

OWNERSHIP, MANAGEMENT, AND GOVERNANCE

A. Ownership

1. Previously known as the Overseas Trust Bank, Nations Trust Bank (NTB) is a licensed commercial bank established in 1999. Its formation followed an acquisition of the Colombo branch of the Overseas Trust Bank, which was based in Hong Kong, China, by John Keells Holdings (JKH), Central Finance (CFC) and the International Finance Corporation (IFC), which were NTB's initial shareholders.¹ NTB expanded rapidly through strong organic growth and acquisitions, which included (i) Waddock Mackenzie, the investment banking arm of NTB, in 2002; (ii) Allied Properties, a commercial property rental company, in 2006; (iii) Mercantile Leasing, an operating lease company, in 2006; and (iv) Nations Insurance Brokers, an insurance brokerage firm, in 2006.²

2. NTB shares are held by JKH (29.9%), CFC (20%), Development Finance Corporation of Ceylon Bank (9.9%), Hong Kong and Shanghai Banking Corporation International Nominees Limited (7.9%) and the public JKH is one of the largest listed conglomerates in Sri Lanka, with interests in retail, financial services, leisure, plantation services, property, and transportation. Its assets totaled SLRs133.9 billion at the end of March 2012. CFC is a publicly listed financial services company that offers leases, hire purchase financing, and consumer credit in Sri Lanka. Its total assets were SLRs53.5 billion as of 31 March 2012. NTB was listed on the Colombo Stock Exchange in 1999.

B. Management

3. NTB's corporate management team is appointed by the board and comprises seven senior banking executives with extensive banking experience, both domestically and internationally. The current chief executive officer (CEO), R. Fernando, was appointed in 2012 and has been with NTB since 2001. Fernando has 30 years of banking experience, including 10 years in leadership positions at NTB. Top management and heads of various departments meet weekly. Table 1 provides information on the bank's senior management.

4. NTB has four management committees that meet monthly and support the corporate management team: (i) an assets and liabilities committee (ALCO), which is responsible for the liquidity management and funding strategy of NTB; (ii) a head office credit committee that is responsible for credit risk management and must approve unsecured credit applications that exceed the branch, deputy general manager, and CEO authority limits; (iii) an information technology (IT) steering committee, which oversees the IT investments and strategy of NTB; and (iv) a customer service steering committee, which measures and monitors customer service quality.

C. Governance Structure

5. The levels of corporate governance through which NTB is managed include the board of directors. It comprises 12 members with extensive international banking and diverse professional experience. The board approves and monitors the implementation of NTB's strategic plan and key policies through the board committees and corporate management. It includes five independent nonexecutive directors, five nonexecutive directors, and two executive directors. The positions of the board chair and of the CEO are separate.

¹ IFC sold its stake in 2004.

² Fitch Ratings. 2011. *Full Rating Report on Nations Trust Bank*. Colombo (December); and http://www.nationstrust.com/inpages/about_us/our_history.shtml

- i. **Supervisory committee.** This committee meets monthly and is responsible for reviewing and approving all the bank's operating policies and processes and for monitoring performance against budgets by business line and support services.
- ii. **Audit review committee.** The audit review committee meets monthly. Its responsibilities include helping to monitor (i) the integrity of the financial reporting systems and the bank's financial systems, (iii) the performance of internal controls, (iv) the internal audit function, (v) the external independent auditor, and (vi) compliance with legal and regulatory requirements.
- iii. **Human resources and remuneration committee.** This committee meets regularly and helps the board establish remuneration policies and practices, set goals and targets for management, and evaluate performance against these goals and targets.
- iv. **Nomination committee.** This committee meets once every two months. It is responsible for selecting and appointing new directors and recommending the reelection of current directors and setting and implementing the criteria and procedures to select and appoint the CEO and management at NTB. It also prepares a succession plan to ensure compliance with the provisions of the articles of association, the rules of the Colombo Stock Exchange, and the directions of the CBSL.
- v. **Integrated risk management committee.** The integrated risk management committee (IRMC) meets monthly. It reviews the bank's exposure to material risks and evaluates the effectiveness of the measures adopted for control and mitigation of financial and non-financial risks.
- vi. **Credit committee.** The credit committee holds meetings quarterly. Its responsibilities include ensuring that a well-structured approval process is in place that is guided by the delegation of lending and related authority limits based on a risk rating model. Approval limits are linked to a facility risk rating that is determined by taking into account the credit rating of the borrower and the security provided. NTB evaluates borrowers according to credit history, the value of the loan or asset to be purchased, and an analysis of a borrower's income, employment status, existing financial commitments and liabilities, age, ability to make payment based on current commitments, and standing in the credit bureau.

6. **Credit risk management.** NTB has a centralized loan approval and disbursal system. The bank follows separate credit appraisal procedures for retail and corporate exposures and has independent recovery departments for each. NTB has an internal grading system. This system involves continuous monitoring of advances before and after disbursement and includes a preemptive action watch list that identifies customers likely to get into financial distress. NTB has a new risk rating system created with assistance from IFC and has been implementing a credit scoring system since June 2012.

7. Credit risk management policies and guidelines are approved by the board of directors. The credit risk management division independently evaluates all credit proposals and monitors industry and sector exposures. It also monitors portfolio performance and identifies early warning signals through periodic reviews. The credit administration unit deals with such operational issues as control of collateral, loading of limits into the system, and providing reports.

8. The CBSL sets limits and standards on the bank's loan growth, classification of NPLs, loan loss provisioning, single borrower exposure, capital adequacy requirements, sector limits, and liquidity risk. However, the NTB board's own internal limits of these areas are more stringent than those of the CBSL. NTB's loan portfolio is secured by leased assets; cash (property, plant, and machinery); inventory; securities; quoted and unquoted shares; personal guarantees; and gold and other precious metals.³

9. The chief risk officer has overall responsibility for risk management and for ensuring that common principles and methods are implemented to identify, measure, and report financial and nonfinancial risks. The chief risk officer reports to the CEO and the board. The management team is responsible for monitoring and implementing risk mitigation measures and ensuring that the bank operates within established risk parameters.

10. SME loans are reviewed at both the branch and headquarters. The bank's retail and SME division is the largest part of the bank's business, involves all its branches, and engages 500 NTB employees in its daily activities. To support the bank's SME growth strategy in a sustainable manner, NTB's credit risk management division has a unit that specializes in SME credit appraisal and underwriting. NTB helps SMEs with cash-flow analysis and business plans. In July 2012, it began using a tailored credit scorecard, underwriting SME loans.⁴ SME loans are subject to the same credit underwriting, post-disbursement monitoring, and portfolio management processes that NTB currently has in place for other loans.

³ Nations Trust Bank. 2012. *Due Diligence Questionnaire*. Colombo.

⁴ NTB's tailored scorecard captures risk ratings and variables indicating the potential for default, using such inputs such as age, income, and debt obligations.