

Composition of the Human Resources and Remuneration Committee of the Board

The Board appointed Human Resources and Remuneration Committee comprised of seven (7) Board members as set out below and the CEO has been present at meetings by invitation of the Committee except when matters relating to the CEO were discussed.

Chairman	Mr Sunil G Wijesinha
Members	Mr Ashok Pathirage, Mr Sujeewa Rajapakse, Mrs Kimarli Fernando, Mr Anura Siriwardena, Mr Trevine Jayasekera and Mrs Indrani Sugathadasa

Brief profiles of each member are given on pages 102 and 103.

Charter of the Human Resources and Remuneration Committee

The Committee carries out the following duties and responsibilities:

- The Committee determines and periodically reviews the Remuneration Policy (salaries, allowances and other financial payments and perquisites) relating to Executive and/or Non-Executive Directors, the CEO and Key Management Personnel (KMPs) of National Development Bank PLC (the Bank).
- The Committee shall periodically review the Remuneration policy relating to Executive and/or Non-Executive Directors, the CEO and 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 a 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 will be responsible to set and review goals and targets for Directors, CEO and KMPs and determine their periodic revision.
- The Committee evaluates the performance of the CEO and KMPs against the set goals and targets periodically and determines the basis for revising remuneration, benefits and other payments of performance based incentives.
- 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, including the review/recommendation of share option schemes for employees of the Bank.
- The Committee prepares a report on its performance, duties and roles which has to be presented at the Annual General Meeting in terms of Banking Act Directions.
- 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.
- 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 assist the Committee in its deliberations.

Human Resources and Remuneration 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.

Human Resources and Remuneration Committee Meetings

Name of Board Committee Member	Directorship Status	Membership Status	Number of Meetings Attended
Sunil G Wijesinha	Non-Executive Independent	C	06/06
Ashok Pathirage	Non-Executive Non-Independent	M	05/06
Trevine Jayasekera	Non-Executive Independent	M	04/06
Kimarli Fernando	Non-Executive Independent	M	05/06
Anura Siriwardena	Non-Executive Independent	M	03/06
Sujeewa Rajapakse	Non-Executive Non-Independent	M	05/06
Indrani Sugathadasa	Non-Executive Independent	M	05/06

C - Chairman M - Member I - On invitation

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

Methodology Used by the Human Resources and Remuneration Committee

The Committee recognised 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 pre-determined 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.

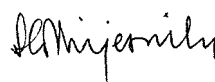
For the Committee broadening the leadership base in the Bank is a strategic priority. Development areas were focused, having followed up from the '360-degree Evaluation' done previously for the leadership team of the Bank. This intervention was to ensure the Bank's leadership is adequately developed 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.

Summary of Activities

During the preceding year, the Committee carried out the following:

- Recommended to the Board, the dissolution of the National Development Bank PLC (NDB) - ESOP Trust and the distribution of the shares held by the Trustee to the employees of the Bank in accordance with the Transitional provisions of the Listing Rules of the Colombo Stock Exchange as well as the rules in the Trust Deed pertaining to the Trust.
- Reviewed the performance of the KMPs of the Bank for the year 2013 and recommended to the Board of Directors of the Bank the increments and the bonuses for the said personnel.
- Recommended to the Board of Directors a special merit bonus scheme for the senior management of the Bank in lieu of an Equity Linked Compensation Plan.
- Reviewed the overall principles with regard to increments/ bonuses and promotions for the year 2014 based on the compensation survey carried out by Messrs Ernst & Young.
- Revised the Charter of the Committee.
- Reviewed and set the goals and targets for the KMPs of the Bank and reviewed the goals and targets for the Directors of the Bank for the year 2014.
- Reviewed the structure and function of the Human Resources Department of the Bank.



Sunil G Wijesinha
Chairman - Board Human Resources and Remuneration Committee
Colombo

13 February 2015