

## Human Capital

“Operating as we do within a fast-paced work environment that nurtures a high performance culture, we believe in open feedback and performance-based rewards. Our staff live the values and ethics of Nations Trust Bank, which is truly a ‘great’ place to work”

Nations Trust Bank has a Unique Service Proposition - to deliver unparalleled and unprecedented levels of service to our customers. In this endeavour, our Human Resources Division (HR) has a critical role to play. In order to realise and deliver on the Bank’s new Vision of ‘making life simple for our customers by being the benchmark of convenience’ our HR processes and policies have been aligned with the new Vision.

During 2008, HR continued to strengthen the performance culture within the organisation through various initiatives. In recognition of their efforts the HR Team of Nations Trust Bank was bestowed with the Silver Award at the ‘HRM Awards 2008’, conducted under the auspices of The Institute of Personnel Management which was held in February 2008.

### RESOURCING

Our Resourcing processes are of vital importance in ensuring that the Bank acquires people with the requisite talent,

aptitude and mindset, to achieve its targeted growth and development over the coming years.

Thus, our HR division put forth several initiatives during the year.

We visited several professional institutes, universities and schools to promote the Bank’s Employer Brand.

The Bank’s vision of ‘making life simple’ for the customer was well served when we introduced e-Recruitment, which has proved to be a huge success among the tech savvy school leavers.

Our advertising campaigns continued to draw overwhelming response. All new recruits to the Bank attended a structured Induction Programme, which was itself revamped to lend more support to the thrust of our business, and to also better assist the cultural integration of staff.

### STAFF STRENGTH

The increase in staff numbers year on year reflects the vibrant growing entity that is Nations Trust Bank today.

#### Staff Numbers

2004	2005	2006	2007	2008
479	549	820	1,239	1,615

### TALENT MANAGEMENT

The Bank made a substantial investment in Talent Management during the year. Today, in order to win the ‘war for talent’ in Sri Lanka, the process of managing talent has become a top priority in many organisations.

To help the Bank develop its own Talent Management regime, we enlisted the services of Hewitt International, an institution renowned for their expertise in this field.

At the outset, the Bank developed a new Competency Model, in line with our

new Vision, Mission and Values of the Organisation. We have revamped all HR activities such as Resourcing, Training & Development and Rewards to realise the new Vision of the Organisation.

This laid a solid base for several initiatives, one of which is described below:

In order to ascertain the leadership potential of the Bank's Senior Management Team, a Life Styles Inventory (LSI) feedback tool was used, to gather the requisite data. Within this exercise, the Senior Management Team was evaluated by their superiors, peers and subordinates. The LSI together with the 360 degree feedback process will form the basis for the establishment of a Talent Pool and Succession Plan.

#### PERFORMANCE MANAGEMENT

Through the robust performance management system, the HR division has been able to maintain a high performance culture in the organisation. In 2008, our Variable Bonus Scheme, which has contributed significantly to the Bank's performance, was further improved.

We may perhaps be the only financial institution in Sri Lanka, which has completely moved away from a fixed bonus regime to a Variable Bonus Scheme. A key attribute is that the Variable Bonus initiative applies to all categories of staff without distinction from the CEO to the Messengers and everyone in between.

#### TRAINING & DEVELOPMENT (T&D)

2008 was a busy year for our training team with more than 10,000 trainee days being completed.

To illustrate the Bank's commitment towards employee development, we opened our own training centre, which is fully

equipped to conduct internal and external staff training programmes. This has proved to be more productive and cost efficient.

The Training Cycle started with the year-end appraisal where each appraisee was evaluated and the training needs identified. In consultation with Business Heads, HR came up with a comprehensive Training Plan, with the primary focus areas being Customer Service, Technical Skills, Teamwork and the development of a steady source of Leaders within the organisation. Also, in 2008, greater attention was paid to determine the ROI (return on investment) in training.

In 2008, the Bank improved its e-learning facilities through the addition of new modules thus enabling staff to embark on their learning processes at their own pace, place and convenience.

#### REWARDS AND RECOGNITION

We believe in exploring every avenue and taking every initiative to ensure that the Bank is a top tier employer.

Thus the Bank was an actively and fully involved participant in the Compensation & Benefits (C&B) Survey conducted by Hewitt International. Our comparator group included leading foreign and local banks as well as top Multi-National Corporates (MNCs).

The Bank continued to operate a number of reward schemes both financial and non-financial. Sales Incentives, Star Performer Awards and the CEO's Club are some of them.

The Bank has clearly established that rewards are not based on seniority. In 2008, in line with our Vision of 'Simplicity', we launched 'Nations Quality Circle' to all staff.

This is an open competition where departments could submit various

proposals, that will simplify the lives of internal and external customers by way of improving or introducing new processes. These would be evaluated by an independent panel of judges with the winners being rewarded.

#### COMMUNICATION

All employees who left the Bank's service in 2008 attended an Exit Interview with the HR division. These interviews always yield valuable insights on a multitude of factors concerning the Bank's processes and culture, amongst many other subjects. We have taken these comments constructively and apply them where relevant, towards improving our processes, policies and practices.

The Internal Customer Survey (ICS), which was conducted on two occasions in 2008, yields invaluable feedback which goes to strengthen and develop the support services of the Bank. This has tremendously improved the internal customer service standards and culture of the Bank.

The Bank's Joint Consultative Committee (JCC) facilitates employee representation to the CEO and the Corporate Management.

During the year under review, Ma Foi Consultants, a renowned firm of HR specialists conducted an Employee Attitude Survey (EAS) amongst the staff of the Bank. A healthy response rate of 71% was achieved. When compared with the results of the Bank's previous EAS, it was noted that almost all areas have shown a remarkable improvement.

Action plans are being drawn up to address the issues needing attention, as revealed through the results of the latest EAS.

## STAFF WELFARE

### Activities undertaken through the Sports Club

- As the Sinhala and Tamil New Year began, the Nations Trust family came together at *Soorya Mangalyaya 2008*, a gathering and celebration held at Dampe Village, Piliyandala. The event included traditional games, ceremonies and cultural performances. The festival was further enhanced by entertainment from the Hiru musical troupe and a grand time was had by all.



- The first-ever Nations Talent Search was held in October and November 2008. Staff members from trainee banking assistants to senior managers vied to show off their talents. The two main categories were singing and dancing (couples). There were over a hundred entries for the singing competition, while 15 couples entered the dancing competition. The finals of the Talent Search were held on a grand scale at St. Joseph's College Auditorium on 1st November. The event included guest performances by Billy Fernando and Acid Rain, Bathiya and Santhush, the famous violinist Ruwan and the Nadhro drum troupe. The judges were the well-known entertainment-industry figures Keerthi Pasqual, Jananath Warakagoda, Nevanthi Gunasekera and Aruna Perera.
- The customary Annual Nations Trust Bank Dinner Dance, held on 29th November at Water's Edge, offered an evening of glamour and

entertainment. The 'Wild, Wild West' costume theme was eagerly adopted by participants, who presented a colourful sight on the dance floor.



- Exactly a week later, the grounds of the famous Eighty Club came alive with dolphins, whales and other sea creatures when the Nations Sports Club organised its final event of the year, the Nations Kiddies Christmas Party, under the theme of the 'Christmas Under Sea'. The children of the Nations Trust family had a memorable evening.



## STAFF SPORTS

### Badminton

The Nations Trust Bank team won the MBA Challenge Trophy in the veterans category for the third consecutive year at the Mercantile Badminton Championships 2008, while our men's team took third place. Priyantha Wijesekera was named MBA Outstanding Player of 2008.

### Cricket

Having been runners-up in the Mercantile C Division in 2007, our team faced tougher competition following their promotion this year to the B Division, winning one out of six games played.

## Netball

Our netballers became plate category runners-up in the SriLankanSports.com challenge, which was held in February. The team also participated in the All-Island Open Netball Championship, held in Matara, and in the InterCompanySports.com netball challenge in November.



## Basketball

Nations Trust Bank's B Team were ranked runners-up in division D of the MSBA Knockout 2008. In the MSBA Semi-League 2008 tournament, our 'A' Team made it into the semi-finals in Division A, while our 'B' Team were runners-up in Division D.

### Staff welfare activities of the Sports Club

A number of special promotions were organised by the Sports Club, in which exclusive discounts were offered to our staff on such desirable items as garments, jewellery, footwear, mobile phones, computers and satellite TV connections.



## Corporate Social Responsibility

“Nations Trust Bank believes that as a bank and as individuals we have a duty to be responsible citizens: to make an appropriate return to the community that sustains us”

Corporate-citizenship projects undertaken by the Bank are designed to maximise staff involvement, providing an interactive and personal experience for individual staff while ensuring that such initiatives arise naturally out of the corporate culture, a part of whom we are as a bank and what we represent.

The Sri Lankan corporate sector has always responded swiftly and appropriately in times of national and local disaster. However, the prevailing trend towards greater corporate accountability and responsibility has seen a shift of emphasis to sustainable long-term projects. One result has been a diminution in funds and effort readily available for disaster relief.

While increased efforts are being made in the field of disaster preparedness at national and policy level, this does not necessarily meet the immediate needs of

individuals affected by a disaster. With this fact in mind, Nations Trust Bank has always acted promptly to provide immediate relief to victims in times of disaster.

This commitment to disaster response is an essential element of the Bank's CSR policy. However, Nations Trust Bank, like other responsible companies, supports long-term projects that benefit communities and other groups in need. The following is a brief description of CSR projects undertaken by the Bank and its staff in the year under review.

### PRESERVING RAINFOREST BIODIVERSITY IN HIYARE

The Bank, in partnership with the Wildlife Conservation Society of Galle and the Galle Municipal Council, embarked on a biodiversity conservation project in the Hiyare Rainforest, a lush tract of first-growth rainforest near Galle. The project seeks to expand awareness of the

importance and rich diversity of the forest ecology and works actively to protect it.



Hiyare is a 600-acre rainforest within half an hour's drive from the Bank's Galle branch and incorporating a lake of 55 acres in extent. Though it is surrounded by tea plantations and other habitations in an area where human impact is very high, a study carried out by the Wildlife Conservation Society in 2007 revealed a comparatively high level of biodiversity in Hiyare compared with other low-country rainforests. According to the

study, the area supports 103 bird species, including twelve endemic species. Insect life also shows high diversity, particularly in the case of dragon-flies and damsel-flies, of which 39 species, eight of which are endemic to the area, were observed and recorded. Hiyare also boasts 51 different species of butterflies. Of the 68 freshwater fish species known to exist in Sri Lanka, 31 species were observed in Hiyare Lake and other habitats in the area; the number includes 14 endemic species and a few very rare ones.



### Scope of the project

The Bank supports and funds the Wildlife Conservation Society of Galle in its research and conservation efforts. The Society aims at conserving the biodiversity of Hiyare rainforest through a programme to increase public understanding of the need for conservation and of measures that need to be taken to achieve it. The society undertakes a variety of such activities, including:

- intensive full-day and two-day residential programmes for schoolchildren in higher grades and university students, incorporating both theory and practice and featuring visits to Hiyare;

- educational programmes for visitors to Hiyare, schoolchildren and undergraduates; and
- a rescue programme for injured animals, in which the society accepts wildlife from the area for veterinary and surgical treatment followed by post-operative care, rehabilitation and release into the wild. Since Nations Trust Bank became involved in the project, animals such as rare hog deer, pythons, a pangolian and whistling geese have been treated.

### OTHER CSR INITIATIVES IN 2008

In addition to the above long-term programme, Nations Trust Bank and its staff also engaged in the following activities:

- Cleaning and repainting Ward 19 at the Maharagama Cancer Hospital. This has now become a fixture on the Bank's social calendar. This year, the renovation programme was accompanied by a sizeable donation of medicines required by patients in the ward. Nations Trust Bank staff also raised funds among themselves to provide food packs to all patients at the hospital at a total cost of Rs. 800,000.



- When heavy floods rendered thousands of people homeless in June 2008, Nations Trust Bank responded to a request from the National Disaster Management Centre by donating 15,000 bottles of water for distribution among residents of Kalutara District, which was one of the worst affected. The Bank also conducted a medical camp at Thebuwana Vidyalaya, a school in the district, where a team of ten volunteer doctors treated a total of 548 people. Most of these doctors who are spouses of Bank staff provided their services gratis.

- The Bank secured a grant of Rs. 2.4 mn from its partner American Express for use on a project to benefit victims of the 2004 tsunami. The funds were used to build two pre-schools in Hambantota District. On this project, Nations Trust Bank and the John Keells Social Responsibility Foundation have entered into a partnership with the Janasuwaya Foundation to ensure that the schools are properly maintained in the future.
- A blood donation campaign organised by the Bank's Welfare and Sports Club in May saw donations from more than a hundred of our staff members.

## Risk Management

# “At Nations Trust Bank, we attempt to ensure that our risk taking is informed and prudent”

The Return On Assets of banks is relatively lower due to the nature of the business of banking, and as a result, banks have to operate at high levels of gearing in the process of financial intermediation in order to generate adequate returns which are acceptable to the shareholders. Increasing levels of gearing coupled with growing sophistication of banking products and services, markets and technology exposes banks to a multitude of risks such as credit, liquidity, interest rate, foreign exchange rate, operational, legal, regulatory, reputational etc., which are interdependent to a great extent. Careful management of these risks not only prevents any potential losses but could also provide opportunities for new or greater business which could turn in huge rewards. Hence, Risk Management is about achieving the optimum trade-off between avoiding/protecting against a potential danger and an opportunity to enhance returns.

At Nations Trust Bank, we attempt to ensure that our risk taking is informed and prudent. Our efforts on Risk Management are geared to ensure that:

- (a) the total risk being taken is matched to the Bank's capacity for absorbing losses if things go wrong; and

- (b) to direct the scarce resource of capital to opportunities that are expected to create the maximum return with the minimum risk.

2008 was an eventful year for the Bank from the perspective of Risk Management as well.

Demonstrating the commitment of the Board to a strong and independent Risk Management function and in compliance with the guidelines issued by the Central Bank of Sri Lanka, a Board Integrated Risk Management Committee was set up during the year. The Bank also prepared and obtained the approval of the Board for a number of policies which will strengthen the Risk Management infrastructure. These included Risk Management Policy, Terms of Reference for the Board Integrated Risk Management Committee, Communications Policy and Code governing Share Dealing by Employees.

Under the aegis of the Board Integrated Risk Management Committee, the Bank tabulated the important Risk Indicators and their goals that need to be monitored by the Risk Management Committee. Commencing from 1st quarter of 2009, the Bank will report to the Risk Management Committee on the actual status of these risk indicators against the set risk goals.

### CREDIT RISK

Credit Risk is defined as the risk of non-payment by a counterparty of capital and interest on due dates that can be attributed to one or more factors affecting a business in a given environment. Banks are therefore, attaching a greater emphasis and importance to Risk Management tools and control procedures to better understand its customers and their business performance in order to identify emerging trends and take proactive steps to minimise losses.

The Bank has therefore brought in improvements to the existing Risk Management systems and procedures to achieve this objective given the increasingly difficult environment for credit growth during 2008. Among them were the introduction of an additional mid-year financial and performance review of large credit exposures and a more stringent risk grading methodology of customers with greater focus on financial data. This has enabled reassessment of the overall credit quality of the Corporate and Wholesale book. Our automated early warning systems will continue to give adequate warnings on accounts which will need closer attention.

The asset writing strategy for the consumer lending area consisting of consumer loans and Credit Cards came under the close

scrutiny of a separate Consumer Credit Risk Committee that reviewed market developments and weakening disposable income levels of the average consumer during the year for appropriate risk control measures. The Bank also used the services of external consultants to review the collection processes and practices and introduce improvements while work on a credit scoring system is in progress for implementation in early 2009.

The Bank's Credit Management policies and guidelines are approved by the Board of Directors with a comprehensive mechanism to evaluate and approve Credit through delegated powers entrusted with the Head Office Credit Committee which, in turn, recommends to the Board Credit Committee proposals outside its authority.

The Credit Risk Management Division independently evaluates all credit proposals above a certain limit and monitors industry and sectoral exposures while also ensuring that regulatory guidelines pertaining to Single Borrower Limit and maximum aggregate limits to high exposure clients are complied with. It also monitors portfolio performance through periodic reviews and identifies early warning signals and emerging trends to take appropriate remedial action.

The Board Supervisory Committee reviews monthly a detailed analysis of non-performing loans and advances (NPLs), sector-wise NPL statistics; high risk exposures which is submitted to the Board for discussion. It also undertakes a comprehensive review of all high exposures on a quarterly basis to gauge and understand the quality of the Bank's lending portfolio and recommends suitable action to the Bank's Corporate Management.

The Bank adopts a conservative policy towards specific provisioning and begins provisioning on facilities that are in arrears for more than 90 days, which is more stringent than the requirement of the Central Bank of Sri Lanka.

The administration and management of credit is independent of the business units. The Credit Administration Unit deals with the operational issues relating to the granting of facilities including the control of security, loading of limits to the system and the provision of reports.

## ASSET AND LIABILITY MANAGEMENT

Asset and Liability Management deals with the management of the market risks that arise from the Bank's structural position of assets and liabilities, On-Balance Sheet and Off-Balance Sheet, created in the process of financial intermediation. The Bank accords the highest importance to the Asset and Liability Management (ALM) function and has laid down a well structured procedure to ensure that the Bank is able to offer competitively priced products and services to customers whilst maintaining an appropriate risk/reward profile that creates shareholder value. This includes risk assessment in all dimensions including:

- Policy setting
- Structuring of the Bank's re-pricing and maturity schedules
- Undertaking financial hedge positions
- Capital budgeting
- Internal profitability measurement

ALM also includes contingency planning by analysing impact of unexpected changes in the environment in terms of interest rates, competitive conditions and economic fundamentals and plans as to how the Bank will respond to them.

Managing the risk that arises from the mismatches in various attributes of assets and liabilities is a key for the success of Bank's growth and profitability. The Asset and Liability Management Committee (ALCO) is chaired by the Chief Executive Officer and comprise the Heads of Business Units, Head of Credit Risk Management, Chief Financial Officer and Head of Internal Audit. ALCO, under delegated authority from the Board, sets policies in relation

to management of structural balance sheet exposures. The ALCO is also given specific authority by the Board to review and implement prudent Risk Management policies in the day-to-day operations of the Bank. ALCO reports to the Board and recommends changes of the policy beyond its authority of approval.

Exchange rate risk exposures, liquidity and interest rate risk profiles are analysed and reported at the ALCO meetings held monthly. The potential impact due to interest rate movements is also reviewed. The Bank also adopts a daily Risk Management process by reviewing Risk Management reports daily by the relevant Heads of Departments and other senior personnel in order to achieve the risk objectives of the Bank. Appropriate Balance Sheet strategies are discussed and implemented. ALCO monitors the structure/composition of Bank's assets and liabilities and decides on product pricing for deposits and advances. ALCO also decides on the transfer pricing policy of the Bank.

## MARKET RISK

Market risk is the risk of potential for losses that will result due to unfavourable movements in factors such as interest rates, exchange rates, equity and commodity prices. It is the risk of losing money because the perceived value of an instrument has changed. The primary market risk to which the Bank is exposed to are interest rate risk and exchange rate risk. The Bank's exposure is controlled by limits approved by the Board, the monitoring of which is carried out by the ALCO. The market risks arising from interest and exchange rates volatility is centrally managed by the Treasury Division ensuring adherence to Board policy. The Foreign Exchange exposure is mainly derived from trade and remittance flows, trading activities by treasury and structural foreign currency translation exposure. The Settlement Department is independent of foreign currency dealing operations in order to reinforce the Bank's Risk Management

process. The Bank has set up an independent middle office for limit monitoring and deal tracking, which office reports to the Head of Credit Risk Management.

The Bank monitors continuously and takes necessary actions to manage the cost of funding to maintain acceptable margins in response to changing market conditions. The Value-At-Risk and the Duration concepts as well as dynamic gap planning are implemented and calculated daily to complement the traditional measures of notional and gap limits. Treasury Department is mainly responsible to ensure that exposures are within set parameters, which is reviewed by ALCO.

## LIQUIDITY RISK

Given the dramatic events unfolding in the global financial markets and a slow down in the local financial services industry, liquidity has become a key business imperative.

Liquidity risk is the risk of being unable to ensure sufficient availability of Cash Flows to meet all financial obligations of the Bank as and when they fall due. Hence, the Bank's main objective in this regard is to ensure that sufficient cash flows are available to meet all of the Bank's financial commitments and to expand business, on a timely and cost-effective basis, under various market conditions. Apart from maintaining the statutory Liquid Assets Ratio above the minimum requirement of 20% at all times, the Bank has adopted a number of methods to manage liquidity at optimum levels.

The Maximum Cash Outflow report in the fortnightly ALCO pack categorises the assets and liabilities into suitable time buckets with Board approved exposure limits on each time bucket up to three months. ALCO reviews this report and effects corrective action as necessary to ensure that the outflows are within the approved limits. Board approved ALCO Terms of Reference and a Liquidity Policy are in place. Treasury division is responsible

for complying with the Liquidity Policy to ensure the Bank has sufficient cash flows to meet its financial obligations on a timely basis. The Bank also holds a sufficient level of highly liquid marketable assets such as Government of Sri Lanka Treasury Bills and Bonds. Taking cognisance of the market developments and with a view to strengthen the process of managing liquidity further, the Bank commenced stress testing of liquidity during the year. It assesses the funding capability of the Bank under normal market conditions as well as in times of distress due to market related or Bank specific factors under two different levels of contingency. In accordance with the Liquidity Policy, the ALCO which meets on a monthly basis under normal market conditions, is required to meet more frequently when abnormal market conditions (as defined in the policy) apply, to monitor and map out strategies to address liquidity concerns.

## OPERATIONAL RISK

Operational risk can be defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Studies into recent bank failures demonstrate that it is often a breakdown of basic internal controls that have posed the greatest risk to financial institutions and that such instances may sometimes harm even the reputation of the Bank. Managing operational risk has in fact gained an added importance in the wake of phenomenal increase in volume of transactions, growing sophistication of financial technology, growth of e-commerce, greater outsourcing for transaction processing, complex support systems etc. the Bank has established a sound Management Information System, a strong internal control culture and contingency plans to address operational risks. By managing operational risks, the Bank expects to operate in full compliance with regulatory guidelines, maximise operational performance while simultaneously minimising operational losses.

Primary responsibility for managing operational risks rests with the business lines. Operational risk is mitigated by the implementation of internal controls. The Bank's processes and procedures are under continuous review. Where possible, identified operational risks are insured.

Regular reviews of the implementation of the Bank's procedures and internal controls and their effectiveness is carried out by the Internal Audit Department that reports to the Board Audit Review Committee.

Additionally, a Compliance Department has been set up with a member of the Corporate Management as the Chief Compliance Officer (CCO). Directly reporting to the CCO, the Manager - Compliance heads the Compliance Department and is primarily responsible for the implementation and monitoring of all regulatory controls and initiatives including all Anti-Money Laundering and Combat of Financing of Terrorism (AML/CFT) activities. Each business and support unit within the Bank has nominated an officer who will interact with the CCO and the Manager - Compliance for all AML/CFT, regulatory and compliance related matters.

## CONCLUSION

Regulatory developments are making it compulsory that banks implement rigorous and robust Risk Management methodologies in their internal models. Basel II also places heavy reliance on the internal risk assessment and management techniques for the purpose of quantifying and allocating capital for credit, market and operational risks. Under a risk-focused approach to bank supervision, Regulators will be placing more and more emphasis on the soundness of the Risk Management practices of banks. Accordingly, the Bank has given due importance to the development and implementation of Risk Management capabilities and will continue to build it further in 2009.



# Delivered to Your Door

With Nations Trust Bank's 'Banking at your Doorstep', you don't have to come to the bank the bank will come to you. Our best customers can now get a whole portfolio of valuable services delivered to their door!

