

Corporate Governance

Overview

Corporate Governance has been defined as the system by which organisations are directed and controlled with the main responsibility of ensuring that compliance is adhered to, lying with the Chairman and Board of Directors, who are accountable to shareholders and in the external environment, to its stakeholders. This is the platform upon which the core values of Corporate Governance in Sri Lanka are constituted. The responsibilities of the Board of Directors would include structuring of the strategic aims of the organisation, spearheading leadership for implementation, supervising the management of the business and reporting to shareholders on their stewardship. Conversely, shareholders' responsibilities cover the appointment of Directors and Auditors, while being satisfied that appropriate governance structures are in place.

Compliance with Code of Best Practice

Our stakeholders who comprise the Government and other shareholders, customers, employees and the general public, require the Board of Directors in its capacity as the agents of the owner, to safeguard the interests of the Bank by rebuilding its capital base, ensuring sustainable profitability and enhancing stakeholder value. These imperatives permeate all our activities.

Board of Directors

The Board of Directors ensures and remains continuously committed to the establishment and implementation of the sound principles of Corporate Governance in order to safeguard the Bank, its depositors and other stakeholders, reviewing and updating the structures in line with the changing internal and external environments and best market practices prevailing in Sri Lanka. The Board complies with the principles and guidelines set out in the Code of Corporate Governance for Banks and other Financial Institutions, set out by The Central Bank of Sri Lanka on 25th June 2002 as well as the Codes of Best Practice issued by the Institute of Chartered Accountants of Sri Lanka (ICASL) in order to maintain the integrity of the financial system.

The Board currently comprises nine independent, eminent leaders with distinguished backgrounds in industry, finance, the co-operative movement and relevant professions who provide a wealth of practical experience and commercial orientation, committed to drive through the much needed changes for the creation of a truly sustainable and independent Bank.

The Board is primarily responsible for setting the strategic focus of the Bank, while facilitating and implementing the

language of responsible management by overseeing the business and related areas, in particular ensuring:

- The sourcing and development of a suitably skilled, dynamic and motivated General and Corporate Management Team
- The financial status of the Bank gives an accurate reflection of its status and is sufficiently comprehensive to meet statutory and stakeholder requirements
- Approving annual budgets which would include major capital expenditure, implemented effectively within the platforms of sound organizational structures and far thinking policies and strategies
- Reviewing, managing and enhancing of financial and non-financial performance, while directing appropriate measures to augment future profitability
- Periodic critical evaluation and analysis of the Bank's performance against set targets, goals and objectives within the Strategic Plan, ensuring strict adherence to achieving those set targets, goals and objectives
- The maintenance and implementation of proper internal financial and other controls
- Ascertaining full compliance with laws and regulations
- the comprehension, quantifying and managing the diverse risks faced by the Bank and ensuring damage control measures to negate and/or eliminate these risks, are in place.

Board decisions are based on recommendations made by the General Manager. No member of the Board has any executive responsibility within People's Bank and thus the Board has the ability to operate objectively and independently, giving the appropriate and necessary leadership, support and guidance to the management. The Board obtains independent advice when necessary, particularly in areas where the Bank currently lacks certain skills.

The Board had 15 meetings during 2003. The quorum for each meeting is 5.

Board Audit Committee

This Committee considers People's Bank's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance. It reviews all internal and external audit reports, in order to ensure that appropriate internal control procedures, sound accounting policies and prudent



financial reporting systems are facilitated, complied with and implemented.

Besides the functions above, the Audit Committee's responsibilities also include:

- Ensuring that a good financial reporting system is operational in order to provide precise, apt and judicious information to the management, regulatory authorities, shareholders and stakeholders
- Managing identified business risks, while ensuring the efficiency and effectiveness of internal controls
- Ensuring compliance with all relevant laws and Bank policies in line with the Strategic Plan
- Assessing the independence of the External Auditor and monitoring the function of the external audit

The full report of this Committee is included elsewhere in the report.

Board Executive Credit Committee

This Committee is responsible for formulating and periodically reviewing the credit policy of the Bank (see also the section of this report on Credit Risk Management). Proposals for credit facilities over and above the delegated limits are referred to this Committee for approval.

Board Executive IT Committee

Identified as a fundamental priority to increase efficiency in our overall business strategy, it was imperative that suitable Information and Communication Technology be acquired and installed as a matter of urgency. This prompted the formation of the Board IT Committee whose responsibilities include:

- i) The formulation of a Master IT Roadmap
- ii) Selection of the IT Core Banking Package
- iii) Agreeing on main IT resource requirements

Review and evaluate progress to ensure effective implementation, so that the appropriate benefits are derived from such implementation, in line with our objectives.