attended	
Board Integrated Risk Management Committee (the BIRMC)								
Executive Members	1	Mr. M.P. Jayawardena	C	NED	ID	30.12.2011	5	5
Non-Executive Members	4	Mr. J. Durairatnam	M	ED	NID	28.04.2012	5	5
Independent Members	4	Mr. S. Swarnajothi	M	NED	ID	24.08.2012	5	4
Non-Independent Members	1	Mr. K. Dharmasiri	M	NED	ID	21.07.2015	5	5
Male	5	Mr. L.D. Niyangoda	M	NED	ID	30.09.2016	1	1
Female	Nil							
Age below 50 years	Nil							
Age above 50 years	5							
Board Nomination Committee (the BNC)								
Executive Members	1	Mr. K.G.D.D. Dheerasinghe	C	NED	ID	30.12.2011	3	3
Non-Executive Members	4	Mr. M.P. Jayawardena	M	NED	ID	29.08.2014	3	3
Independent Members	3	Mr. J. Durairatnam	I	ED	NID	29.08.2014	3	3
Non-Independent Members	2	Mr. S. Swarnajothi	M	NED	ID	29.04.2015	3	3
Male	5	Mr. G.S. Jadeja	M	NED	NID	30.09.2016	N/A	N/A
Female	Nil	Mr. H.J. Wilson (*)	M	NED	ID	31.03.2016	2	2
Age below 50 years	Nil							
Age above 50 years	5							
Board Human Resources and Remuneration Committee (the BHRRC)								
Executive Members	1	Mr. K.G.D.D. Dheerasinghe	C	NED	ID	30.12.2011	5	5
Non-Executive Members	3	Mr. M.P. Jayawardena	M	NED	ID	29.08.2014	5	5
Independent Members	3	Mr. J. Durairatnam	I	ED	NID	29.08.2014	5	5
Non-Independent Members	1	Mr. S. Swarnajothi	M	NED	ID	29.04.2015	5	5
Male	4							
Female	Nil							
Age below 50 years	Nil							
Age above 50 years	4							
Board Related Party Transactions Review Committee (the BRPTRC)								
Executive Members	2	Mr. K.G.D.D. Dheerasinghe	C	NED	ID	26.12.2014	4	4
Non-Executive Members	3	Mr. J. Durairatnam	M	ED	NID	26.12.2014	4	4
Independent Members	3	Mr. S. Swarnajothi	M	NED	ID	26.12.2014	4	4
Non-Independent Members	2	Mr. S. Renganathan	M	ED	NID	26.12.2014	4	4
Male	5	Mr. L.D. Niyangoda	M	NED	ID	30.09.2016	2	2
Female	Nil							
Age below 50 years	Nil							
Age above 50 years	5							
Voluntary Subcommittees								

Composition of Board/Board Subcommittee		Name of Director	Membership				Meeting Attendance	
			Status		DOA	Eligible to Attend	Attended	
Board Credit Committee (the BCC)								
Executive Members	2	Mr. K.G.D.D. Dheerasinghe	C	NED	ID	30.12.2011	12	12
Non-Executive Members	2	Mr. J. Durairatnam	M	ED	NID	29.08.2014	12	9
Independent Members	2	Mr. S. Renganathan	M	ED	NID	25.11.2014	12	9
Non-Independent Members	2	Prof. A.K.W. Jayawardane	M	NED	ID	29.04.2015	12	12
Male	4							
Female	Nil							
Age below 50 years	Nil							
Age above 50 years	4							
Board Investment Committee (the BIC)								
Executive Members	2	Mr. K.G.D.D. Dheerasinghe	C	NED	ID	13.03.2013	12	12
Non-Executive Members	3	Mr. J. Durairatnam	M	ED	NID	13.03.2013	12	12
Independent Members	2	Mr. S. Renganathan	M	ED	NID	29.08.2014	12	11
Non-Independent Members	3	Mr. K. Dharmasiri	M	NED	ID	28.08.2015	12	12
Male	5	Mr. G.S. Jadeja	M	NED	NID	30.09.2016	3	2
Female	Nil	Mr. H.J. Wilson (*)	M	NED	ID	29.08.2014	8	6
Age below 50 years	Nil							
Age above 50 years	5							
Board Technology Committee (the BTC)								
Executive Members	2	Mr. J. Durairatnam	M	ED	NID	18.06.2012	3	3
Non-Executive Members	2	Mr. S. Renganathan	M	ED	NID	29.08.2014	3	3
Independent Members	2	Prof. A.K.W. Jayawardane	C	NED	ID	29.04.2015	3	3
Non-Independent Members	2	Ms. N.T.M.S. Cooray	M	NED	ID	30.09.2016	1	1
Male	3							
Female	1							
Age below 50 years	Nil							
Age above 50 years	4							

Table 22

(*) Resigned w.e.f. 29.08.2016

(**) Attended by invitation

Status

C – Chairman, M – Member, I – By Invitation

ED – Executive Director, NED – Non-Executive Director

ID – Independent Director, NID – Non-Independent Director

DOA – Date of Appointment

Notes:

Mr. S.M.A. Jayasinghe (Consultant to BAC) attended 8 out of the 11 meetings held during the year.

Mr. D.B. Saparamadu (Consultant to BTC) attended 2 out of the 3 meetings held during the year.

Management Committees

Several Executive Committees also have been established to facilitate sufficient deliberation, co-operation across departments and healthy debate on matters considered critical for the Bank's operations as described in the Table 23 below:

Management Committee	Purpose and tasks	Composition
Executive Integrated Risk Management Committee (EIRMC)	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.	CEO, COO and key members of the Risk Management, Personal Banking, Corporate Banking, Treasury, Inspection/Internal Audit, Compliance and Finance Departments.
Assets and Liabilities Committee (ALCO)	Optimises the Bank's economic goals whilst maintaining liquidity and market risk within the Bank's pre-determined risk appetite.	CEO, COO and key members of the Treasury, Corporate Banking, Personal Banking, Risk Management and Finance Departments.
Credit Policy Committee (CPC)	Reviews and approves credit policies and procedures pertaining to the effective management of all credit portfolios within the lending strategy of the Bank.	CEO, COO and key members of the Corporate Banking, Personal Banking, Risk Management, Inspection, Recoveries, and Branch Credit Monitoring Departments.
Executive Committee on Monitoring NPAs (ECMN)	Reviews and monitors the Bank's Non-Performing Advances (NPAs) above a pre-determined threshold to initiate timely corrective actions to prevent/reduce credit losses to the Bank.	CEO, COO and key members of the Corporate Banking, Personal Banking, Credit Supervision & Recoveries and Risk Management Departments.
Business Continuity Management Steering Committee (BCMSC)	Directs, guides and oversees the activities of the Business Continuity Plan of the Bank in accordance with the Bank's strategy.	Key members of the Bank's Corporate Management covering all business lines.
Information Security Council (ISC)	Focuses continuously on meeting the information security objectives and requirements of the Bank.	Key members of the Risk Management, Information Systems Audit, Operations and IT Departments.
Investment Committee	Oversees investment activities by providing guidance to the management.	CEO, COO and key members of the Investment Banking, Treasury and Finance Departments.
Human Resources Steering Committee (HRSC)	Makes recommendations to the BHRRC on policy matters covering formulation of compensation packages, changes to the organisational structure, developing talent pipelines and effecting staff promotions.	CEO, COO and key members of the HR, Corporate Banking, Personal Banking and Finance Departments.

Table 23

Effective Meetings

Effective meetings are key to good governance and driving strategy. The Board held 15 scheduled meetings which included two meetings devoted exclusively to strategy with all members of Corporate Management whilst 12 meetings were devoted to matters including large and material transactions, review of performance, review of policy frameworks and strategy. The Chairman is responsible for determining the agenda for the meetings which is prepared with the assistance of the Company Secretary and the CEO. All Board Papers are sent out at least one week prior to the meetings allowing reasonable time for Board members to study, facilitating room for sound deliberations with urgent Board papers included on an exceptional basis. Board members typically spend at least 7 days on matters relating to the Board.



Board Responsibilities & Roles

The Role of the Board and its responsibilities are set out in the Board Charter which includes a schedule of Powers Reserved for the Board (Figure 29).

Roles, Responsibilities & Powers of the Board

Role of the Board	Key Responsibilities	Powers reserved for the Board
<p>Represent and serve interests of shareholders by overseeing and appraising the Bank's strategies, policies and performance</p> <p>Optimise performance and build sustainable value for shareholders in accordance with the regulatory framework and internal policies</p> <p>Establish an appropriate governance framework</p> <p>Ensure regulators are apprised of the Bank's Performance and any major developments</p>	<p>Selection, appointment and evaluation of the performance of the Chief Executive Officer</p> <p>Setting strategic direction and monitoring its effective implementation</p> <p>Establishing systems of risk management, internal control and compliance</p> <p>Integrity of financial reporting process</p> <p>Developing a suitable corporate governance structures, policies and framework</p> <p>Strengthening the safety and soundness of the Bank</p> <p>Appointment and oversight of External Auditors</p>	<p>Approving major capital expenditure, acquisitions and divestitures and monitoring capital management</p> <p>Appointment of Board Secretary in accordance with the Section 43 of the Banking Act No. 30 of 1988</p> <p>Power to seek professional advice in appropriate circumstances at the Bank's expense</p> <p>Review, amend and approve governance structures and policies</p>

© Figure 29

The Board takes an active role in strategy formulation providing clear directions to management for the preparation of the Bank's five year strategic plan which is then reviewed and approved at a meeting convened for the purpose. Alternative strategies are explored and evaluated by the Board prior to approval and allocation of resources for execution of the same. Performance review vis a vis the strategic plan is a regular agenda item on the monthly Board meetings with significant attention and time devoted to reviewing progress and identifying areas of concern requiring further attention of the Board. Specialised areas identified for oversight by Board Subcommittees are monitored by the respective Committees who report on progress made and concerns to the Board as outlined in Table 21 on pages 126 & 127.

Positions of Chairman and CEO are separate in line with best practice in Corporate Governance facilitating a balance of power and authority. The Chairman is a Non-Executive Director while the CEO is an Executive Director appointed by the Board and their roles are clearly set out in the Board Charter.

Role of Chairman

The Role of the Chairman is clearly set out and approved by the Board. The Chairman provides leadership to the Board, preserving order and facilitating the effective discharge of the duties of the Board. He is also responsible for ensuring the effective participation of all Directors and maintaining open lines of communication with KMPs, acting as a

sound Board on strategic and operational matters. The agenda for Board meetings are determined by the Chairman in consultation with the Company Secretary. The Directors wishing to include items on the agenda may request the Chairman to discuss the same.

Role of the CEO

The Role of the CEO is set out in the Board Charter and requires the CEO to conduct the management functions directed by the Board. Corporate objectives for the CEO are set by the Board who also develop his duties and responsibilities jointly with him. The CEO is responsible for implementing strategic objectives, plans and budgets approved by the Board.

Role of Non-Executive Independent Directors

Non-Executive Independent Directors are expected to bring an objective and independent view on matters, challenge the Board and Management constructively using their expertise and assist in providing guidance on strategy.

Role of Company Secretary

The Company Secretary plays a critical role in facilitating good Corporate Governance and the responsibilities are summarised below:

- Ensure conduct of Board and General Meetings in accordance with the Articles of Association, Board Charter and relevant legislation;
- Maintaining statutory registers;
- Prompt communications to regulators and shareholders and filing statutory returns;
- Facilitating best practice on Corporate Governance including assisting the Directors with respect to their duties and responsibilities;
- Facilitating access to legal advice in consultation with the Board, where necessary.

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

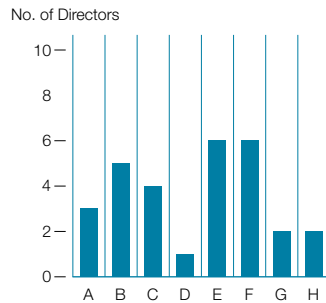
Appointment of Directors

The BNC has set in place a formal and transparent procedure for the appointment of new Directors. They receive resumes of the potential candidates recommended by the Board in the event of a vacancy of a Non-Executive Director and review same in order to make recommendations to the Board which may include an interview with the candidate.

The process for appointment of Executive Directors is similar with the exception being that candidates are selected from amongst the KMPs of the Bank. The BNC also assesses annually the combined knowledge, experience and diversity of the Board in relation to the Bank's strategic plans to identify additional requirements

which are addressed when incumbent Directors come up for re-election as evinced by the appointments during the year.

Skills & Expertise of the Board of Directors*



A – Economic
 B – Banking
 C – Accounting
 D – Information Technology
 E – Financial Services
 F – Corporate & Management
 G – Business/Public Administration
 H – Other Sectors

*Other Sectors – Agriculture, Engineering, Taxation, Tourism, Hotel Management

Graph 66

Appointments of new Directors are communicated to the CSE and shareholders through press releases subsequent to obtaining approval from the CBSL. The communications typically includes a brief resume of the Director, relevant expertise, key appointments, shareholding and whether he is independent.

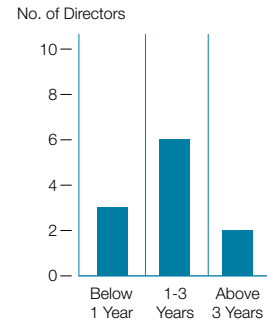
Re-election

Two Directors will offer themselves for re-election at each AGM. The two longest serving NEDs offer themselves for re-election at each 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 or draw lots to determine the Directors who will offer themselves for re-election. 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 for re-election at the next AGM.

Mr. L.D. Niyangoda, Ms. N.T.M.S. Cooray and Mr. G.S. Jadeja were appointed during the year to fill casual vacancies and are offering themselves for re-election at the

AGM to be held on March 30, 2017. The appointment of Ms. Cooray brought much needed gender diversity to the Board.

Tenure of Directors in the Board



Graph 67

Induction and Training of Directors

On appointment, Directors are provided with access to the electronic support system for Directors which archives minutes for the past two years and 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, the Bank's organisational structure, Board Charter and the most recent Annual Report of the Bank. All Directors are encouraged to obtain membership of the Sri Lanka Institute of Directors which has a robust programme to support Directors. It is mandatory for the Directors to attend Director Forums organised by the Central Bank of Sri Lanka. 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.

Directors' and Executive Remuneration

The BHRRC is responsible for making recommendations to the Board regarding the remuneration of Executive Directors. This vital committee comprises entirely of NEDs who also meet the criteria for independence as set out in the Code. They consult the Chairman and the CEO regarding the same and also seek professional advice whenever deemed necessary. Remuneration for NEDs is set by the Board as a whole. Remuneration for

Executive Directors is set with reference to the Remuneration and Benefit Policy. 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.

Remuneration and Benefits Policy
The Remuneration and Benefit 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 must also provide a framework for the employer to design, administer and evaluate effective reward programmes to inspire and motivate desired behaviours and results.

The Level and Make Up of Remuneration

It is the responsibility of the BHRRC to ensure that the remuneration of both Executive Directors and NEDs is sufficient to attract eminent professionals to the Board and retain them as contributing members in driving the performance of the Bank. Remuneration and benefits of the Executive Directors and KMPs are determined in accordance with the remuneration policies of the Bank which are designed to be attractive, motivating and capable of retaining high performing, qualified and experienced employees in the Bank.

Total remuneration of KMPs is made up of three components, guaranteed remuneration being the fixed component and annual performance bonus & Employee Share Option Plan (ESOP), being the variable components. The BHRRC seeks the assistance of professionals in structuring the remuneration and benchmarking with market on a regular basis to ensure that total remuneration levels remain competitive in order to attract and retain key talent whilst balancing the interests of the shareholders. It also takes into consideration the views of the Bank's two employee associations – the Executive Association and the Ceylon Bank Employees Union (CBEU) with whom they maintain a regular dialogue.

Guaranteed pay includes the monthly salary and allowances which are determined with reference to the qualifications, experience, levels of competencies, skills, roles and responsibilities of each employee. These are reviewed on an annual basis and adjusted for promotions, performance and inflation. The annual performance bonus is determined with reference to a multi-layered performance criteria matrix which is clearly communicated to the relevant categories of employees.

The ESOP approved by the shareholders at the AGM held on March 31, 2015 is also part of the performance related remuneration for Executive Officers in Grade 1A or above. NEDs are not eligible for ESOPs of the Bank.

Refer Note 53.1 and 54 to the Financial Statements on 'Share-based Payment' on pages 297 to 300 for details of the ESOPs and the eligibility criteria.

There are no compensation commitments in employment contracts for early terminations and there were no instances of early termination during the year that required compensation.

Board and Subcommittee Evaluations

The Board and its Subcommittees annually appraise their own performance to ensure that they are discharging their responsibilities satisfactorily in accordance with the Board Charter which includes the responsibilities set out in the Governance Code and the Banking Act Direction No.11 of 2007. 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 and discussed at a Board Meeting. Board evaluations for 2015 were discussed during 2016 and evaluations for 2016 at the January 2017 Board Meeting.

Appraisal of the CEO

The Board assesses the performance of the CEO on an annual basis and this is a matter reserved for the Board as a whole.

Assessment criteria are agreed with the CEO at the beginning of the year and performance is reviewed formally based on same at the end of the financial year taking into account the operating environment. The Chairman discusses the evaluation with the CEO and responses received are given due consideration prior to approval of the same which is finalised within 4 months of the close of the financial year. The Board is supported by the BHRRC in this process.

Shareholder Relations

The Bank has 9,610 shareholders of which 5.74% are institutional shareholders holding 76.77% voting ordinary shares and the balance 94.26% are retail investors. They play a key role in re-election of Directors, External Auditor and vote on material matters including adoption of the Annual Report and Accounts. The Bank recognises that the engagement with shareholders and potential investors is part and parcel of good corporate governance and has a structured process in place to facilitate same.

All Shareholders are encouraged to participate at the AGMs and exercise their votes. Consequently, a total of 155 (Voting) and 112 (Non-Voting) shareholders attended the Annual General Meeting held on March 31, 2016 while a further 498 Voting shareholders exercised their right to vote through proxy.

A Shareholder Communication Policy is in place to ensure that there is effective and timely communication of material matters to shareholders. Accordingly, shareholders were notified of quarterly results, dividend declarations, resignation and appointment of Directors through announcements in the CSE and the media. 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 to facilitate readability. The Interactive Report also has a tab for investor feedback. In addition to financial information, the Bank also provides Risk Management information to address the concerns of investors.