

CORPORATE GOVERNANCE

In the development of the Corporate Governance process at People's Bank, 2008 was a landmark year, which saw the publication in April of the Bank's *Code of Best Practice in Corporate Governance Version 1.1*. This was prepared in line with the Central Bank of Sri Lanka's mandatory code of Corporate Governance for licensed Commercial Banks issued in December 2007, The People's Bank Act No. 29 of 1961, The Banking Act of Sri Lanka and Internationally accepted Best Principles on Corporate Governance including the Basel Committee Paper. This book captures and formalises the definitions, relationships and systems by means of which the Bank monitors and manages the regularity, transparency and ethicality of its activities. Such measures are part and parcel of the responsibilities of a modern corporation, contributing to efficiency and productivity even as they build public trust and confidence.

It is worth noting afresh that an institution as large and closely integrated with the national economy as People's Bank, governance issues within the bank could easily have knock-on effects on the national economy. While this is obviously highly undesirable in itself, such issues would also have a grave effect on public confidence in the Bank's ability to manage its assets and liabilities, perhaps triggering a liquidity crisis. The management is keenly aware of these risks and responsibilities.

THE BOARD OF DIRECTORS

Our stakeholders - the Government and other shareholders, customers and employees and the general public - require that the Board of Directors, in their capacity as

agents of the owners, safeguard the interests of the Bank by rebuilding its capital base, ensuring sustainable profitability and enhancing stakeholder value. These imperatives permeate all our activities.

The Board of Directors, which bears full responsibility for good governance, consists of Directors appointed in terms of the People's Bank Act No. 29 of 1961. At present, the Board has nine Directors, it may have up to a maximum of ten. The quorum for any meeting of the Board is five. During the year under review, the Board met 21 times.

In making appointments to the Board, the best interests of the Bank are considered. In this context, the long-term viability of the institution is the main object. The Directors are individuals in good public standing who possess the experience, knowledge, expertise and judgement required to make positive contributions and sound judgements regarding the affairs of the Bank.

The Board is primarily responsible for setting the strategic focus of the Bank while facilitating and implementing responsible management by overseeing the business and related areas, in particular:

- drawing up the vision and mission statement of the Bank and ensuring its implementation;
- recruiting and developing a suitable General Manager and Corporate Management team;
- ensuring that the Bank keeps proper books of account of all its transactions and prepares Financial Statements that give a true and fair view of the state of affairs and of the profit or loss for the year.

- approving annual budgets and major capital expenditures;
- reviewing, managing and enhancing financial and non-financial performance while mandating appropriate measures to assure future profitability;
- undertaking periodic critical evaluations and analyses of the Bank's performance against set targets, goal and objectives within the strategic plan;
- ensuring strict adherence to achieving those set targets, goals and objectives;
- ensuring the maintenance and implementation of proper internal financial and other controls;
- ensuring full compliance with all pertinent laws and regulations;
- comprehending and quantifying the diverse risks faced by the Bank and ensuring that measures to minimise or eliminate them are in place and
- encouraging the establishment of good corporate governance throughout the institution.

BOARD INDEPENDENCE AND EFFECTIVENESS

Board decisions are based on recommendations made by the CEO/General Manager. No member of the Board has any executive responsibility within People's Bank. Thus the Board has the ability to operate objectively and independently, giving 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 the relevant expertise.



BOARD COMMITTEES

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 to ensure that appropriate internal controls, sound accounting policies and prudent financial reporting are facilitated, complied with and implemented effectively.

The Committee's responsibilities also include:

- ensuring that a suitable financial reporting system is operational to provide precise, apt and judicious information to 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; and
- assessing the independence of the external auditor and monitoring the external audit.

The report of this Committee appears on page 71.

Board Executive Credit Committee

This Committee is responsible for formulating and periodically reviewing the credit policy of the Bank (see also the chapter on risk management). Proposals for credit facilities above the delegated limits are referred to this Committee for approval.

Board Executive IT Committee

The adoption and integration of appropriate information and communications technology has

been identified as fundamental to improving overall business efficiency. It was therefore considered appropriate to mandate a Board Committee on information technology to oversee this aspect of our operations. Its functions are:

- the drawing-up of a master 'IT roadmap' for the Bank,
- selection of the Bank's core banking technology,
- setting out the main IT resource requirements, and
- reviewing and evaluating progress to ensure effective implementation of information technology to derive appropriate benefits in line with bank objectives.

INTERNAL CONTROLS

The Bank adheres to transparency in all its activities. This is exemplified by its internal control procedures and compliance systems. The Board of Directors regularly reviews the adequacy and integrity of these.

A Board report on the Bank's internal control mechanisms confirms that the financial reporting system is well designed to provide reasonable assurance of reliability and that the preparation of Financial Statements for external purposes has been done in accordance with the relevant accounting principles and regulatory requirements. Appropriate controls ensure that no individual nor caucus dominates and that an appropriate balance of power and authority is maintained on the Board and in the separate roles of the Chairman and the CEO/GM.

RISK MANAGEMENT

People's Bank recognises the critical importance of sound risk management to its growth, stability and long-term

viability. Being one of Sri Lanka's largest banks, serving customers from all walks of life all over the country, it is vulnerable to the full gamut of credit, market, reputation and operational risks. Through a combination of structure, systems and processes, the Bank manages these in an integrated and systematic way.

A detailed risk management report begins on page 60, detailing the mechanisms in place to monitor and report compliance with regulatory, bank and other requirements.

COMPLIANCE

The Bank retains a dedicated Compliance Officer who ensures that all applicable laws and regulations are followed. This enables People's Bank to adapt to domestic and international changes in the compliance regime rapidly and effectively.

The existence of such a function also helps prevent any legal or regulatory transgression that might otherwise result in the Bank suffering sanctions and penalties. Thus the good name and reputation of the institution are more effectively preserved and its tangible assets better secured. The overall result is improved customer confidence and enhanced public stature for the Bank.

People's Bank follows the Basel Committee's recommendation on compliance risk and has a comprehensive anti-money laundering policy formulated by the Compliance Officer. The Bank adheres to directives and regulations issued by the Central Bank under the Banking Act and also to other relevant laws and conventions.

