

Human Resources and Remuneration Committee Report

During the year under review, the Human Resources and Remuneration Committee comprised of 4 Non-Executive Directors namely Mr. A.D. Gunewardene (Chairman), Mr. E.H. Wijenaik, Mr. A.R. Rasiah and Dr. (Ms.) D. Weerakoon and with effect from 1st January 2009 the Committee was reconstituted to comprise of 3 Non-Executive Directors. The Committee held 3 meetings during the year. The Chief Executive Officer (CEO) of the Bank was present at all the meetings of the Committee as an invitee, except when matters relating to the CEO were being discussed.

The Committee adopted a Human Resources and Remuneration Committee Charter during the year. This Charter sets out the scope of the Committee and its operating practices.

The objectives of the Committee are:

- To assist the Board of Directors in formulating and establishing a set of comprehensive remuneration policies and practices within the Bank.
- To review and recommend to the Board, appropriate remuneration policies for the CEO, Executive Director and Key Management Personnel of the Bank.
- To recommend to the Board, objectives and targets to be set for the CEO, Executive Director and Key Management Personnel of the Bank.
- To evaluate the performance of the CEO, Executive Director and Key Management Personnel of the Bank, against the agreed objectives and targets and make suitable recommendations to the Board.

In order to achieve the above objectives, the Committee has been adopting the following as its guiding principles:

- Ensuring that the shareholder and employee interests are aligned
- Setting base pay and total remuneration at a level that can attract, motivate and retain high quality staff talent
- Regular remuneration surveys to ensure that remuneration is linked to market
- Setting remuneration levels in such a manner that a significant portion of the remuneration is linked to performance
- Setting up a framework of regular performance appraisals to enable the staff to obtain feedback from their superiors in furtherance of achieving their objectives and targets

In its deliberations, the Committee has been keen to ensure that the compensation and benefits structure of the Bank harmonises and strengthens the performance driven culture of the Bank. The Committee is confident that the 'Pay for Performance' mindset has been inculcated in the staff of the Bank.

An important tool in the 'Pay for Performance' scheme has been the formulation of the variable bonus pool. The size of the bonus pool is determined by the Bank achieving pre-agreed targets. The Committee annually revises the criteria for achieving the bonus pool in order to

ensure that risk and reward is aligned and also that the medium-term objectives of the Bank are taken into account when achieving that year's targets. The distribution of the bonus pool is dependent upon the ratings achieved by the staff during the year-end performance appraisal.

During the year, the Bank engaged the services of an external consulting firm to carry out a remuneration survey. The results of this survey will be used in formulating staff remuneration for year 2009.

Also during the year, the Bank engaged the services of an external consulting firm in carrying out an employee attitude survey. The results of this survey were encouraging and there was improvement in almost all the criteria as compared to the previous survey results of 2005.

A.D. Gunewardene
Chairman
Human Resources and Remuneration
Committee

17th February 2009