

# Governance

## How We Govern

### Bank's approach to governance

Commercial Bank firmly believes in and values good corporate governance – a disciplined approach to making decisions and executing them.

With its mutually beneficial outcomes, it is considered a necessary condition above and beyond the legal and regulatory requirements. We are aware that it is the foundation for financial integrity, sustainable performance and investor confidence. It promotes fairness, transparency and accountability in dealing with all its stakeholders. Accordingly, the Bank is committed to good corporate governance which drives the Bank to conduct its affairs with the utmost intellectual honesty and diligence, being mindful of its obligations to the society and the environment. A culture that values good governance prevails across the Bank.

The Bank has adopted a time-tested corporate governance framework which 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 leadership, integrity, accountability, transparency, sustainability and shareholder engagement. These 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. The commitment to good corporate governance has in fact been a major contributory factor to the many achievements the Bank has accomplished.

### Annual corporate governance report

Required to be published as per the Banking Act Direction No. 11 of 2007 on Corporate Governance (Direction), the annual corporate governance report of the Bank included on pages 74 to 114 elaborates the structure, overarching principles and components of the Bank's corporate governance framework and pages 374 to 390 that identify the extent of compliance with the applicable Direction and codes.

Following a review of the Bank's compliance with the Direction, Messrs Ernst & Young, External Auditors of the Bank have submitted their Assurance Statement thereon to the Central Bank of Sri Lanka.

*The Bank is compliant with all the applicable laws, rules, regulations, and codes in the spirit of good governance.* 

Compliance with the Banking Act Direction No. 11 of 2007 and the Code of Best Practice on Corporate Governance of CA Sri Lanka is given in Annexes I and II on pages 374 and 386, respectively. As the Bank is compliant with all requirements of the Banking Act Direction No. 11 of 2007, the Colombo Stock Exchange (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.

Key regulatory requirements and voluntary codes relevant to the Bank and elements of the Corporate Governance Framework of the Bank are depicted in Figure 24 on page 75.

Board of Directors approved the rules applicable to transactions on the Bank's shares in 2015. Board approved "Internal Rules applicable on the Bank share purchases/disposals by employees of the Bank" govern the transactions on the Bank's shares by employees. Code of Ethics issued to the employees also include guidelines with regard to insider dealing in securities.

In order to incentivise employees to achieve better performance, increase staff retention, and raise equity funding, the Bank has structured Employee Share Option Plans (ESOP). This entitles the eligible employees to buy a set number of shares at a fixed price during a given period of time. These plans have been approved by the shareholders at Extraordinary General Meetings (EGMs).

**Key regulatory requirements, voluntary codes, and Corporate Governance Framework elements**

Figure – 24



The key regulatory requirements and voluntary codes relevant to the Bank and elements of the Corporate Governance Framework of the Bank are depicted above.

**Governance structure**

The governance structure of the Bank comprises several governance bodies with well-defined roles and responsibilities, greater accountability and clear reporting lines. These include the Board, Board committees, Management and Management

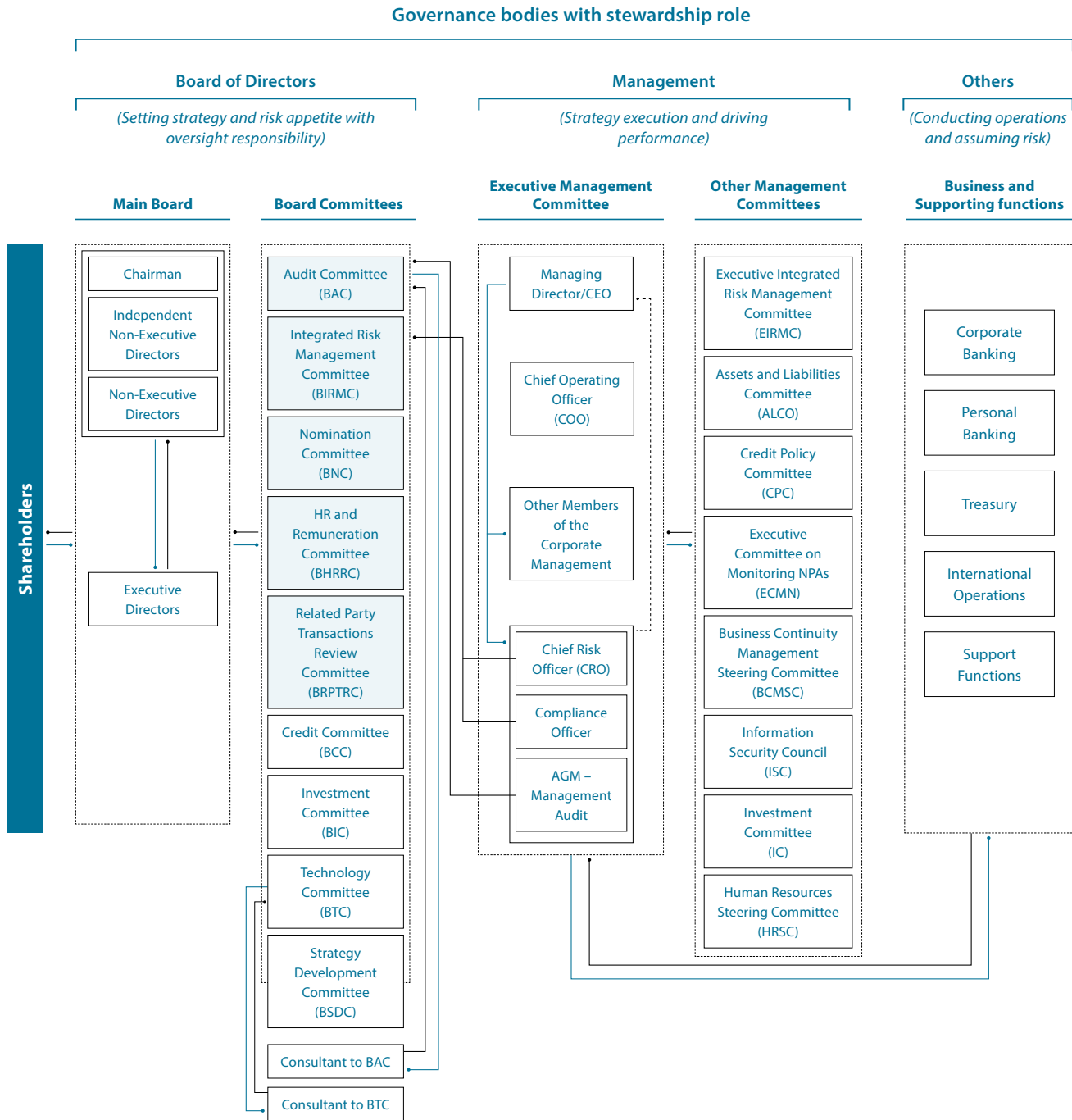
committees. The Board and Board committees, assisted by consultants where necessary, are responsible for setting strategy, risk appetite, and oversight. Management and Management committees are responsible for executing strategy and driving performance. Strategic business

units and support functions are responsible and accountable for conducting operations and assuming risk under the purview of the Management.

Figure 25 on page 76 provides an overview of the governance structure of the Bank.

**Governance structure**

Figure – 25



Mandatory Committees  Voluntary Committees  Appointment Flow  Responsibility Flow – Direct  Responsibility Flow – Indirect 

## Board of Directors

As the highest decision-making authority of the Bank, the Board of Directors is responsible for providing leadership by setting strategic direction and risk appetite and for 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 in a productive and harmonious relationship which is critical for good corporate governance and organisational effectiveness.

The Board comprises 12 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.

Profiles of Board members including their qualifications, memberships in Board committees and other significant appointments are given on pages 14 to 19. The Company Secretary, Mrs Ranjani Gamage, Attorney-at-Law, whose profile is given on page 19 assists the Board in discharging its responsibilities. Collectively they combine 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.

## Board process

Based on a schedule of meetings agreed at the beginning of each year, the Board meets at least once a month. If circumstances so require, additional meetings are also convened. Directors regularly attend the meetings and actively participate in deliberations. Details of attendance at Board meetings are given in the Table 11 on page 78. The Chairman is responsible for determining the agenda for the meetings. The agenda is prepared by the Chairman with the assistance of the Company Secretary and the Managing Director/Chief Executive Officer and is circulated to the Directors with the accompanying Board papers one week in advance of the meetings by the Company Secretary. This allows reasonable time for Board members to study and be better prepared for productive deliberations. Urgent Board papers are submitted at short notice or tabled at the meetings on an exceptional basis. Board members too can request items to be included in the agenda for discussion. Board members typically spend at least seven days a month on Board-related matters.

The Board is sufficiently diverse to bring unique perspectives to the boardroom. This has enhanced dynamics and effectiveness, promoting healthy and constructive exchange of views, leaving no room for group think. Minutes of deliberations and decisions made at the meetings are maintained in sufficient detail. Besides the two Executive Directors, other 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 Directors are covered by 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. 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 are as permitted by the rules and regulations of the CBSL and within the terms and conditions

such facilities are provided to the 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 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.

## Board meetings

The Board held 16 scheduled meetings during the year of which one meeting was devoted exclusively to deliberations on strategy with all members of Corporate Management being present and another special meeting was held to present future plans of the two nominees for the posts of CEO and COO. 14 meetings were devoted to matters including large and material transactions, review of performance, review of policy frameworks, strategy and risk. Meetings provided an effective forum for discharging the oversight responsibility of the Board.

Playing an active role in strategy formulation, the Board provided clear 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 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 CBSL Direction No. 01 of 2016 which prescribed increased minimum capital ratios under Basel III that was to be fully implemented from January 1, 2019. Performance in relation to the strategic plan is reviewed regularly at the monthly Board meetings with sufficient attention and time devoted to reviewing progress and identifying areas of concern requiring further attention of the Board. Board committees regularly report to the Board on progress made and any concerns identified in relation to specialised areas 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 – 11

| Composition               | No. | Name of Director                              | Age (Years) | Membership |     |                    | Meeting attendance |    |
|---------------------------|-----|---|-------------|------------|-----|--------------------|--------------------|----|
|                           |     |   |             | Status     | DOA | Eligible to attend | Attended           |    |
| Executive Directors       | 2   | Mr K G D D Dheerasinghe ( <i>Chairman</i> )   | 67          | NED        | ID  | 20.12.2011         | 16                 | 16 |
| Non-Executive Directors   | 10  | Mr M P Jayawardena ( <i>Deputy Chairman</i> ) | 66          | NED        | ID  | 28.12.2011         | 16                 | 15 |
| Independent Directors     | 9   | Mr S Renganathan*                             | 56          | ED         | NID | 17.07.2014         | 16                 | 16 |
| Non-Independent Directors | 3   | Mr S Swarnajothi                              | 68          | NED        | ID  | 20.08.2012         | 16                 | 16 |
| Male                      | 11  | Prof A K W Jayawardane                        | 58          | NED        | ID  | 21.04.2015         | 16                 | 15 |
| Female                    | 1   | Mr K Dharmasiri                               | 66          | NED        | ID  | 21.07.2015         | 16                 | 15 |
| Age – below 50 years      | 1   | Mr L D Niyangoda                              | 62          | NED        | ID  | 26.08.2016         | 16                 | 15 |
| Age – above 50 years      | 11  | Ms N T M S Cooray                             | 61          | NED        | ID  | 19.09.2016         | 16                 | 16 |
|                           |     | Mr G S Jadeja                                 | 59          | NED        | NID | 19.09.2016         | 16                 | 11 |
|                           |     | Mr T L B Hurulle                              | 66          | NED        | ID  | 05.04.2017         | 16                 | 16 |
|                           |     | Justice K Sripavan                            | 66          | NED        | ID  | 26.04.2017         | 16                 | 15 |
|                           |     | Mr S C U Manatunge **                         | 48          | ED         | NID | 27.07.2018         | 08                 | 07 |
|                           |     | Mr J Durairatnam ***                          | 60          | ED         | NID | 28.04.2012         | 08                 | 08 |

\* Appointed as the MD/CEO with effect from July 27, 2018

\*\* Appointed as Executive Director with effect from July 27, 2018

\*\*\* Former Managing Director/Chief Executive Officer retired on July 26, 2018

#### Status

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

### Board committees

In order to strengthen governance, the Board has delegated authority to nine Board committees. All the Directors serve in a minimum of two committees. These committees deal with and 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 provisions in the Banking Act Direction No. 11 of 2007, while the Board Related Party Transactions Review Committee was formed in 2014 by early adopting the requirements of the “Code of Best Practice on Related Party Transactions”, issued by the Securities and Exchange Commission of Sri Lanka (SEC), which became mandatory from January 1, 2016. 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. Of the four voluntary Board committees, Board Strategy Development Committee was set up during the year. These committees have been constituted with Board-approved terms of reference, hold regular meetings and

proceedings are reported to the Board. During the year, Board committees sought guidance and advice of external consultants on several occasions.

Areas of oversight and responsibility, composition, activities in 2018 and attendance of members at the Board committee meetings are given in the respective Board committee reports on pages 89 to 101.

### Executive Management Committee

Executive Management Committee (EMC) comprises the Managing Director/Chief Executive Officer and the Chief Operating Officer who are two Executive Directors and other members of the Corporate Management. Their qualifications and experience are given on pages 84 to 85 under Corporate Management and Profiles. Under the leadership of the Managing Director/Chief Executive Officer, its primary responsibility is to implement the strategy approved by the Board 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. 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 86 to 88.

### 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.

All the Management committees have approved terms of reference and operate under a structure and process similar to the Board committees. The secretaries of each Committee records minutes of the proceedings which are submitted to the Managing Director/Chief Executive Officer for approval. These committees undertake extensive deliberations, cooperate across departments and debate on matters considered critical for the Bank's operations as described in the Table 12 below.

### Other Management committees

Table – 12

| 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.   | Managing Director/Chief Executive Officer, Chief Operating Officer and key members of the Risk Management, Personal Banking, Corporate Banking, Treasury, Inspection, 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 predetermined risk appetite.   | Managing Director/Chief Executive Officer, Chief Operating Officer and key members of the Treasury, Corporate Banking, Personal Banking, Integrated 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.  | Managing Director/Chief Executive Officer, Chief Operating Officer and key members of the Corporate Banking, Personal Banking, Integrated Risk Management, Inspection, Credit Supervision and Recoveries, and Branch Credit Monitoring Departments. |
| Executive Committee on Monitoring NPAs (ECMN)             | 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.   | 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 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 in line with emerging technology and Bank Strategy.  | Key members of the Integrated Risk Management, Information Systems Audit, Operations, and IT Departments.   |
| Investment Committee (IC)                                 | Oversees investment activities by providing guidance to the management on significant investment decisions and reviews performance.   | Managing Director/Chief Executive Officer, Chief Operating Officer and key members of the Investment Banking, Treasury, and Finance Departments.  |
| Human Resources Steering Committee (HRSC)                 | 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. | Managing Director/Chief Executive Officer, Chief Operating Officer, Deputy General Manager – Human Resource Management, Deputy General Manager – Personal Banking, Deputy General Manager – Corporate Banking and Chief Financial Officer.          |

### Board roles and responsibilities

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 as detailed below:

#### Roles, responsibilities and powers of the Board

##### 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

The Board is responsible for implementing an effective risk management function in the Bank. Accordingly, the Board with the support of the BIRMC has devised an effective risk management framework, set the risk appetite and tolerance limits and monitor the risk profile on a regular basis through risk reports submitted to it. Risk management was an integral part of the Board and committee deliberations throughout the year. Clarifications were sought from the Management for any deviations from the agreed risk profile and necessary guidance was given taking mitigatory action. Risks related to the business strategies were carefully reviewed at the special Board meeting held to deliberate on the strategic plan.

A synopsis of the important matters deliberated and decided upon by the Board during the year 2018 is given below:

### Roles of Chairman and CEO

In line with best practice in Corporate Governance, the positions of Chairman and CEO are separate, facilitating balance of power and authority. The Chairman is a Non-Executive Independent Director while the CEO 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.

Clear and effective separation of accountability and responsibility as set out in the said Board paper and the Board Charter has made the role of the Chairman distinctive. Providing leadership to the Board, preserving order, and facilitating the effective discharge of its duties, the Chairman promotes good corporate governance and the highest standards of integrity and probity throughout the Group. He 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

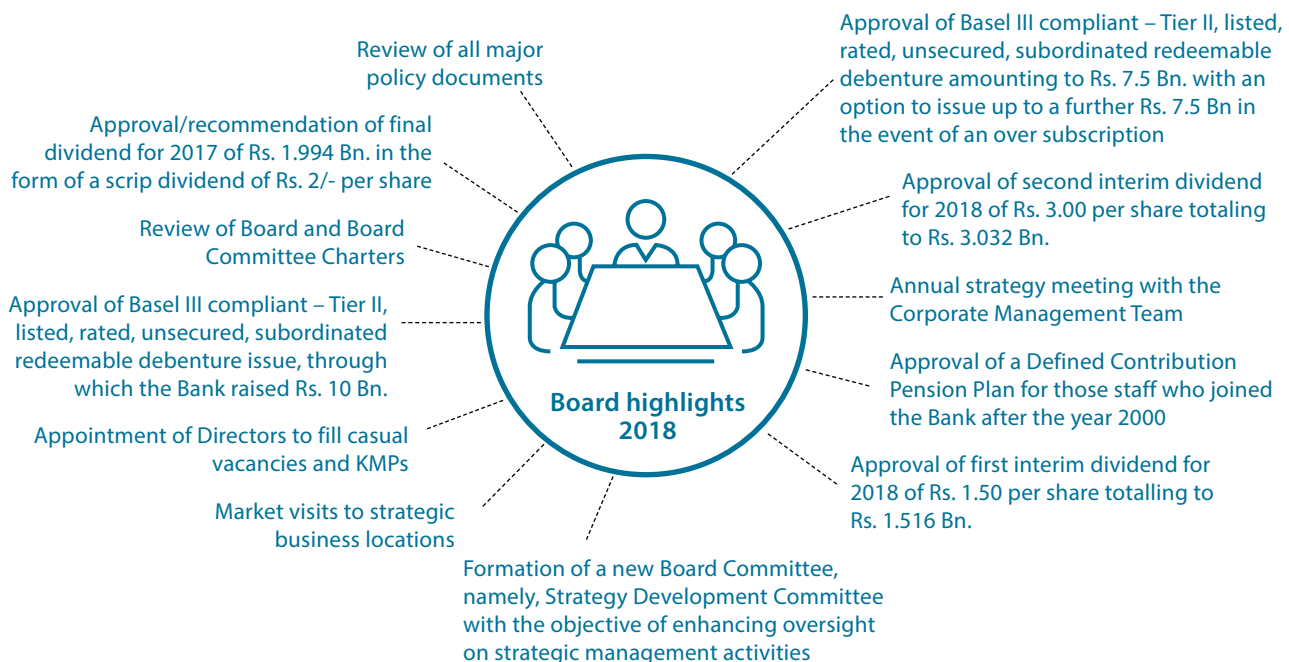
deliberations and maintains open lines of communication with Key Management Personnel (KMPs), acting as a sound Board on strategic and operational matters.

The CEO's role as set out in the Board Charter is to conduct the management functions as directed by the Board. Corporate objectives for the CEO and boundaries of his authority are set by the Board while his duties and responsibilities are jointly developed. The CEO leads the Management team in the day-to-day operations and implements strategies, plans, and budgets approved by the Board. The CEO 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, meet from time to time in between Board meetings to set Board agenda, to discuss current and future developments and any material issues impacting the Bank.

### Board highlights 2018

Figure – 26



### Role of Independent Non-Executive Directors

With nine of the 12 Directors being independent Directors, the Bank has a strong element of independence on the Board. Directorships constitute the only connection of the independent Directors with the Bank and therefore their judgement is unlikely to be influenced by external considerations. Independent Non-Executive Directors are expected to complement the skills and experience of the other members of the Board by bringing an objective and independent view on matters, challenging the Board and the Management constructively using their expertise and assisting in providing guidance on strategy.

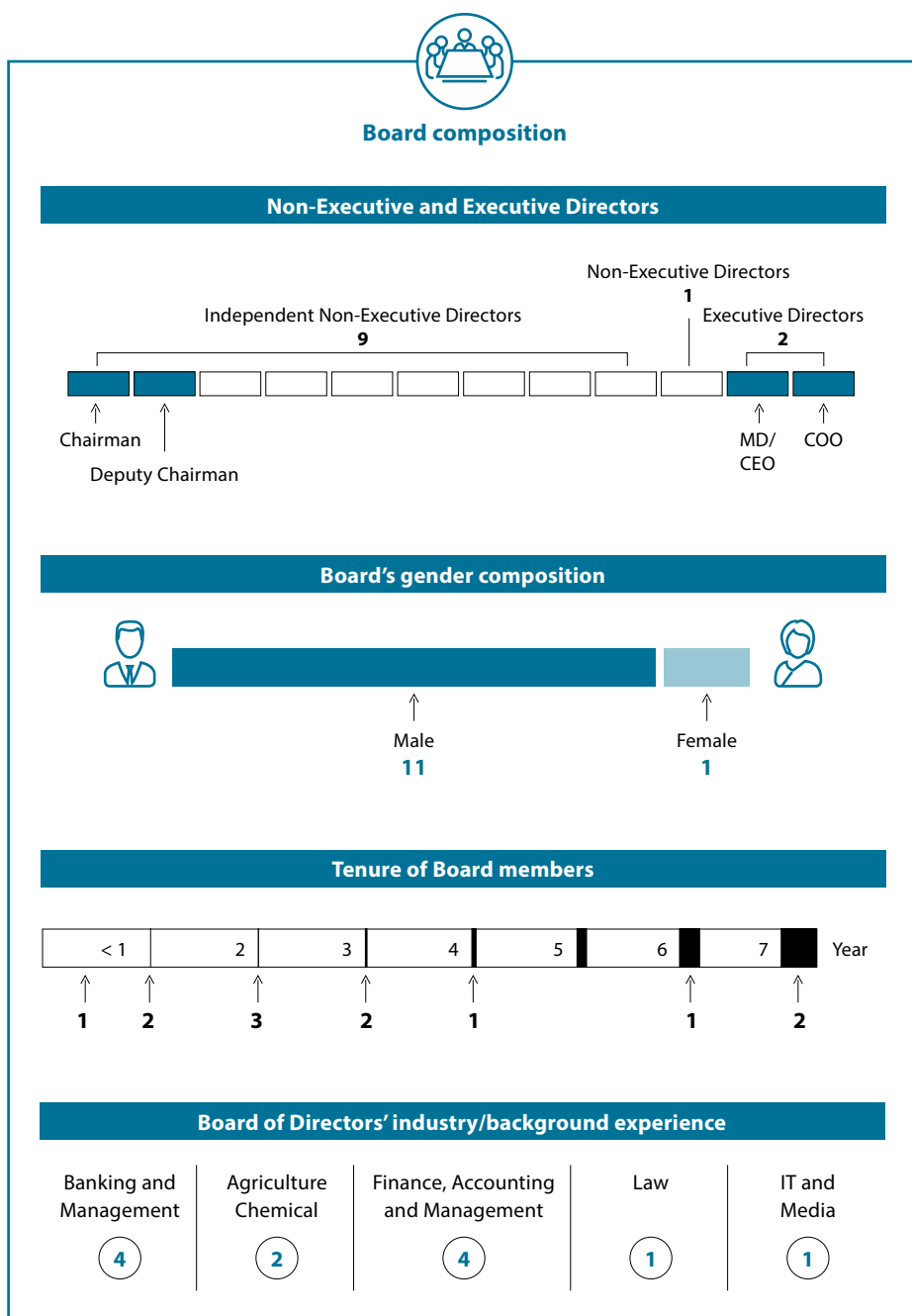
### Role of the Company Secretary

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

- Ensuring conduct of the Board and General Meetings in accordance with the Articles of Association, the Board Charter, and relevant legislation;
- Maintaining statutory registers;
- Communicating promptly with the regulators and shareholders and 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.

### Board composition

Figure – 27



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

### Appointment of Directors

Bank follows a formal and transparent procedure formulated by the BNC for nomination of candidates for appointment as Directors. The BNC having evaluated the resumes of potential candidates makes its recommendation to the Board for 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 additional perspectives to ensure its effectiveness at all times.

Executive Directors are appointed through a similar process except that candidates are selected from amongst the KMPs of the Bank.

Appointments of new Directors are promptly communicated to the CSE through announcements subsequent to obtaining approval from the CBSL for Fitness and Propriety. The communications typically include a brief résumé of the Director, relevant expertise, key appointments, shareholding and status of independence.



In July 2018, Mr S Renganathan was appointed as the Managing Director/Chief Executive Officer in place of the retiring Managing Director/Chief Executive Officer, Mr J Durairatnam. Mr S C U Manatunge who succeeded Mr S Renganathan as the COO, was appointed as an Executive Director.


#### Re-election of Directors

The two longest serving NEDs 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 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/herself for re-election at the immediately succeeding AGM. Mr K G D D Dheerasinghe and Prof A K W Jayawardane, the two longest serving Directors since last re-election will be seeking re-election at the next AGM to be held on March 28, 2019.

#### Induction and training of Directors

On appointment, Directors are provided with access to the electronic support system for Directors which has archived 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 issued by CA Sri Lanka, 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 robust 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 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 relevant regulations on corporate governance. They consult the Chairman and the CEO regarding the same and also seek professional advice whenever it is deemed necessary. Remuneration for NEDs is set by the Board as a whole. Remuneration for Executive Directors is set out 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.

#### The level and make up of remuneration

BHRRC is responsible to ensure that the remuneration of both Executive Directors and NEDs is sufficient to attract eminent professionals to the Board and retain them for driving the performance of the Bank. Bank has remuneration policies to determine remuneration and benefits of the Executive Directors and KMP which are attractive, motivating and capable of retaining high performing, qualified, and experienced employees at the Bank.

The total remuneration of KMPs includes three components – guaranteed remuneration (the fixed component), annual performance bonus (a variable component) and the ESOP (a variable component). Every effort is made to make the basis of granting ESOPs and their features transparent when approval is sought from the shareholders. Being employees of the Bank, the Executive Directors 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 which is determined with due 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 such factors as 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 at the beginning of the year. Details of the ESOPs and the eligibility criteria are given in Notes 53.2 and 54 to the Financial Statements on "Share-based Payment" on pages 294 and 295 respectively.

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

#### Board and Board Committee evaluations

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 which includes the responsibilities set out in the Banking Act Direction No. 11 of 2007 and other applicable regulations and codes on corporate governance. 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 to be discussed at a Board meeting. Board evaluations for 2017 and 2018 were taken up at the January 2018 and 2019 Board meetings, respectively.

#### Appraisal of the CEO

Assisted by the BHRRC, the Board as a whole assesses the performance of the CEO on an annual basis, based on criteria agreed with the CEO at the beginning of the year while taking into account the changes in operating environment. The Chairman discusses the evaluation with the CEO and provides him with formal and informal feedback. CEO's

responses to the appraisal are given due consideration prior to same being approved. This exercise is finalised within four months from the financial year end.

#### Shareholder engagement and voting

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. Provision of meaningful information to the shareholders on a timely basis plays an important role in this regard. Accordingly, a 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 information channels with the shareholders which includes the Annual Report, Annual and General Meetings, 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. Shareholders were notified of quarterly results, dividend declarations, retirement of the former CEO and the appointments of the present CEO and the new COO as Directors, through announcements made to 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.

Shareholders are encouraged to participate at the AGMs and exercise their votes. They play a key role in the re-election of Directors and the External Auditor and vote on material matters including the adoption of the Annual Report and Accounts. A total of 210 Voting and 101 Non-Voting shareholders attended the Annual General Meeting held on March 28, 2018 while a further 107 Voting shareholders exercised their right to vote through proxy.

