

# Governance Report

Good governance is an integral part of life at Nations Trust Bank. The Board of Directors of the Bank has placed great emphasis on ensuring good governance in every aspect of its business. Board is committed to enhancing stakeholder value whilst ensuring that proper internal control systems are in place to govern the day-to-day affairs of the Bank, in a manner which is transparent, ethical and law abiding. Whilst ensuring that generally accepted corporate governance practices are followed, the Board is also required to comply with the specific requirements under the Listing Rules of the Colombo Stock Exchange relating to Corporate Governance and the requirements under Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka as applicable.

## BOARD OF DIRECTORS

The Board comprises professional and experienced leaders of high repute, from the corporate and finance sectors, who together contribute a wealth of practical insight and business acumen. The Board has approved a strategic plan and key policies for the Bank and effectively monitors their implementation. The Board appoints the Chief Executive Officer and Corporate Management who together make up the Key Management Personnel of the Bank.

The Board has also approved a risk policy whereby the principal risks have been identified with measurable goals for managing such risks. Board continuously monitors the efficacy of the risk management mechanism in the Bank and with the establishment of an Integrated Risk Management Committee on 1st December 2008 implementation of the risk management mechanisms will be carried out through the Integrated Risk Management Committee (IRMC). IRMC has met twice since its establishment on 1st December 2008.

Board has also approved a Communications Policy for the Bank and has a formal schedule of matters specifically reserved for Board approval, to ensure that the direction and control of the Bank is firmly under its authority.

Board has clearly defined and reduced into writing the role and responsibilities of the Chairman and the Chief Executive Officer (CEO) which positions are held by two separate individuals with no relationship to each other. 8 Directors out of the total number of 10 are non-executive directors. Three of the non-executive directors are independent of management and ownership being free from any business or other relationship which could materially interfere with their judgment. Executive directorate comprises of the CEO and one other Executive Director. Names of the Directors and their status are given in the Annual Report of the Board of Directors on Page 67. Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka requires that where the Chairman is not an independent Director the Board shall appoint an independent director as the Senior Director. Requirement under the said directions to have a minimum of three or one-third of the total number of directors as independent directors satisfying the criteria laid down in the directions becomes applicable from 1st January 2010. The Bank currently has three directors who satisfy the requirements under the Listing Rules of the Colombo Stock Exchange applicable to independent directors and has designated one such director namely Mr. A.R. Rasiyah as the Senior Director.

Based on the recommendation of the Human Resources and Remuneration Committee the Board sets goals and targets for the CEO and the Executive Director. Performance of the CEO and the Executive Director is monitored on an ongoing basis and a formal

appraisal is carried out at the end of the year by the Human Resources and Remuneration Committee based on whose recommendation the Board will determine the remuneration of the CEO and Executive Director.

The procedure adopted for new appointments to the Board was to invite all members of the Board to suggest suitable names for consideration by the whole Board. Agreement of the whole Board was obtained for new appointments to the Board. With the formation of the Nominations Committee and the adoption of a Board Composition and Succession Plan, recommendation of suitable names to the Board becomes the responsibility of the Nominations Committee. Nominations Committee will also assist the Board to determine whether the Directors are fit and proper as required under the Banking Act and Directions issued thereunder.

## BOARD MEETINGS

During the year under review, the Board met 12 times. A schedule of monthly Board meetings is approved in advance by the Board. Attendance of the Directors at the board meetings are given on page 67 in the Annual Report of the Board of Directors.

A Board Supervisory Committee, comprising of two non-executive Directors and one executive director has been appointed to oversee and guide the Bank with respect to corporate planning, performance management and operations. The CEO and all key management personnel attend these meetings by invitation. This Committee convenes at least once a month, in addition to special meetings and ongoing consultations as appropriate.

The day-to-day management of the Bank is carried out by the Corporate Management headed by the Chief Executive Officer. The Corporate Management meets weekly

to monitor performance and deals with operational issues. In addition, monthly meetings are held with Senior Management staff to review performance against budget and the achievement of both financial and non-financial targets.

The Bank's audit functions are the responsibility of a Board Audit Review Committee reporting directly to the Board of Directors. The Committee consists of three non-executive Directors with two of them including the Chairman being independent directors. Head of Internal Audit functions as the Secretary to this Committee. The Director/Chief Executive Officer and the Deputy Chief Executive Officer attend the meetings by invitation. Other members of the Corporate Management attend as and when required. The full report of this Committee is given on page 64 of this report.

The Board places strong emphasis on transparency and accountability. All Financial Statements are prepared adhering strictly to the Sri Lanka Accounting Standards, requirements of the Colombo Stock Exchange and the Banking Act. All periodic information and returns are submitted to regulatory authorities as required. Compliance with statutory regulations is monitored regularly by the Board.

The Board has implemented systems to ensure that the policies laid down by the Board are implemented and the assets of the Bank safeguarded. A management information system provides timely and reliable information. Procedures have also been implemented to ensure compliance with statutory and regulatory requirements.

Board is provided with complete and adequate information relating to matters listed in the agenda of every Board meeting well in advance of the meeting. All Directors have access to the advice and services of the Company Secretary. Board procedure provides for Directors to have

access to independent professional advice at the expense of the company.

Compliance with the Listing Rules on Corporate Governance (Section 6 of the Listing Rules of the Colombo Stock Exchange) becomes mandatory for the

Bank with effect from the financial year commencing on 1st January 2009 being the financial year commencing on or after 1st April 2008. The table below indicates the level of compliance as at the date of this Annual Report.

Rule under the Listing Rules of the Colombo Stock Exchange	Remarks
1. Rule 6.1 - Board shall include at least such number of non-executive Directors equivalent to one third of the total number of directors	Complied with. 8 out of the 10 Directors are non-executive Directors.
2. Rule 6.2 - Two or 1/3 of the non-executive Directors whichever is higher shall be independent	Complied with. 3 out of the 10 Directors (3 out of 8 non-executive Directors) are independent Directors.
3. Rule 6.3 - Disclosures relating to Directors	Complied with. Names of the Directors determined to be Independent Directors are given on page 67 of the Annual Report. A brief resume of each Director is given on page 59 of the Annual Report.
4. Rule 6.4 - Criteria for determining independence of Directors	Complied with. All directors listed as independent satisfy the criteria given in this rule.
5. Rule 6.5 - Remuneration Committee	Complied with. Comprises of three non- executive Directors, two of whom are independent. Names of Directors who are members of the Human Resources and Remuneration Committee and the statement of remuneration policy are given on page 65 of the Annual Report and the total remuneration paid to Directors is given on page 66.
6. Rule 6.6 - Audit Committee	Complied with. Comprises of three non- executive Directors, two of whom are independent. Chairman of the Committee satisfies the requirements given in Rule 6.4. Report of the Audit Committee is given on page 64.